

THINK TANK 2008
THEME: THREATS OF GLOBAL UPHEAVAL AND ECONOMIC
CRISIS –
STIMULATING STABILITY THROUGH INNOVATION &
CREATIVITY

Session Topic: “What’s The Deal with the Debt? Is the Jamaican Economy on the Edge of Catastrophe? The Way forward.”

Breaking Out of Jamaica’s Economic Stagnation

by

Sir Courtney N. Blackman Ph.D.

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Introduction

It is always a pleasure for me to return to Jamaica, which gave me my wife of fifty years. Indeed, ever since I took her away Jamaica’s fortunes have declined while mine have gone up. I therefore take some responsibility for our current discontents, and welcome the opportunity to participate in **Think Tank 2008** in search of responses to the variety of challenges that confront you.

I confess to a measure of discomfort with both the wording of the theme of the Think Tank - “**Threats of Global Upheaval and Economic Crisis – Stimulating Stability through Innovation and Creativity**”- as well as with the original topic assigned to me; “**What’s the Deal with the Debt? Is Jamaica on the edge of Catastrophe?**” I obtained relief from the latter when the organizers permitted me to add the phrase, “**The Way Forward**”. This change was inspired by a quote from Arnold Glasgow: “*An idea not coupled with action will never get any bigger than the brain cell it occupied.*” I trust that the ideas we generate during this exercise will lead indeed lead to **action**.

This brings me to my uneasiness with the theme of this event. For the word ‘**stability**’ I would substitute ‘**economic development**’ or some other term suggesting growth or progress. Sadly, **stability** is the feature that has most accurately characterized the Jamaican economy over the last three decades; indeed, it is from this **stability** that we need to break out. That is why I have chosen as the title of my presentation, “**Breaking**

out of Jamaica's Economic Stagnation". However, I do not by any means underestimate the severity of the problems posed by the current global financial crisis, the most devastating since the Great Depression of the 1930s, which has set off a global recession that most economists believe will last for two to three years. I also recoiled from predicting whether or not the Jamaican economy is on the edge of a catastrophe or not. Fortunately, I don't think it is.

First, I will give you my own perspective on the *'problematique'* of the Jamaican economic situation. Secondly, I explain my approach towards an assault on the problem: it is that of the manager rather than the economist and utilizes the technique of strategic planning. Third, I explain the rationale of strategic planning. Fourth, I dilate on "What's the Deal with the Debt?" Fifth, I explain the rationale of my strategy for breaking out of your chronic economic stagnation, and identify four critical areas where the Jamaican authorities must take difficult decisions. Finally, I deal with issues of programme implementation, an area in which Caribbean governments are especially weak.

The Jamaican Economic *Problematique*

The Jamaican economic *problematique* is bifurcated. One aspect reflects the economic fall-out that Jamaica has already begun to feel from the implosion of the US financial system, which has set off severe recessionary conditions throughout the industrialized world. American consumers have already begun to draw in their horns, and are now far less likely to spend their vacations on Jamaica's North Coast. Jamaica's exports of aluminum/bauxite and other goods can also be expected to fall, and remittances from your North American *diaspora* will most likely fall off.

There is not much that this "Think Tank" can contribute to the amelioration of this aspect of the problem. The Jamaican authorities will have to use the resources and machinery already in place, and improvise as things develop. Above all, they must be nimble in reacting to the unexpected. Fortunately, Jamaicans are well schooled in dealing with economic hardship - hurricanes, floods, financial crises, crime waves, etc. - and have demonstrated great ingenuity and resilience in the face of adversity. I believe that your response on this occasion will be as effective as in the past.

The second and more troubling aspect of the *problematique* is the stubborn and chronic economic stagnation that has dogged Jamaica for almost two decades. Since 1991 the Jamaican economy has grown at an average annual rate of only one per cent. The IMF Country Report on Jamaica, dated June 2008, describes as “ambitious” the plans of the new authorities “to address the policy imperatives they have inherited along with a much more difficult environment,” yet its annual projections over the next five years is for an average annual growth rate of a mere 1.1 per cent. In other words, it predicts continued economic stagnation. The Report makes several useful policy recommendations but offers no plan for breaking out of the current economic stagnation. But, as Peter Drucker has observed, the only sure way of achieving the future you wish for is to create it. That is the real challenge for which “Think Tank” 2008. Even as you feel your way forward in the gloom of today’s financial crisis, you must prepare your breakout from economic stagnation and so position yourself to move rapidly forward when the sun comes out again – as it always has!

The Managerial Approach

Having studied economics at a Business School and not in a department of Economics, I am inclined to approach societal problems from the point of view of a manager rather than that of an economist. The economist lives in a world of statistics, such as interest rates, inflation rates, prices, unemployment rates, etc., which are abstractions from the real-life activities of human beings. Economists formulate broad generalities about human behaviour, e.g. the fictional selfish, utility-maximizing, ‘economic man’, and uses economic models that incorporate the non-existent ‘free-market’. The manager, on the other hand, interacts with real human beings who are sometimes a pleasure to work with, and may at other times drive one to despair.

In very large societies, where an intuitive grasp of reality is virtually impossible, the approach of the economist may be unavoidable and, in certain cases, e.g. polling and census operations, may even be superior. However, as I have argued for decades without very much success, in the analysis of small economies like Barbados and Jamaica, the managerial approach is much more appropriate, since standard economic analysis may be enhanced by on-the-spot observation of conditions and by intimate experience of the culture, sentiments and motivations of economic players. Such information is normally unavailable to visiting economists.

Strategic Planning

The plotting of a fresh course must begin with some kind of plan. In the past, government development plans and corporate long-range plans were based on forecasts of future trends, usually arrived at through the projection of current trends; they were, essentially, annual budgets stretched out over five to ten years. However, the uncertainty of our times makes such an approach worse than useless. Whereas 1960 was not very different from 1950 or 1970 from 1960, 2007 bore little resemblance to 2000, and we have no idea what December 31, 2008 will look like. Indeed, I also doubt the usefulness of the 20/20 and 20/30 National Plans floating around the region; five years is the limit of my planning horizon. Yet we must plan; but we need a **strategic** plan.

A strategic plan does not set out what we would like to do in year One, Two, Three, etc; rather it identifies those crucial areas where hard decisions have to be taken **TODAY** if we are to have a fighting chance of achieving our goal five years or so down the road. The output of the strategic planning exercise is therefore an agenda of strategic decisions - and they will not be very many - that have to be made **TODAY**. Drucker puts it best:

There are plans that lead to action today and these are true plans, true strategic decisions. And there are plans that talk of action tomorrow - these are dreams, if not pretexts for non-thinking, non-planning, non-doing

A corollary of strategic planning is the abandonment of long-standing but obsolete practices, and the shift of scarce resources from non- or low-productive, to highly productive activities. Strategic planning requires, therefore, a determined commitment to change. Change is always painful; hence the saying, "No pain, no gain."

Obviously, I cannot on this occasion take you through all the steps of a formal strategic plan. The first two steps, visioning and setting an overarching national goal, are beyond me; only Jamaicans can do that. At any rate, the areas of strategic concern are limited and compartmentalized and not difficult to identify. The third step in formal strategic planning is the identification of **Strengths**, **Weaknesses**, **Opportunities** and **Threats** the so called SWOT exercise. I can finesse that diagnostic stage by drawing on my

observation and study of your economy, as well as my interaction with numerous Jamaican technocrats, bureaucrats and businessmen over many decades, and trust my judgment.

The Deal with the Debt

The IMF Country Report cited above recognizes Jamaica's national debt problem as the root of its economic problems. However, the Report dances around the issue, making recommendations across the board that may improve the patient's condition but offering no hope of a cure in the foreseeable future. Jamaica's debt problem is also bifurcated: 45 % of the debt is owed to foreigners and 55% to local individuals and entities. The two portions are intertwined but the foreign debt is by far the more consequential. Government can, in theory pay off its domestic debt by raising taxes on residents and domestic corporations high enough but the nation must earn, borrow or beg to obtain the foreign exchange to pay off and/or service its foreign debt. It costs Jamaica an astounding one billion US dollars annually to service its foreign debt, and ongoing offshore borrowing is required to meet the insatiable demand for foreign exchange.

Notwithstanding the injunction of Polonius to his son in Shakespeare's *Hamlet* that he should "neither a borrower nor a lender be," the availability of debt (credit), as the current US credit crunch vividly illustrates, is essential for economic growth. Growth derives from capital investment financed by savings, whether internally generated or borrowed. Typically, developed countries export, i.e. lend, capital to developing countries to enable investment for economic progress. This pattern is especially true in the case of small open developing economies, such as Barbados or Jamaica, which must import the vast majority of their capital and intermediate goods and far too much of their food. **For all intents and purposes, then, capital is synonymous with foreign exchange in economies such as ours.** Just as net capital imports drive economic growth, so does net capital importation promote economic decline and stagnation. Jamaica has been for decades a net exporter of capital, *par excellence*, and this explains its chronic economic stagnation.

The trick in promoting economic growth, then, is the efficient employment of imported capital so that the value of domestic outputs not only exceeds its costs but yields a surplus sufficient to both service the foreign debt and provide for the additional investment needed for future economic expansion.

The fact that Caribbean economies have the highest foreign debt ratios in the developing world strongly suggests that our economies are nothing as well managed as they might be. This recalls Peter Drucker's incisive *dictum*, "There are no underdeveloped countries, only under managed ones."

Rationale of the Strategy

In a rare instance of agreement with IMF officials, I agree with the judgment of the Report that that Jamaica's crushing foreign debt burden is at the root of its *problematique*. The most attractive solution would be if creditors forgave the debt; or, following the centuries old record of both developed and developing nations, Jamaica defaulted or declared a moratorium on debt repayments. Since the first option is not within our power, and neither of Jamaica's two great political parties have a taste for the second, I propose an indirect approach - a strategy often used by the greatest military commanders. Instead of a frontal attack, we focus on courses of action that have the potential to significantly reduce our dependence on foreign debt and which are also within our control. The strategic intent is to transform Jamaica from being a net exporter, to a net importer of capital and so restart the economic growth process. At the same time, the resumption of economic growth would lift government revenues and decrease fiscal reliance on domestic credit. Our strategy could therefore reduce both foreign and domestic debt, killing two birds with the same stone.

The adoption of the strategy espoused above does not obviate the need for judicious management of the foreign debt so as to minimize service costs, nor for continued pressure on creditors to grant credit relief, make concessions on the loan conditions or, at least, to stretch out the maturities of the loans. During a visit to London two years ago I learned that only that very week Great Britain had paid the very last installment on obligations incurred in during World War II under the American Lend-Lease program, in the absence of which Hitler would almost certainly have conquered England.

There are four critical areas where significant progress toward our strategic goal might be achieved within three to five years if hard decisions are taken and adequate resources committed **TODAY**. They are: (1) food security, (2) crime prevention, (3) energy conservation and (4) Public Sector reform. Because these areas are critical to the success of the strategy, it

follows that resources must be shifted from non-critical areas to fund the execution of the strategy.

(1) Food Security: Since Jamaica's food imports for 2008 totaled 1.5 billion dollars, this is an obvious area where significant savings in foreign exchange are possible. Jamaica has a greater capacity than any other Caribbean nation to feed itself, except for foodstuffs, like wheat, that cannot be grown on the island. This will require far greater government support of the agricultural sector, including subsidies and the provision of technical and marketing assistance. In the past Jamaica has slavishly followed the free market prescriptions of the International Financial Institutions that credit to the agricultural sector should be extended at market rates, a policy not followed by European, American or Japanese governments, all of which extend the most generous subsidies to their farming community. Jamaica should take a leaf out of their book.

(2) Crime Prevention: It is indisputable that the high incidence of crime is a major obstacle to economic growth in Jamaica. This is not my area of expertise; I can only recommend that even greater efforts be made and that foreign assistance be solicited from any sources available.

(3) Energy Conservation: Since Jamaica must import almost all its oil and petroleum products, energy conservation is an obvious area where a substantial reduction in the use of foreign exchange is possible. Considerable technical advances in the technology of solar and other alternative sources of energy have already been made in Europe and the USA, and many of these technologies are readily transferable to Jamaica. The recent decline in oil prices should not lead Government and the Private Sector into a false sense of security.

(4) Public Sector Reform: The Jamaican Government has significantly reduced the size of its Public Sector in recent years but there is considerable room for further productivity gains, as indeed the IMF report observes. Government should employ a reputable international management consulting firm to carry out a thorough systems appraisal of Public Sector operations with a view to increasing the productivity of the Service - though not necessarily through further staff cuts, which are hardly warranted in this current economic environment. One caveat: responsibility for Public Sector reform rests with the political directorate, not with the Civil Service itself.

Implementation of the Strategy

The traditional Civil Service format is not designed to prepare and implement strategic initiatives of the kind recommended above. Task forces, comprised of four to six technocrats/administrators from both the Private Sector and the Civil Service, should be established outside the framework of the formal Civil Service, though reporting directly to the Minister responsible for the relevant sector. They should be charged with the development of a medium-term strategy for the achievement of the goals set out above. The task forces should draw on all available local expertise as well as and the successful experience of other small developing countries, like Singapore and New Zealand. Upon acceptance by Government of the strategic proposal, the task forces should be provided with the resources and authority to implement the goals of the overall Strategy. The essential characteristic of the task force is deployment in the actual theatre of operations, not from behind desks. Its members should heed Drucker's reminders that strategy must in the end "degenerate into work", and that "one can either meet or work."