How can Government, Private Sector Partnership and Multilateral Agencies jump start the economy to provide Employment and Investment opportunities?

Honorable Ministers, distinguished guests, conference participants, good morning. It is an honor to be here this morning, and at time when the topic of the conference is the rave among commentators. To anticipate, I do not have a silver pill, but will attempt to share some thoughts with you.

Growth: What is it? How do you get more of it?

More growth is better than less. For any given level of population, the more output produced per capita, the more income that is available for distribution among its citizens. Consequently, growth is a primary focus of all countries. More growth is generated by optimizing the combination of inputs of technology, capital, labor, and other inputs. We should note that on a separate metric, an increase in output (economic growth) does not necessarily translate into an improvement in living standards for all, which arguably is what all countries would like to achieve. However, we will not discuss issues of equity and living standards today.

What are the factors that facilitate or inhibit growth?

From a production perspective, it is clear that improvements in the stock of capital, in labor, in technology will produce more. Research also indicates that a stable and enabling economic environment, adequate access to and provision of finance, adequate institutional frameworks, better governance and rule of law, facilitate the growth process. On the other hand, a high tax burden, market distortions, political instability, and the absence of the facilitators inhibit growth.

So how do we jumpstart growth in Jamaica?

First we need to recognize the inherent tensions and linkages in jumpstarting growth:

- To increase activity, either private sector needs to invest more now to demonstrate confidence about the future, or government needs to spend more
- For the private sector to invest, there needs to be a reasonable expectation of a rate of return
- Government spending needs to be financed; it can choose to generate savings from efficiency, from rationalization of activities or from re-prioritization of existing funds, or it can borrow

- If domestic or external borrowing is essential, the government will need to consider the costs and benefits in the short and long-term?

Second, any recommendations would need to **recognize the starting point** of where Jamaica is today and how it got here:

- A chronic, persistent national savings deficit (17% GDP in 2007/08), mirrored by increased borrowing

- High debt (almost 140% GDP) and fiscal deficits (11% GDP in 2009/10) implied high risk premia on international market

- High interest costs on debt reached 70% of revenue and left little fiscal space for investment in physical or social infrastructure

- A focus on government securities and short-term lending led to crowding-out of private investment

- Low average growth of 1% in last two decades was inadequate to absorb increases in labor force (concomitantly, both poverty and crime increased)

- An inefficient business environment (crime; corruption; slow judicial system; institutional weakness), high energy costs, and "non-frontier" technology highlight lack of competitiveness

- With output declining in Jamaica's major trading partners (the Euro Area, United States, and Canada) in 2009 (by 4.1 percent, 2.6 percent, and 2.5 percent, respectively), shutdown in capital markets, transactions with and output in Jamaica naturally declined. Exports fell by more than 50 %, and remittances, foreign direct investments, and government revenues were adversely affected. Thirteen (13) quarters of declining domestic output has tested business confidence, stretched households, and resulted ~~in~~ pressures on government revenues

Fortunately, there have been some recent improvements

- Financials have improved since JDX:

  - interest rates on securities are the lowest in decades;

  - loan rates are declining, although slowly;

  - the national currency is trading in narrow corridor since its appreciation in the middle of last year;

- GOJ foreign bond spreads have declined;
- financial sector risks appear contained

- Real sector indicators have lagged (as we would expect):
    - initial public sector contraction was not compensated for by the private sector;
    - however, the rate of decline in output has slowed: tourism, mining, and agriculture are improving
- Structural reforms and ongoing programs of IDPs have started to take root (include: Tax Administration and Customs Modernization; Central Treasury Management System; Inner City Basic services for the Poor, and Rural Education Development Initiative; Initiatives to fighting crime and Redevelopment of Downtown Kingston)

There is still a long way to go

Despite these glimmers of progress, there are still many impediments to growth in Jamaica. There is a consensus that Jamaica is lagging relative to other countries with respect to the business environment. Here are some important indices:

- The World Bank’s *2011 Doing Business Report* ranked Jamaica 81 out of 183 countries. In the 2009 report, when Jamaica ranked #63 out of 181 countries, it ranked 173 with respect to paying taxes, 127 in enforcing contracts, 109 in registering property, 100 in trading across borders, and 84 in getting credit.
- The *2010-2011 Global Competitiveness Report* identifies crime and theft, corruption, inefficient government, bureaucracy and access to financing as some of the most problematic factors for doing business in Jamaica. Out of 139 countries, Jamaica ranked 95 overall, and ranked 103 for the provision of basic key requirements, such as institutions, infrastructure, a stable macroeconomic environment, health services, and primary education.
- In the *2010 Corruption Perception Index*, which measures the perceived level of public sector corruption, Jamaica ranked 87th of 178 countries, although an improvement over the 2009 (99th).
- According to the *Heritage Foundation's 2011 Index of Economic Freedom*, Jamaica also ranked 58th out of 179 countries in a listing of the world's freest economies, and 12th among Latin America

and Caribbean countries. The economy performs well in investment and business freedom, as well as financial sector regulation, but challenges include lingering corruption, weak enforcement of intellectual property rights, relatively high government spending, enforcing expenditure restraint, and unclogging the judicial system.

The upshot of all of this is that growth and competitiveness have been constrained by chronic macroeconomic instability associated with unsustainable public debt levels, weak infrastructure, high interest rates, pervasive crime, high energy costs, low skill levels, and frequent natural disasters. Tackling growth **today** requires not only a comprehensive effort, but one capable of addressing some “shorter” run gains without compromising sustainability.

So how can we turn this around?

Here are some “hard” facts: all government spending is not equal; all investment is not equal; all lending is not equal in impact; all foreign direct investment is not equal in effect; and every sector and everyone cannot grow at the same pace and at the same time. Trade-offs are inevitable. In an economy, transactions occur between resident institutional units and between resident and nonresident units. These institutional units comprise the general government, the financial corporations, nonfinancial corporations, and households, and can be viewed broadly as undertaking financing, producing, or consuming transactions. It becomes immediately clear that the economic system is linked through these transactions in such manner that, although acting possibly independently and in their self-interest, the decisions/transactions of any institutional unit will have implications for others. Although we tend not to acknowledge such, when a country's financial and economic position deteriorates, this outcome itself is a shared responsibility, even if all units did not contribute equally. Therefore, **generating growth (producing more) is also a shared responsibility**, but like in an orchestra, institutional units need to play to the same music at the same key

How should the players or institutional units make music together?

First, it is clear that the role of each player is conditional on the starting position. A country that is booming does not need the same thrust as one mired in a recession, in much the same way that it take less power to keep a car moving at a constant 60 mph than it requires to accelerate from zero to 60 mph. **Second**, the activities of each player will affect the economy in different ways and have different short- and long-term effects. **Third**, because the activities undertaken by each impact the broader economy, the roles should (and I say should) be complimentary, even orchestrated so as to produce the best results from a national perspective. That notion ideally is similar to recognizing how each part of an orchestra contributes to a symphony.

Continuing the analogy, we can allow the [string, woodwind, brass, and percussion] sections of the orchestra to play on their own and observe or listen to the outcome. Do any of us who have heard the start of a practice session, when each individual (let alone section) is doing his own thing recognize and understand what is being played? In contrast, it is only when each player and each section begins to play in harmony that we can truly appreciate and understand the music. For this to happen, the ~~[~~conductor~~]~~ needs to know the symphony of interest, how the ~~[~~sections~~]~~ contribute to that symphony, when the percussion is to step up, and when to require brass to soften [decrescendo]. Consider, however, that everyone may play in tandem, and the conductor may give all the right instructions, but yet the orchestra will not produce the required results if the instruments were not tuned to the same key at the start of the performance. In an economy, having the same key at the start of a performance translates to having a well articulated shared **national vision**, knowing how the economy fits together (the symphony), and how the push and pull of the sectors (the synergy of the orchestra sections) create output (the music)

But is that sufficient? I would argue no! No because fundamentally we live and operate (make decisions) in a sea of **uncertainty,** where the unexpected occur, sometimes far too frequently**.** To begin with, we do not know the exact manner in which all the sectors interact – economics is not as precise a science as the vibrations on a musical scale. Second, especially in non-controlled economies, we do not dictate behaviors or activity. Instead, we lay regulations to circumscribe behaviors, and provide environments that create incentives to modify behaviors or influence activity. So the behaviors and activities in economies do not follow precisely predictable paths. Consequently, environments that **minimize uncertainty** matter. To drive home the point, imagine how chaotic a symphony would be if having practiced on an agreed set of score sheets, the conductor changes course during the concert itself and gives different instructions. Some players or sections would stop, some would continue with what was agreed during practice, and others would follow the new instructions from the conductor. Even further, imagine the effect on the audience and on attendance for the next concert. In summary, a clear articulated vision, transparency, resolute implementation, and an environment that minimizes uncertainty for all stakeholders is likely to be more effective than not.

Where do we go next?

What can we distill from the above? Our starting point is the recognition that Jamaica has an endowment of natural resources. A work force of 1.1 million, good weather most of the year round, natural resources such as bauxite and sunny beaches. Jamaica also has constraints. Jamaica is a highly open vulnerable state with a legacy of high debt, low growth, and limited infrastructure. Jamaica must find ways to use its endowments to get around its constraints.

There are a number of key things needed to set Jamaica on a path to growth. They amount to f**acilitating a reduction in uncertainty to enhance private sector led growth**. Where feasible, may need to go for quick gains to build confidence, but without compromising macroeconomic integrity. **Government can contribute** by, among other things, subscribing to:

- Political consensus and commitment on fiscal responsibility framework and tax reform, including on macroeconomic objectives and prioritization in the context of limited resources;

- Implementation of sound macroeconomic policies (including prudent public financial management, a sound monetary system)

- Committing to improve the environment for doing business – for example, targeting an improvement in the aggregate and worst individual rankings by a factor of one half in the next two-three years

- Making comprehensive tax reform an urgent priority. A 2007 study by the Inter-American Development Bank estimates that 40 per cent of economic activity in the country is unregistered and untaxed, and that tax exemptions and incentives have eroded half of the tax base.

- Enhancing regulation, governance, and transparency; improving legal systems, enforcing the rule of law, and containing crime

- Investment in physical, social, and human capital infrastructure, paying attention to building capacity, addressing poverty, and poor social conditions

- Building buffers to mitigate the impact of frequent natural disasters

Of course, these cannot all be done at the same time or overnight, and some prioritization may be needed or core components may need to be implemented as interim measures. Where optimal choices are not feasible, alternatives must be circumscribed to avoid short term gains at the expense (directly or indirectly) of long-term losses or reduced gains.

The private sector (financial and nonfinancial) needs to buy in to a cultural re-orientation:

- Developing businesses independent of need for government support

- Developing international competitiveness and pursuit of excellence to promote opportunities for greater economic diversification – in goods and services, and new markets

- Building support for R&D through partnerships with tertiary education institutions

What role do households play? Unlike corporations, households mainly earn income from the provision of labor services. They consume goods and services produced by corporations, acquire financial assets and incur liabilities, building net worth in the process. They need motivation to build skills, and wealth to spend and improve their well being. Households can help the growth process, although not in the short-run through embracing education and fostering a knowledge economy.

Competitiveness dictates a well educated, flexible work force, able to adapt to the every changing global environment. In 2008, only 1/3 of the employed workforce had basic CXC. The Global Competitiveness Report ranked Jamaica 80 of 139 countries in Higher Education and Training. In a Ministry of Labour and Social Security commissioned study, 40 percent of employers indicated that less than 20 percent of their employees were certified in a skilled area, and about 80 percent did not use high-end technology or require high levels of education.

Education through tertiary should be a national goal, combining academics and vocational training. Curriculum development could benefit from dialogue with the private sector about skills that would help their competitiveness. Shouldn’t school systems focus on every student mastering languages (at least one foreign), mathematics, integrated science, integrated arts (Economics, Business, Finance) through tertiary education? The aim here is to create a well-educated work force geared to meeting the needs of potential employers or small entrepreneurship. Tertiary institutions could focus on research and development, and training certification, preferably in partnership with the private sector.

International Development Partners, such as the Inter-American Development Bank, International Monetary Fund, and the World Bank Group can also contribute. As a group, they have:

- financed and supported the development of economic infrastructure;
- provided policy advice and technical assistance, including the sharing of best practices to help countries foster improved governance, transparency, and accountability;
- are providing support in improving competitiveness, tax expenditure reform, improving access to finance; and (iv) strengthening of land property rights.

- facilitate global trade, capital flows, and a stable international monetary system, indirectly creating the environment for transactions in goods, services, and financial assets with nonresidents

Traditionally, the IMF's main focus has been on encouraging countries to correct macroeconomic imbalances, reduce inflation, and undertake key trade, exchange, and other market reforms needed to improve efficiency and support sustained economic growth, while the World Bank and InterAmerican Development Bank have provided project funding for infrastructural development. Other development partners like the European Union have provided grant funding to supplement budgetary resources or funding for specific projects such as those undertaken by CIDA, DFID, USAID, UNESCO, and the United Nations Development Program. The picture emerging, therefore, is one of individual actions which are invariably linked through transactions to economic activity.

The issue is where does the circle start? Who should bear the initial risk? What can be done in the short-term? How do we ensure that a short-term focus is consistent with medium-term sustainability? To avoid pressure for short-term (second-best) measures, it is vital that the population must have a trust bank, fortified on transparency and dialogue. And where short-term measures have to be implemented, it is prudent to consider the cost of that expediency versus inaction or delayed action. While difficult in a predictable world, these questions are even more difficult to grapple with in an unpredictable world. In conclusion, Jamaica may be a small country but with all sections of the orchestra working together Jamaica can achieve sustainable economic growth.