The Debt-Propelled Economy: a Failed Economic Strategy

by

Donald J. Harris

Professor Emeritus of Economics
Stanford University

November 10, 2009

This paper contains excerpts from my paper "Towards an export-led strategy for Jamaica: lessons from experience with the National Industrial Policy," presented to the First National Economic Forum on "Economic Growth Agenda", sponsored by the Jamaica Chamber of Commerce, held in Kingston, Jamaica, October 13-14, 2009. It follows closely excerpts presented in a 3-part series of essays in the Daily Gleaner, entitled "The Debt-propelled economy: failed economic strategy", October 25, November 1 & 8, 2009.

Table of Contents

1. Introduction

Jamaica now faces the critical issue of how to pull the economy out of the ditch of the current economic crisis and the painful adjustments that process will undoubtedly require. Meanwhile, it is necessary to examine how exactly the country got itself into this ditch. The purpose of this exercise is not to assign blame. Rather, it is an essential prerequisite for understanding how to get out of the ditch and to move forward. Accordingly, in this paper, I seek (a) to draw out some of the crucial lessons learned from the experience of economic policies actually pursued in the period since 1990, and (b) to derive from this analysis some constructive proposals for action now.

Starting in the early '90s, concerted efforts were made to design a new economic growth strategy, the National Industrial Policy. This Policy (NIP) was officially adopted by the government in 1996. The thrust of the analysis presented here is that the core economic strategy actually pursued by the government, when examined in its totality, was very different from the announced strategy. The strategy actually pursued I call the strategy of a debt-propelled economy. The NIP was, instead, explicitly based on a strategy of export-led growth. The strategy pursued ultimately proved to be unsustainable, self-defeating, and undermined the very goals of the NIP. My proposals for action follow directly from this basic finding.

The debt-propelled economy is a path followed for a long time in Jamaica, by a succession of different governments. Having failed to wean public policy off it, the country now has to face squarely its consequences and the task of cleaning up the results it has produced. And what an immense task that is turning out to be!

It was evident all along that there were deep structural problems in the economy that were not being addressed by public policy, except by short term measures. My studies of the actual record of long-term trends showed that there was a "dramatic change in economic performance" around 1974-75. This break was marked by a decline in the long-term growth rate of exports from a previous average of 9.3 % per annum to a much lower rate of 2.4%, while GDP went into a steep decline at a rate of -0.24%.

It was clear also that export growth, at that weaker pace, could be carried along for a while by the continued growth of bauxite and tourism and by the newly emerging but fragile apparel industry, while the traditional vessels of bananas and sugar had already sprung major leaks. The only real hope for creating new momentum was to bolster some of the ongoing export activities that could foresee good prospects and to diversify strategically into new product lines, i.e. by pursuing an export-led growth strategy. The NIP aimed to break out of the mould of the past and to tackle aggressively the outstanding problems by pursuing such a strategy.

2. The National Industrial Policy: a Brief Summary

The overall goal of the NIP is clearly stated in the policy document (GOJ, 1966):

> Let 1996 be the year in which we move forward boldly by building up the momentum of growth and development to take the country into the 21st century. (p. ii) … At a minimum, we must set ourselves the goal of achieving a per capita income of $4,000 by the year 2010. This requires an average annual growth in GDP of six percent. (p. iii) … the government is committed to developing an integrated and structured approach to economic policy. … Accordingly, policies for stabilization of the macroeconomy must be integrated with policies for promoting growth and diversification of production.

The basic content of the policy is shown in the following graphs taken from the text of the document.

Graph #1 shows the comprehensive scope of the overall Strategic Plan summarized in a Policy Matrix.

Graph #2 shows that the NIP was conceived as the basic foundation on which would be erected a policy regime that would focus on investment as the central pillar for building a production system for "growth and diversification of tradable goods and services" – in short, for an "export push". Its rallying cry was "building international competitiveness". Within the ambit of the NIP, specific policies for investment promotion, infrastructure development, and for providing a "support framework" would be geared to that objective. All other policy mechanisms and tools would be subordinated to that objective. The Policy accepted the essential role of government in creating the enabling environment for investment, while relying on owners and managers of Jamaica-based firms to strengthen their internal conditions, by increased productivity and efficiency in the use of machinery and labor, upgrading technology, training of workers, improving product quality and diversity, finding new markets, and other entrepreneurial initiatives.

Graphs #3 & #4 show that the NIP was concretely focused on targeted production sectors, forming an identified group of five **"**strategic industry clusters**"**. These clusters were seen as having the potential for sustained growth, through reliance on the strengths of leading sectors ("growth poles") within each cluster and on the synergies that could be created by exploiting linkages with other sectors and sub-sectors inside the cluster and between clusters. Broad based technical support was seen as coming from the already strong and growing sectors of Information Technology and Telecommunication.

Graph #5 shows the proposed time-sequence of implementation strategies.

The innovative approach and rich details of the NIP, as regards its strategic focus, core policies, sectoral strategies, and proposed implementation strategy, can be more usefully studied by reading the original text.

3. The Factual Record of Economic Performance

So, what went wrong and why? And what needs to be done now in order to get it right? Providing a compelling answer to these questions is, in my view, an essential prerequisite for understanding how to move forward.

For this purpose, it is important to begin by placing some key facts on the table, describing what actually happened. The facts presented in the following Graphs are all based on official data sources.

The overall picture of economic performance during the period under review can be summarized by three conspicuous features, shown in Graph #6:

- Total public debt mushrooms exponentially after 1994/5, reaching a peak of US$14 billion in the last two years, three times the size of the early '90s.
- Meanwhile, Gross Domestic Product remains nearly flat, growing at a negligible rate of 0.9% on average for the whole period.
- The (nominal) exchange rate falls through the floor; the Jamaican dollar, which was worth US$0.14 in 1990, falling to slightly more than 1c.

This is a dismal performance by any standard, whether viewed (a) in terms of the payoff to the country as a whole from accumulation of a vast amount of debt, or (b) in comparison with other countries that were able to take advantage of the opportunities available in a time of rapid growth in the world economy to grow themselves at a high rate.

Equally striking is the fact that financial institutions did pretty well for themselves in terms of profitability, judging from the size of the average spread between lending and deposit rates, with a heavy bias in portfolios in favor of government debt (Graph #7). At the same time, depositors got hit with negative real returns on deposits. I infer from closer study of the actual performance and structure of the financial sector that the sector has been dominated by a few banks which have been able to exercise a great deal of market power.

Looking at these two sets of outcomes, one finds that there are two basic things operating here. On the one side, behind the mushrooming public debt, is a government addicted to deficit spending. On the other side, is a financial industry, with an apparently monopolistic market structure, that is feeding off the trough of government debt. These two things go hand in hand, and are mutually supportive of each other. I find this to be at once the most intriguing and yet the most revealing feature in the picture of what has been happening in the Jamaican economy in the period under review.

On the production side, there is a profound transformation in the structure of the economy (Graphs #8 and #9). In 1992-1993, manufacture is 1.7 times the size of finance and insurance. By 2007 the situation is completely reversed: finance and insurance become 1.4 times the size of manufacture. A similar process of relative decline occurs in agriculture, starting in 1997. Looking at the actual sector shares in 2007: Finance & Insurance (11.2%) is almost as big as Government (11.7%) and slightly less than Transport & Communication (12.3%). The biggest sector is distribution (Wholesale, Retail, etc. = 18.9%), and the financial sector is approaching it very closely if you add in financial intermediation services.

In foreign trade, the overall pattern is one of relatively stagnant exports and rapidly growing imports, such as to create an ever growing trade-gap to be paid for by inflows of credit and other finances (Graph #10). Remittances served as a cushion throughout the period to support this gap.

Finally, to fill out the picture, government financing operations show (Graph #11) a rising share of debt service costs in total revenue, reaching a peak of 60% in 2003/04, twice its initial level in 1990. Latest data indicate this peak may already be surpassed. The share of capital expenditure falls from an initial high of 18% to a low of 3%, recovering later to a level still below its earlier high point. The share of expenditure on programs also falls. Clearly, debt service managed to crowd-out all other major items of expenditure, except for wages and salaries, and remains today the dominant component.

To be fair, it must be said that significant economic gains were made in some areas during the NIP period, particularly in investments in hotel facilities and in highway construction. However, a final accounting of these projects requires a thorough cost-benefit analysis not yet made, taking account of the actual cost-overruns involved, the quality of work done, the environmental effects, and the opportunities forgone. Moreover, in the final analysis, the actual strategy must be judged by its total outcomes over the entire duration, not by picking and choosing the high or low points.

4. Explaining the "economic muddle"

I consider now the question: how to explain this pattern of economic performance? By analysis of the economic strategy actually pursued by the government, I show here that the observed outcomes are due, at least in part, to deeply rooted flaws in that strategy.

First, let me clear out of the way some misleading approaches to this question. Official accounts and public discussion emphasize the role of "shocks" as causal factors, some "external" (oil price increases), some "natural" (hurricanes), and some supposedly random and unexpected (Air Jamaica debt, FINSAC debt, public sector wage adjustments). All such events are presumed misleadingly to be outside the control of decision-makers in government. This approach obscures more basic underlying forces in the economy and leads to confusion in policy analysis, particularly as regards the role of debt.

Total national debt incurred in this period is indeed a big and cumulative "shock". More important, it is also a continuous, persistent, and sustained condition, and the result of basic decisions by the authorities. Debt is debt, whatever its source. As the public debt grows, decisions are made to incur it, about how to manage it, and there are consequences of such decisions. It is a measure of good (or bad) statecraft how that process is managed. With bad statecraft, debt can propel the economy into a ditch.

There was also talk about a mysterious "economic model" that the authorities were supposed to be following as the basic guide to their decision making. I have looked hard, but never found an explicit statement of that model. Nevertheless, it is possible to unearth, by deeper probing, the underlying economic strategy and its implications. This is what I try to do here. The analysis is based on a straightforward application of demand and supply analysis, looking out from the pivotal window of the foreign exchange market.

The explicitly declared policy-priority of the government was what it called "macroeconomic stability". Examined closely, this stance comes down to one and only one thing, a single minded focus on defending the nominal exchange rate.

This single minded focus is already to be seen as the clue to a fundamental flaw in the strategy. As every policy analyst knows, you must have as many policy instruments as objectives in a policy. So, if your objectives also include export growth, then you must deploy other policy tools to meet that objective, besides the exchange rate itself and the tool used to defend the exchange rate. Moreover, you end up with *a basic contradiction* if the tool used to defend the exchange rate is also destroying the objective of export growth. This contradiction lies at the heart of the government's strategy.

At issue also is the one-sided focus on the *nominal* exchange rate, the monetary side of the foreign exchange market, as against the *real* exchange rate related to cost competitiveness in production of traded goods. This one-sidedness amounts to a *fundamental imbalance* in the policy-mix that serves to undermine the very objective of achieving "stability" in the foreign exchange market.

I proceed to show now how these fundamental flaws in the strategy play out so as to make that strategy self-defeating, unsustainable, and destructive of the goals of the National Industrial Policy.

Throughout the period under review**,** there is heavy pressure on the exchange rate due to excess demand in the foreign exchange market. However, the biggest source of excess demand comes from the government itself, because of heavy borrowing to meet its financial requirements: the current budget deficit, plus debt service obligations for past debt, plus building up the international reserves, plus a portion of imports associated with the expenditure side of the government's budget. What this situation amounts to is that (one branch of) the government is busy trying to defend the exchange rate against demand pressure in the foreign exchange market, while (another branch of) the government is busy creating the demand pressure by its heavy requirements for foreign exchange. One could say that it is a case of the right hand not knowing what the left hand is doing. I prefer to think of it, and will further explain below, as the case of a dog chasing its own tail.

The government's weapon of choice for defending the exchange rate is the interest rate; the supplementary weapon used is the international reserves. I show elsewhere that the authorities were not very adept in using these weapons, given their own objectives. In effect, they allowed the banks and financial institutions, operating within the monopolistic structure of the domestic financial market, to run rings around them and hold ransom the national treasury by (a) sustaining a level of domestic interest rates exceeding any reasonable estimate of the relevant financial risk involved in holding government bonds with a constitutionally ratified government guarantee against default, and (b) failing to use the international reserves in a forceful and timely manner as a credible threat to tamp down domestic interest rates. Furthermore, there is an opportunity cost in holding the nation's wealth in low-yield reserves, which means that the country loses out on possibilities for gain that could advance the social interest.

Apart from the questionable adeptness of the authorities in managing the foreign exchange market, a crucial factor concerns the consequences of the interest rate component of the strategy. The key point to bear in mind here is that the interest rate has two sides: it is income to the creditor and a cost to the borrower. So, while the interest rate is being used to defend the exchange rate, it is providing thereby significant gains in profit for the financial sector, hence this sector's extraordinary growth as documented in the previous section. At the same time, it is having a perverse effect on the cost side for the rest of the economy.

The perverse effect affects the government itself by driving up the cost of servicing government debt. This effect is compounded by the fact that, by abandoning the IMF option in 1995 and moving to finance more and more debt from local sources, the government was substituting high-cost credit for low cost credit available from bilateral and multilateral sources. Consequently, interest expense on a growing debt eats up a bigger and bigger share in the budget, forcing the government to borrow more in order to obtain funds to pay interest on existing debt. Eventually, new debt is then being used to pay off old debt. This is the classic case of a debt trap. All indications point to this as the financial position, or the ditch, in which the government has now placed itself.

Moreover, throughout this process, debt service served to crowd out public investment and other government programs, as also documented here. From the standpoint of pursuing consistently an export-led strategy, this crowding-out effect matters crucially: it cramps the ability of government to finance the broad range of activities that would have provided support for the export push, as promised in the NIP.

Interest is also a cost for business. Government debt, with high interest and low risk, crowds out some business investment from the capital market by making it more attractive to lend to Government and raises the interest cost of investment in working capital, equipment and land for those who remain in the market. Domestic producers of exports and import substitutes feel this hit the most, exporters perhaps even more so. (Some consumers suffer too, but that is a separate issue.) In this respect, there is a certain asymmetry between domestic producers and importers. Importers get lower cost trade-credit based on finished goods they already have on hand, or on the wharf, perhaps on consignment. Domestic producers face a long lag between starting up production and receipt of revenues (from a distant and uncertain market in the case of exporters). The difference is higher risk, hence higher interest rate (as the bankers say, misleadingly). Added to the difference in interest cost is a range of other costs (energy, transportation, security, bureaucratic delays) affecting more severely domestic production in the factory and on the farm.

This tally of different cost factors for importers and domestic producers amounts to a shift in the balance of cost-competitiveness in favor of imported goods and against domestic products. Consequently, the country becomes flooded by "cheaper" imports, while domestic producers of exports and import substitutes suffer a loss in market share. This sets up a negative feedback effect on the foreign exchange market by increasing demand for foreign exchange while reducing supply. Then, something must give. In a dirty float as well as a clean float, it is typically the exchange rate that gives. The result is to defeat the objective of "defending the exchange rate": the authorities must keep chasing the elusive goal of a "stable" exchange rate for as long as they fail to take control of the cost factors that determine international competitiveness. Here is where the dog furiously chases its own tail.

The proof of this negative feedback effect of the strategy lies in the observed outcome of a large and growing gap between exports and imports while the nominal exchange rate goes into continuous decline. To get out of this vicious circle required a more evenly balanced strategy to control cost factors across the board, relying on broad-based implementation of the strategy outlined in the NIP as matters requiring systematic action by both government and private sector.

The government's strategy thus turns out to be unsustainable and necessarily self-defeating in terms of its own goal. In the language of sports, the authorities were scoring an "own goal", or worse, "shooting themselves in the foot", and no celebration is due for that achievement. The strategy also had the damaging "same-side" effect of undermining the supposedly shared goals of the NIP. This result follows from a fundamental flaw in the strategy, consisting of a fatal imbalance in the policy-mix. Because of this flaw, the government boxed itself into a classic debt trap from which it became impossible to escape because, in this process, it had pushed aside and undercut the only solid basis for a sustainable solution: a genuine export-led strategy as promised in the NIP.

5. Looking to the future from the past: constructive proposals for action now

Looking forward now, the critical question is: how to overcome *the chronic tendency of strategy failure and implementation failure*, revealed in this recent history, as a characteristic feature of economic policy and governance in Jamaica?

This problem is deeply rooted in our post-independence history and political culture. Nevertheless, it is still possible to come up with working principles for designing practical solutions relevant to the situation the country faces today. As a guide to such solutions, I suggest that the issue is, first, one of institutions: (a) existing regulatory institutions that do not perform well their assigned job of providing oversight, accountability and transparency and need to be shaken up to do so, (b) missing institutions that could serve to enhance and strengthen those functions as well as focus action in accordance with priorities and plans agreed upon.

Second, it is a problem of failure to distinguish and coordinate the proper space for performing the functions of legislating policy as against the functions of executing policy. In Jamaica, the two functions have tended to be fused in practice, resulting often in Ministers without executive skills required by their assigned portfolios, or in a mismatch of meddlesome Ministers and recalcitrant Permanent Secretaries, or in executive institutions lacking proper direction and control.

Accordingly, I offer the following proposals for action now.

1. The legitimate interests of the Ministry of Finance (divested of its current functions of "economic planning") and of the Bank of Jamaica (duly constituted as an independent Central Bank) must be counterbalanced by a separate institutional leadership of the development effort. To address the complex and challenging issues of economic development in today's world with a sharp and concentrated focus requires a competent and forceful driver within the Cabinet (a warrior for the cause!), who can direct, motivate, and coordinate appropriate action. To this end, I propose the formation of a separate and distinct Ministry of Development and Planning.

This new ministry could then be made to absorb many of the functions of development and planning, currently scattered over many different ministries and agencies, within a single apparatus of government. That would satisfy the current and urgent objective of reducing the cost of government and meet the desired goal of a reduced number of cabinet positions suggested long ago by the Nettleford Committee.

2. By restoring the MoF to its proper and unique constitutional role of managing the money bills, this proposal also seeks to place the MoF on a stronger footing to implement the imperative of fiscal discipline, without which the country is destined to continue to undergo future bouts of debt explosion. The MoF must then be made to operate under strict requirements that the budget must "add up", and the adding up verified by an independent Office of the Auditor General. The audited fiscal accounts must be placed on full display for all to see, both in Parliament and before the general public. This requirement forces maturity on the part of Government and the general public, because it demands transparency and accountability in government financing operations and allows the public to engage in informed debate about those operations.

Because many of the statutory bodies were set up in the past to bypass parliamentary oversight and public scrutiny, serious information asymmetry problems have come into play, leaving Parliament and the public in the dark. Moreover, this allowed for the creation of off-budget and contingent liabilities along with the maintenance by government of active deferred financing accounts with the large banks. Consequently, fiscal accounts were always at odds with actual fiscal expenditures, government could not program accurately its demand for funds, hence could not predict accurately impact of its demand for funds on interest rates, hence constantly missing interest rate targets, with the budget deficit then becoming the residual in this causal chain.

To break into this causal chain at its source, the operations of all statutory agencies must be placed "on the books", and the MoF must be made to give up the practice of off-budget operations. The system of government guaranteed loans and advances to statutory agencies without a corresponding obligation for those agencies to transfer their surpluses to the Consolidated Fund must be revised. Furthermore, instituting and enforcing a proper treasury management function and rigorous control of the contract procurement process are necessary requirements to bring the overall budget into balance.

3. If the BoJ is to be legitimately considered an autonomous and independent Central Bank, then it must be made to justify and validate that status by standing guard against the fiscal imprudence of the MoF, instead of aiding and abetting it by allowing the MoF easy and uncontrolled access to the many monetary instruments (T-bills, repos, etc.) that enable and facilitate such imprudence. Furthermore, the BoJ must itself exhibit fiscal prudence, technical competence and professionalism in the internal management of its own affairs, inasmuch as it must also seek to strengthen regulatory control over private financial institutions under its purview.

4. A major source of concern must be to rein in and bring under proper scrutiny and accountability the role of government executive agencies, such as Development Bank of Jamaica, Urban Development Corporation, and National Housing Trust. Proper coordination of this particular set of agencies should become central to executing the economic development effort under the guidance of policy priorities and directives coming from the new Ministry of Development and Planning.

5. All operations of government must be subjected to oversight and accountability through open and transparent procedures. This requires beefing up and giving teeth to the agencies responsible for performing this role (e.g. Auditor General, Contractor General, and Director of Public Prosecutions) as well as firming up the role of relevant Parliamentary Committees.

6. Reform and proper regulation of the monopolistic financial sector to enforce rules of competition and good behavior are essential to moving forward. This is made even more necessary now that the sector has grown to be bloated and fat from feeding at the trough of public debt. It will be difficult to wean those elements of the private sector that have fed off of this largesse to move into more productive investments where the economic risks and management requirements are very different and more challenging.

7. More constructively, it is necessary to promote the emergence of new dynamic leadership within and without the financial sector, a new cadre of financial innovators, who will themselves seek out profitable opportunities to channel funds into long-term productive investments, acting under appropriate regulatory oversight to avoid reckless schemes such as those that came to light in the early '90s era of FINSAC (Financial

Sector Adjustment Company). In specific terms, this new leadership would seek to develop new mechanisms and instruments for serving the following purposes: (a) deepen financial intermediation towards the long end of the spectrum (equity and venture capital), as distinct from short-term debt financing; (b) improve access to finance for MSMEs oriented to export or import substitution, by finding effective and legitimate ways to collateralize debt; (c) strengthen the collective, self-regulating credit/saving institutions, such as we have had for a long time in credit unions and the "partner" system, but more along the operational lines of the famous Grameen bank in Bangladesh.

8. As concerns productive investment, until and unless systematic efforts are made to reduce the elements of risk, uncertainty and cost associated with the environment for conducting business operations in the factory and on the farm (urban crime, praedial larceny, bureaucratic delays, etc.), as well as to restructure the complex and unwieldy system of tax incentives, it is unlikely that there will be a significant resurgence of domestic private investment in export-producing activities. Moreover, the current state of the government's budget puts on hold many public investment projects and programs for providing a support framework for private investment. However, there is viable agricultural land that can be brought into production for domestic food and for inputs into processing as well as for export. Supply of skilled labour, schooled in the requirements for work in modern industry and agriculture, will be a significant constraint that challenges the capacity of the educational and training institutions to respond.

9. It is useful to adopt a model of private-cum-public-sector strategic partnership to pursue economic targets of opportunity for investment and export, where the targets are identified and pursued through an open and transparent, structured and deliberative process. The idea here is to take advantage of the executive abilities and entrepreneurial skills of some of the dynamic leaders in the private sector (who have proved in practice their strengths as business leaders as well as their commitment to the national interest) to form operational teams to get things done. The bauxite levy negotiations in 1974 represent an instructive example of such a model.

10. Strengthening the technical and administrative capacity of human resources in the public sector is a major requirement for successful policy implementation. Down-sizing of government presents an opportunity for rationalizing ("right-sizing") the allocation and effective use of the best talent currently employed in government. Useful approaches to increasing the supply of such talent at all levels (adding to the entry-level supply coming out of local schools and colleges) include breaking down the barriers to labor mobility within CARICOM and tapping into the vast talent-pool of the diaspora.

11. At the top levels of government, it is necessary to find a way to rejuvenate the executive positions in executive institutions in the public sector. There is no objective reason why the official Director or Governor of a government agency or statutory body should be allowed to hold on to that position for up to 15 or 20 years, and more in some cases, before yielding it up to younger, highly qualified, aspiring candidates. This practice may serve perversely to discourage aspiring and talented candidates and cause them to vote with their feet by moving to more welcoming environments. How else

(apart from obvious salary and working conditions and the small size of the domestic market) can one account for all the highly talented, migratory young Jamaicans that one finds in top-level positions overseas?

12. In all this effort, there is a crucial role for wise, visionary, and pragmatic leadership at the top of government, in defining the vision, giving directions, insisting on the proper balance in the mix of policies being pursued, ensuring that there is a well-functioning network of teams in place to carry out the vision, and disciplining the slackers and miscreants. There is no formula for a solution to this problem. We either have it or we don't. We can usually tell when we have it and when we don't, but unfortunately only after the fact. In a parliamentary democracy like ours, we have to take our chance and choose between the options we have. That could turn out to be like a crap shoot.

The problem here is that we have for too long cultivated and held up for celebration the image of *the charismatic leader*. Looking around us today, at the countries that are doing well, we find that the kind of leadership that is working is far from the charismatic model. They are good managers of Cabinets and of other functionaries inside the state apparatus as well as leaders of the public conscience. They don't have to have PhDs; that qualification, however acquired, can sometimes be used to promote empty rhetoric, grandstanding, and braggadocio ("doctor politics"), and thereby serve as a handicap. They are sufficiently confident and self assured to surround themselves with teams of highly skilled professionals who work together in a collaborative and collegial way; they draw on people and ideas from government, business, universities and trade unions; and they have a broad base of support in the community. We have to begin to demand these qualities from our own leaders.

References

Davies, O. (ed.) (1986). *The Debt Problem in Jamaica, Situation and Solutions,* Economics Department , UWI, Mona, Monograph #1.

Davis, C. E. (1995). *Bauxite Levy Negotiations, Jamaica in the World Aluminium Industry, Vol II 1974-1988*, Jamaica Bauxite Institute.

Government of Jamaica (1996). *National Industrial Policy, A Strategic Plan for Growth and Development*, Jamaica Information Service, April 25.

Harris, D. J. (1994). "The Jamaican economy in the twenty-first century: challenges to development and requirements of a response," in PIOJ (1994).

Harris, D. J. (1997). *Jamaica's Export Economy: Towards a Strategy of Export-Led Growth*, Ian Randle Publishers, in association with Jamaica Exporters' Association, Kingston.

Harris, D. J. (1999). "Macroeconomic stability and growth: a policy analysis," in *Economic Dynamics and Economic Policy*, Proceedings of International Colloquium II, Editora Universa, Universidade Catolica de Brasilia, Brazil, May 27-29.

Harris, D. J. (2009). "Dynamics of the debt-propelled economy: the D-factors in Jamaica's poor economic performance," forthcoming.

PIOJ (Planning Institute of Jamaica) (1994). *Jamaica, Preparing for the Twenty-First Century*, Ian Randle Publishers, Kingston.

GRAPH #1
From National Industrial Policy, p. 3

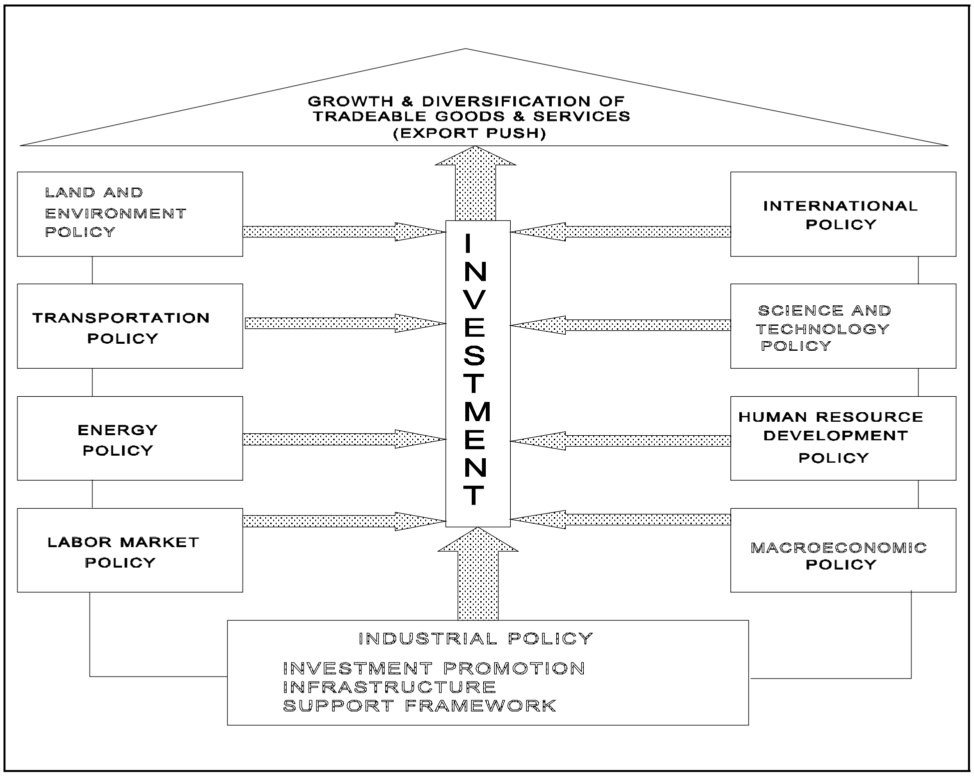
STRATEGIC PLAN

Policy Matrix

Objectives	Policies	Interventions/ Implementation
Stability, Predictability, Credibility	Macroeconomic Policy	* Fiscal Controls * Monetary Controls * BOJ Autonomy * Social Partnership
Growth and Diversification through building International Competitiveness	INDUSTRIAL STRATEGY Investment Promotion * Incentive System * Financing Mechanisms * Investment Packaging Infrastructure * Physical Infrastructure * Human Resource Development * Science & Technology Support Framework * Trade Policy * Labour Market Policy * Competition Policy * Small Business Development * Public Sector Reform	* Time-phased Sequence of Strategies * Targeting Strategic Sectors * Continous Consultation between Government, Business, Labour, and NGOs
Equity	Social Policy * Poverty Alleviation * Gender Perspective	* Social Agenda
Conservation of the Environment	Environmental Policy	* Incentives * Regulation/Enforcement * Public Education

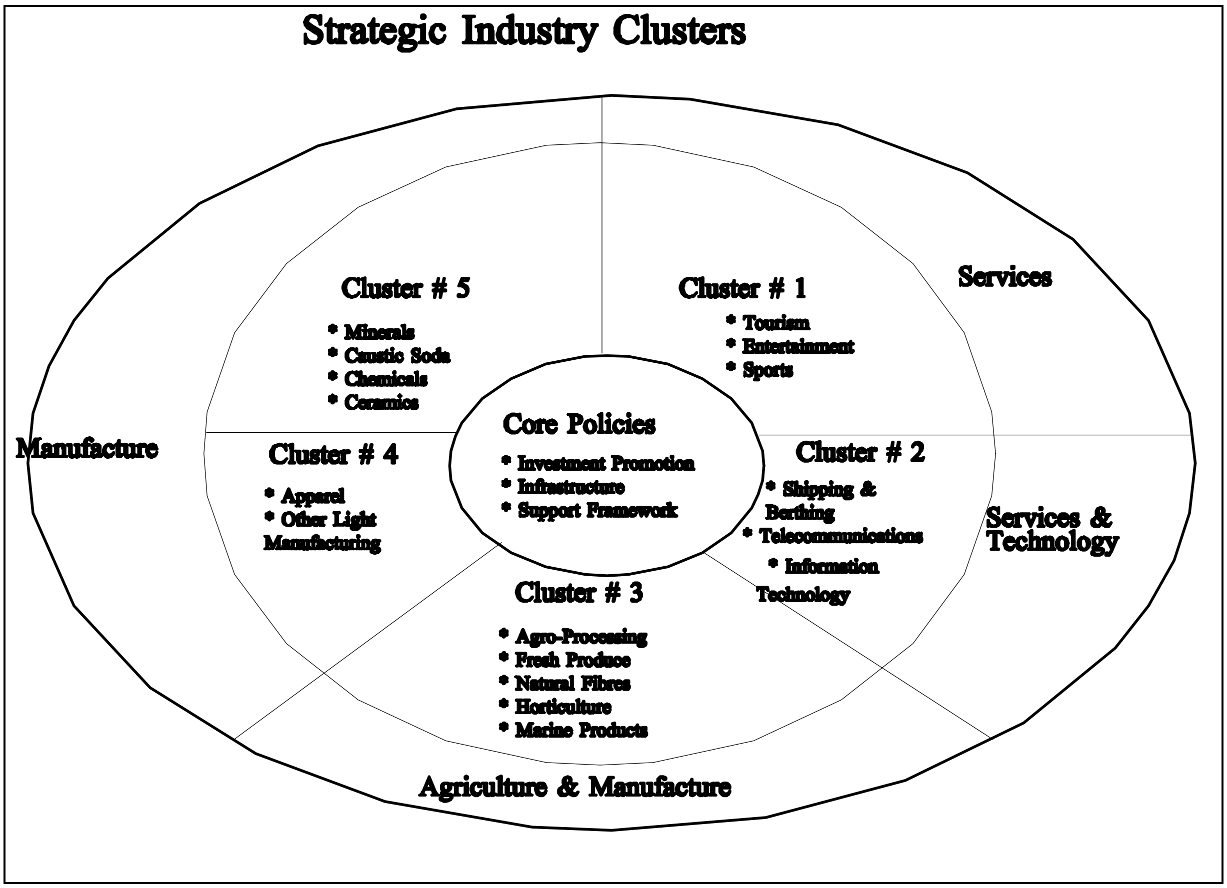
GRAPH #2
From National Industrial Policy, p.6

POLICY INTEGRATION AND COORDINATION



GRAPH #3
From National Industrial Policy, p. 9

Industrial Policy: Instruments and Targets



GRAPH #4
From National Industrial Policy, p. 133

Targeting Strategic Clusters

Clusters	Growth Poles	Linkage Sectors/ Sub-sectors	Supporting Sectors	Infrastructure Support
Cluster #1	Tourism	Entertainment Sports Fresh Produce Processed Foods Beverages, Tobacco Garments Furniture Crafts	Information Technology	Physical Infrastructure Electricity Roads Transportation Ports, Airports Water Sewage
Cluster #2	Shipping & Berthing	Air Cargo Ground Transport		
Cluster #3	Agro-processing	Agriculture Marine Products Packaging		Human Resources
Cluster #4	Apparel	Textiles Footwear Sewn Products Machine Tools	Telecommunication	Science & Technology
Cluster #5	Bauxite & Alumina Non-metallic Minerals	Limestone Lime Industrial Chemicals Silica, Clays Ceramics, Glass		

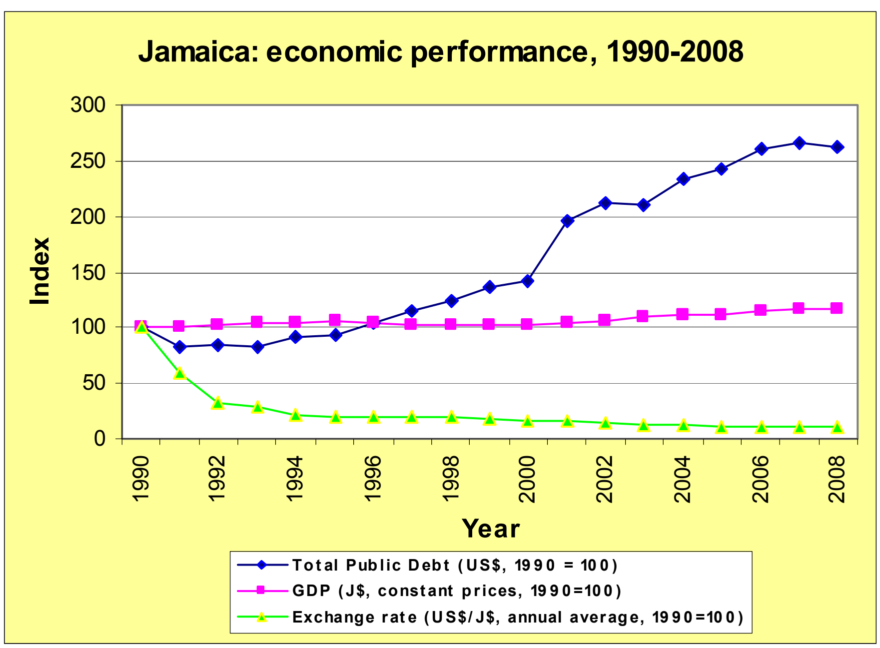
Note: The numbers associated with the clusters **do not** represent a ranking of the clusters.

GRAPH #5
From National Industrial Policy, p. 8

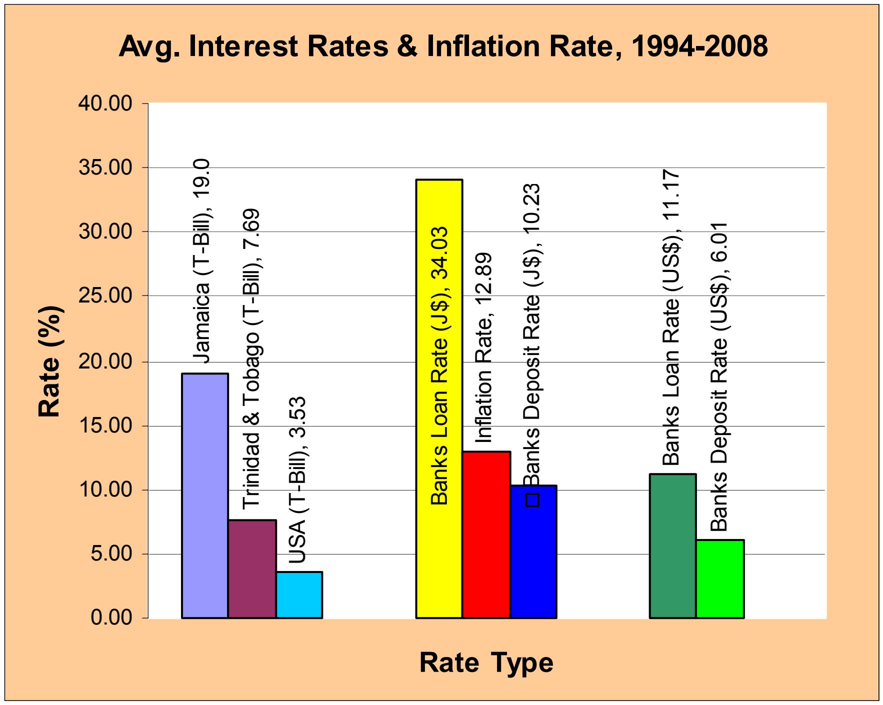
Time-Phased Sequence of Implementation Strategies

1996	1997-1998	1999-2010
Phase 1 Short-term Strategy: establish Social Partnership		
Phase 2 Medium-term Strategy:	growth with stability	
Phase 3 Long-term Strategy:		export push and efficient import substitution

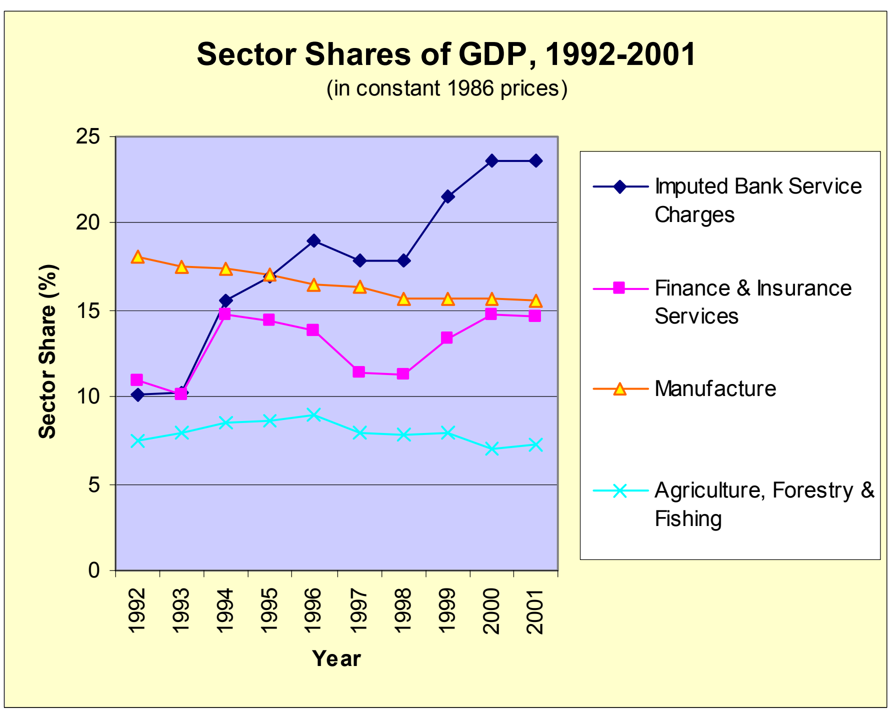
GRAPH #6



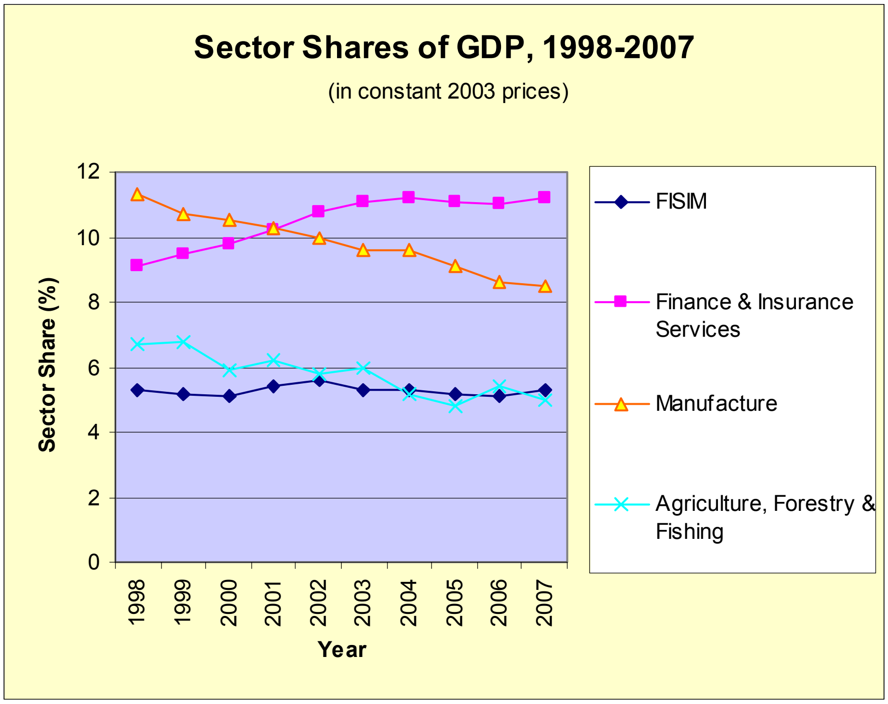
GRAPH #7



GRAPH #8

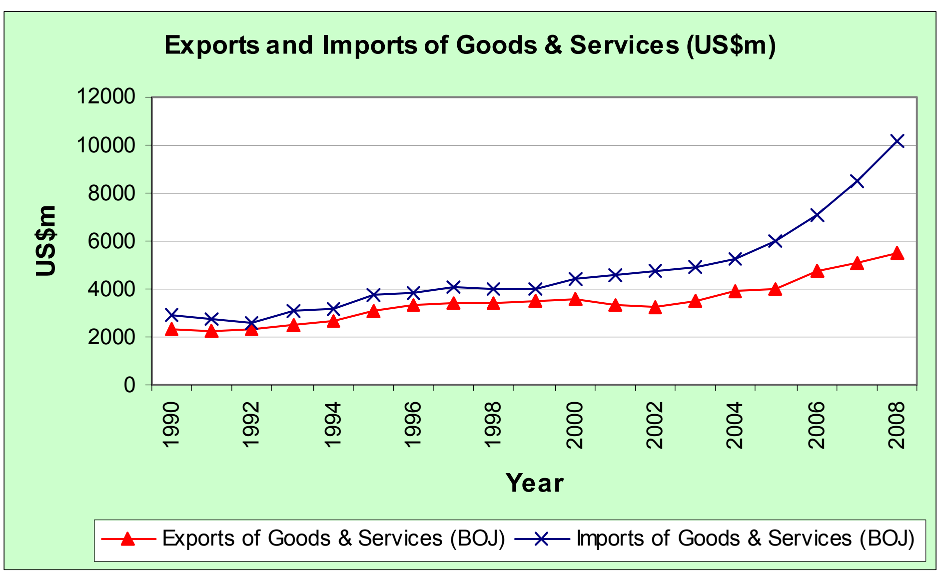


GRAPH #9

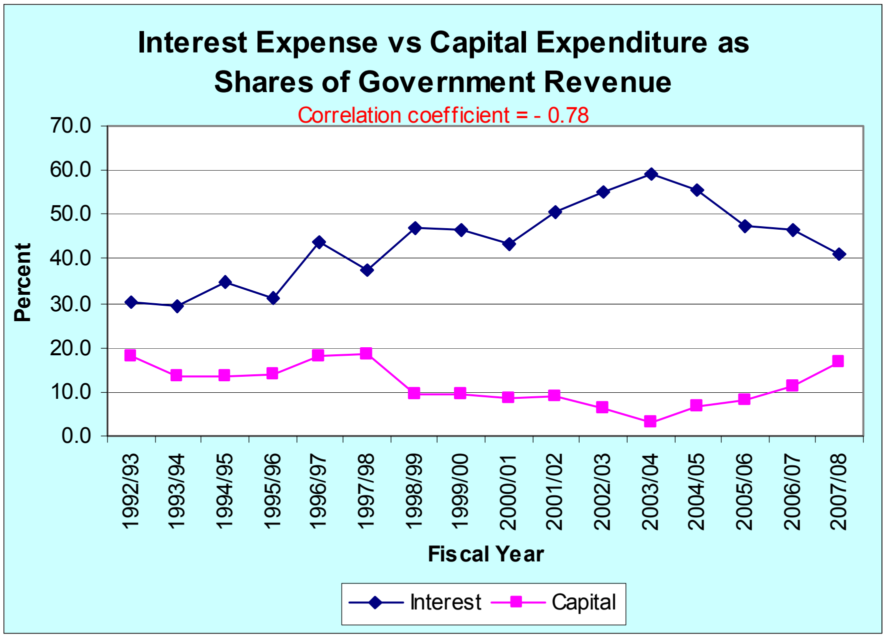


FISIM = "Financial intermediation services indirectly measured"

GRAPH #10



GRAPH #11


Interest Expense vs Capital Expenditure as Shares of Government Revenue
Correlation coefficient = - 0.78
70.0
60.0
50.0
40.0
30.0
20.0
10.0
0.0
Percent
1992/93
1993/94
1994/95
1995/96
1996/97
1997/98
1998/99
1999/00
2000/01
2001/02
2002/03
2003/04
2004/05
2005/06
2006/07
2007/08
Fiscal Year
Interest
Capital