Jamaica: No Free Market, No Miracle

by James Bovard

In 1980, advocates of the free market, limited government approach to development and growth predicted that Jamaica would soon become the "miracle of the marketplace" and the "Singapore of the Caribbean." Prime Minister Edward Seaga, who was elected by a landslide only five days before President Reagan's election, promised to roll back government control and allow new freedom for entrepreneurs.

Since 1980, this small island with a population of barely two million has received over $2 billion in foreign aid as Washington, the World Bank, and the International Monetary Fund (IMF) tried to insure Seaga's success.

But, Seaga's efforts at promoting an economic revival have been a dismal failure. Jamaican living standards are no higher now than they were in 1980 when socialist Michael Manley was voted out of office. The country's foreign debt has tripled, unemployment is still over 25 per cent of the labor force, the inflation rate has been in double digits since 1980, and the Jamaican dollar has lost two-thirds of its value against the U.S. dollar.

Critics of market-based development are beginning to cite Jamaica as the case which proves that "Gang of Four" (Hong Kong, Taiwan, South Korea, and Singapore) Asian-style capitalism cannot be exported and that the free market works only in certain limited places and under special conditions.

But this only confuses rhetoric and reality. While Seaga preached free enterprise, his government practiced the opposite. In fact, state control of the Jamaican economy has increased since 1980. For instance, the Jamaican government has bought an oil refinery, hotels, and an aluminum smelting plant; it has created numerous new state farms, increased interference in various sectors of the economy, raised taxes to their highest levels ever—and it has done little to rescind paralyzing bureaucratic control over foreign investment. Rather than a failure of the free market, Jamaica in the 1980s is another failure of state-directed economic development.

In 1980, when Seaga took office, the Jamaican economy was in a shambles. During the late 1970s, gross domestic product fell 20 per cent, a third of Jamaica's professional and managerial class emigrated, and Kingston, the capital city, was starting to resemble Berlin in the 1920s—with daily gun battles in the streets between different political gangs. Over 800 people were killed in election-related violence in 1980—a higher proportion of the population than America's battle deaths in the entire Vietnam war. All foreign observers agreed that Jamaica's exchange rate was overvalued and that the public sector was replete with inefficient, overstaffed, state-owned enterprises that

James Bovard, a widely published writer on economic affairs, writes frequently on international developments. An earlier version of this article appeared in the Journal of Economic Growth *(Vol. 1, No. 2).*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

were dragging down the island's economy.

According to Mark Rickets, a managing director of Security Brokers in Kingston, the influx of easily available foreign aid "though well-intentioned, was essentially flawed, for it provided a fiction, a false hope that Jamaica could spend money and enjoy the original promises of Seaga. As a result, the process of adjustment was not undertaken." (quoted in "Jamaica: Limits of a Showcase Policy," *SAIS Review,* Summer/Fall 1985)

More Intervention

The Jamaican government increased intervention almost from the day Seaga was elected. In 1981, the government established the Jamaican Commodity Trading Corporation with sole import rights over cars, drugs, food, and other items. The Agricultural Credit Bank was created to provide aid to farmers who were approved by government planners, and a National Credit Bank was established to allow government to distribute investment capital to approved business ventures.

In the first few years of the new administration, Jamaica maintained its overvalued exchange rate. In early 1983, the official exchange rate for basic imports of food, drugs, and educational supplies, and for servicing the foreign debt was 1.78 Jamaican dollars per U.S. dollar. At the same time, the parallel market rate for other imports was around three Jamaican dollars per U.S. dollar. The overvalued exchange rate reduced the international competitiveness of Jamaican exports while reducing the price of imports. This had a severe negative impact on Jamaican manufacturers and farmers. At the same time that the government was increasing aid to Jamaican farmers, it was effectively subsidizing the import of foreign food—thus destroying Jamaican farmers' markets.

The primary result of the flood of aid was not a revival of manufacturing, but a foreign debt that, on a per capita basis, now exceeds that of Mexico and Brazil.

Jamaica is blessed with an abundance of fertile agricultural land. But inept government marketing organizations and inefficient state-owned enterprises have crippled the island's farm industry. For example, despite its superb climate for sugar production, the island actually had to import sugar from the U.S. in 1981. (*Quarterly Economic Review,* No. 1, 1982, p. 15) Sugar production has fallen from 500,000 tons a year in the late 1960s to the present rate of around 200,000 tons a year. Most of the sugar is grown on government-owned plantations which are renowned for being among the least efficient sugar operations in the world. Under intense pressure from the IMF, Seaga finally agreed to contract with a foreign firm to manage the government's sugar estates. This has brought a slight increase in output, but the industry is still heavily politicized and the sugar workers' union remains an obstacle to efficient production.

Bananas, another traditional Jamaican crop, have fared no better. Banana production fell to a 20-year low in 1984. That year, the government planned to export 150,000 tons of bananas to the United Kingdom, but barely 30,000 tons were shipped. The source of the industry's problems is the Banana Marketing Organization, a government-run bureaucracy. A 1985 World Bank report concluded: "While production is expected to rise, government remains in firm control of the sector." (*Jamaica: Economic Situation and Public Investment,* Washington, D.C.: International Bank for Reconstruction and Development, April 1985)

Despite the failure of the government's involvement in agriculture, Jamaica responded to falling agricultural production by launching a massive new government program—AGRO 21—to control, finance, and direct new agricultural development. Through AGRO 21, the government is now involved in the production of macadamia nuts, hearts of palm, aloe vera, beef, coffee, and other commodities. According to recent reports in Kingston newspapers, AGRO 21 has produced one spectacular failure after another.

When the Seaga government took office, government-controlled food prices were kept artificially low in order to curry favor with urban voters. Although this practice was discontinued, the artificially low exchange rate effectively continued the cheap food policy. Until 1984, Jamaica did little to boost prices paid by government to domestic producers. But, with

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

foreign aid, Seaga set up a food stamp program that now is feeding almost half the island's population. Carl Stone, a professor at the University of Jamaica, observed, "The existing food stamp program is a mockery to any real commitment to local agriculture. Our poor people are being subsidized to buy imported food when our farmers can't sell their produce because of low levels of consumer buying power." (quoted in "Jamaica: Limits of a Showcase Policy," *SAIS Review*, Summer/Fall 1985)

Free or cheap food has poured in from abroad in recent years, and this has had the usual disincentive effect on local agricultural production. As Scott D. Tollefson reported in the Summer/Fall 1985 *SAIS Review:*

> An example of the disincentive created by P.L. 480 [a U.S. law under which agricultural surpluses are shipped to developing nations] to Jamaican food production occurred in late July 1984 when Jamaica experienced a shortage of rice, the major staple, which lead to a near-crisis situation politically. The market mechanism worked with clock-like precision as small farmers, attracted by increased prices for rice substitutes, rushed their goods to the market. Days later, 4,780 metric tons of rice were imported under P.L. 480, the first parcel of an allotted 16,000 tons costing U.S. $5 million. The imported rice sent the prices of substitutes tumbling, thereby hurting the local producers.

Recently, the People's National Party accused Seaga's Jamaica Labor Party of "blatant political misuse" of foreign food donations. According to the People's National Party, the Labor Party used the food to buy political support. Labor Party members of Parliament were given caches of food to distribute—and thus make voters ever grateful (*Daily Gleaner*, March 13, 1987).

In response to IMF pressure, the government has nominally deregulated the retail prices of several major food items. But a recent controversy over milk prices shows how the Jamaican government still exerts economic controls. (The following facts and quotes are from the *Daily Gleaner*, October 10 and 12, 1985.)

With inflation running at high levels, milk processors boosted their retail prices by 30 per cent in October, 1985. This provoked a denunciation by Karl Samuda, the Minister of State in the Ministry of Industry and Commerce. The government retaliated against the milk processors by reducing "by 80 percent the sale of milk powder to distributors who the Government believes were selling to wholesalers who then made the powder available to processors."

This is a perfect example of how, in a mixed economy with rampant government protectionism and subsidies, government can put the squeeze on a group it does not like. When milk prices were deregulated in 1984, "an arrangement had been reached . . . for processors, farmers, the Consumer Affairs Divison of the Ministry of Industry and Commerce, and retailers to sit together and decide on any price increase and how it was to be shared among all the sectors involved." The controversy arose when the milk processors raised prices without first asking permission.

Credit Controls

The Jamaican government has also intervened in the credit market. In 1985, to reduce consumer spending and placate the IMF, the government imposed strict credit controls, thereby following the usual central planning strategy of sacrificing consumers to producers. Seaga even bragged in his 1985 budget speech that the new controls had made it very difficult to purchase major consumer items. Jamaica exemplifies the classic case of a government trying to correct the effects of intervention—a perpetually overvalued exchange rate that effectively subsidizes consumer purchases—with another intervention.

But, it is a hopeless cause. The new credit controls are hurting Jamaican manufacturers and undercutting their exports. A recent Agency for International Development (AID) report notes that Jamaican manufacturing exports were being constrained by "the relatively stringent credit restrictions being employed to restrain demand." (AID, Program Assistance Approval Document for $34.5 million additional Economic Support Fund loan, June 1985, p. 4)

However, no such austerity is being applied

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

to government. Jamaica has used some of the foreign aid windfall to add to its long list of properties. The Jamaican government has bought several hotels. A scandal erupted in 1982 when the government bought the Terra Nova Hotel, a leading Kingston hotel and restaurant, for an amount far exceeding the highest private valuation of the property.

In 1983, the Jamaican government bought an oil refinery. Exxon had complained that it could no longer operate its refinery in Jamaica without higher profits. The government, instead of relaxing its price controls on petrol prices, took over Exxon's operation and has since been losing money at a rapid rate. But, despite the government's efforts, gas and petrol prices have skyrocketed, largely as a result of the collapse of the Jamaican dollar.

The Jamaican economy also has been hurt by the decline of the bauxite and aluminum industries. In 1974, the government imposed a 600 per cent levy on pre-profit bauxite exports. In the early 1980s, due to the combined impact of continued heavy taxation and a depressed world bauxite market, three foreign bauxite producers in Jamaica either closed down or greatly reduced their operations.

In 1985, the Jamaican government tried to solve the problem by setting up its own company, Clarendon Aluminum Production Ltd., "to produce aluminum with the existing facilities under a lease contract with ALCOA." (Quarterly Report of the Planning Institute of Jamaica, September 1985, p. ix) Despite the surplus of aluminum in the world market, the Jamaican government in 1984 entered into a joint agreement with the government of Colombia to construct a huge aluminum smelter in that country. The project will cost around $500 million, and will not be fully operational until 1990. As The Economist Intelligence Unit observed, "The likelihood of failure must be rated high in view of the current surplus aluminum smelter capacity stretching well into the 1980s."

Privatization has long been a rallying cry among advocates of market-based development. Though Jamaica has sold off a few small companies, most large companies remain under political control. The government has refused to consider divesting Air Jamaica, the National Commercial Bank, the Jamaica Telephone Company, or any of its many hotels and extensive land holdings.

Instead of divesting, Air Jamaica just bought a Concorde jet. An Air Jamaica official recently admitted, "We didn't really expect to make any money on Concorde." The supersonic is supposed to give the government status —while it loses money. In the past 18 years, Air Jamaica has lost $215,719,000 (Jamaican dollars).

Housing Controls

Housing finance is another area that remains effectively nationalized. The National Housing Trust, the main source of mortgage funds, is financed by a five per cent payroll tax. At the same time, as a recent World Bank report notes, "A ceiling on private mortgage lending rates has been maintained below market interest rates." ("Jamaica: Economic Situation and Public Investment," April 1985) AID funds have poured into the government's housing programs, thus stifling the development of private financing. The government also recently reimposed rent controls—one more blow to private housing.

AID recently gave the Jamaican government an additional $15 million to rebuild housing in Kingston. Sara Frankel, AID's Chief of Regional Housing and Urban Development for the Caribbean, contended that the private sector was not aggressive enough to take "a piece of the action." (*Daily Gleaner*, February 2, 1987) First our foreign aid agency helps disrupt the local housing market—then it scorns the private sector for not jumping into the resulting mess.

The Jamaican government also has instituted several job-training and job-creation programs. It imposed a new three per cent payroll tax to finance a program aimed at preparing people for jobs in the public and private sectors. In 1985, the government used $15 million from AID to set up a second program to provide self-employment and training for approximately 10,000 young people annually.

In this second progam, the government is giving away sewing machines, urban vending carts, and other equipment to individuals of

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

whom the government approves. As the *Daily Gleaner* (November 28, 1985) reported, Seaga "said that in view of the unattractiveness of various containers being used by street vendors, the government wished that [the new program] would lead the way in creating a new look for vendor packaging and upgrading the state of that trade." Through this program, government-favored small businesses will be able to drive their unsubsidized competitors out of business.

Jamaicans have been further hurt by new taxes. The *Daily Gleaner,* which is generally perceived as a conservative newspaper and which supported Seaga in 1980, recently editorialized: "The government has imposed additional taxes which drive real incomes of the average worker to sheer subsistence levels." (January 31, 1986) Among the new taxes is a $25,000 (Jamaican dollars) fee for the issuance of a shop operator's license and a shop operator agency permit. This has a devastating effect on the creation of small businesses which, as most studies indicate, create far more new jobs than their larger competitors. The new shop operator's tax, equal to more than double the national per capita income, closes the doors of opportunity for all but the rich and upper-middle classes.

Shortly after Seaga took office, a committee of businessmen was established to promote foreign investment in Jamaica. At the time there was wide agreement by both U.S. and Jamaican government officials that foreign investment was the key to Jamaica's prosperity. But since then, very little investment has occurred. As AID recently noted:

> The perception persists that the Jamaican government is a serious obstacle to investors. . . . The present regulations governing investment and the associated bureaucratic structure appear to be vestiges of a centrally-planned economy. This is reflected in the requirement for government review and approval of plans with respect to the technology to be employed, the pace of expansion of production capacity, product mix, source of raw materials, and location of operations. In a market-directed economy, these decisions would be governed by relative prices, rates of return and cost. Thus the application process itself suggests a government bias against private decision-making in the economic realm. (AID, Economic Support Fund loan, June 1985, p. 27)

Investors are obliged to seek approvals, licenses, and documents from various ministries. According to AID, "These requirements reportedly are not uniform and the basis for decisions as to which requirements apply to particular investors and for granting or withholding approval, are often discretionary. . . . Predictably, major last minute surprises often emerge under this system."

Investment is also discouraged by frequent labor disputes and high minimum wages. In 1984, despite a 25 per cent unemployment rate, the government doubled the minimum wage. Yet, the higher minimum wage almost guarantees that unemployment will stay high or go higher.

Conclusion

As the *Daily Gleaner* editorialized at the end of 1985, "It is true that in 1985 the government failed to take the promise of deregulation far enough. The free rein promised to private entrepreneurship is still not evident as the government retains control of much of the economy. Indeed, the painful adjustment felt during the year has been aggravated by the public sector's continued hold on sectors of the economy, limiting the scale of private sector investment and expansion."

The Seaga government, like every Jamaican government since independence in 1962, is trying to run this little island of 2 million people as a separate continent, encouraging domestic production, import substitution, and local manufacturers—a nationalistic approach to economic affairs. Autarky is still the dominant economic policy in Jamaica.

Jamaicans are known as excellent entrepreneurs everywhere in the world except in Jamaica. Unfortunately, the Jamaican government perpetuates the paralyzing restraints on its citizens' business ability. And as long as the government continues to destroy private initiative, Jamaica will continue to be a poor and frustrated country. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Native Americans: Victims of Bureaucracy

by Michael Adamson

Despite the individual rights to life, liberty, and property upon which the United States was founded, significant violations of these rights have not been uncommon throughout our history. The U.S. Constitution originally condoned slavery and counted the black slave as a mere three-fifths of a person for purposes of determining representation. Japanese-Americans were interned by the thousands in concentration camps during World War II because many citizens and politicians of European descent considered them something less than American and therefore potential subversives. For decades, state laws limited the property rights and freedom to contract of women in marriage as well as their right to vote. Until the Civil Rights movement, areas in the South practiced a limited form of apartheid, segregating whites and blacks in schools and other public places.

Yet no group of people has suffered, and continues to suffer, from an illiberal and discriminatory government policy as have the 1.4 million people collectively referred to as Native Americans. As the nation commemorates the 200th anniversary of the United States Constitution, it behooves us to examine the Indian policy of our government.

The Bureau of Indian Affairs is the principal agent in carrying out the government-to-government relationship between the United States and Federally-recognized Indian tribes, and is therefore the focus of this paper. This agency is unique in that it is the only Federal agency whose expressed function is to manage the affairs of a particular ethnic group.

Michael Adamson received an M.B.A. from Arizona State University in 1986, and is a management information systems consultant in Phoenix.

From Conquest to Control

By any criterion, the economic and social standards of living are lower among Native Americans than among the balance of the U.S. population. Unemployment on or adjacent to reservations fluctuates around 40 per cent. Of some 750,000 Native Americans on reservations, 75 per cent earn less than the national average.[1] Leading causes of death among Native Americans are accidents, heart disease, malignant neoplasms, and cirrhosis of the liver, all far above national averages and a significant proportion of these related to alcohol abuse. Drug abuse, mental illness, and obesity are major health problems. Tuberculosis cases are 4.5 times the national average and deaths from the illness are 9.5 times as frequent. Suicide is more than twice as likely among Native Americans. Their life expectancy is about five years below the average American's and infant mortality rates are 25 per cent higher.[2]

While such facts may illustrate the plight of the Native American, they do not explain why such conditions exist. I will argue here that they exist primarily because bureaucratic management is no more appropriate (and yields equally disturbing results) for a group of people defined by race than for a group of people defined by occupation, sex, region, or any other demographic characteristic. U.S. Indian policy is all the more offensive as it is perpetrated by

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED