



The Janus Development Strategy: Jamaica In Transition

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Peter W Jones

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JANUS PHILOSOPHY

The ability to see past and present simultaneously must be of prime importance in any development scenario. This speaks to the essence of the **Janus Development Strategy**, whose philosophy is outlined below.

Janus is the Roman god of gates and doors (ianua), beginnings and endings, and hence represented with a double-faced head, each looking in opposite directions. He was worshipped at the beginning of the harvest time, planting, marriage, birth, and other types of beginnings, especially the beginnings of important events in a person's life. Janus also represents the transition between primitive life and civilization, between the countryside and the city, peace and war, and the growing-up of young people.

One tradition states that he came from Thessaly and that he was welcomed by Camese in Latium, where they shared a kingdom. They married and had several children, among which the river god **Tiberinus** (after whom the river Tiber is named). When his wife died, Janus became the sole ruler of Latium. He sheltered **Saturn** when he was fleeing from **Jupiter**. Janus, as the first king of Latium, brought the people a time of peace and welfare; the Golden Age. He introduced money, cultivation of the fields, and the laws. After his death he was deified and became the protector of Rome. When **Romulus** and his associates stole the Sabine Virgins, the Sabines attacked the city. The daughter of one of the guards on the Capitolian Hill betrayed her fellow countrymen and guided the enemy into the city. They attempted to climb the hill but Janus made a hot spring erupt from the ground, and the would-be attackers fled from the city. Ever since, the gates of his temple were kept open in times of war so

the god would be ready to intervene when necessary. In times of peace the gates were closed.

His most famous sanctuary was a portal on the Forum Romanum through which the Roman legionaries went to war. He also had a temple on the Forum Olitorium, and in the first century another temple was built on the Forum of Nerva. This one had four portals, called Janus Quadrifons. When Rome became a republic, only one of the royal functions survived, namely that of rex sacrorum or rex sacrificulus. His priests regularly sacrificed to him. The month of January (the eleventh Roman month) is named after him.

Janus was represented with two faces, originally one face was bearded while the other was not (probably a symbol of the sun and the moon). Later both faces were bearded. In his right hand he holds a key.

This key we see as the key to sustainable economic development.

Peter W Jones

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Jamaican Fiscal Policy Under Accrual Budgeting

"...The government intends to advance reforms in the public expenditure management system over the medium term. The plan for the current year is to extend modernization measures implemented in the pilot ministries to the rest of the central government. These measures aim at establishing output-based budgeting, and linking salary increases to performance by the end of this fiscal year, and moving toward **accrual accounting** over a three-year period. In addition, the authorities plan further to strengthen the cash management system."

(Jamaica: 2004 Article IV Consultation, Pg. 13 section 21)

Overview

The Government of Jamaica is in the process of a phased shift from cash to full accrual budgeting. Historically cash accounting, with its embodiment in domestic legislation and international guidelines, has underpinned the production of public accounts. In recent times, however, the Government has given greater attention to developing more business-like reporting within the public sector. These changes do not affect the Government's fiscal objectives or strategy, but they do require some changes in measurement and terminology.

The move from cash to accrual budgeting is an important step in the Government's reform program to develop more business-like reporting for the public sector that accounts for the full cost of service delivery and incorporates a 'whole of government' approach.

The fundamental distinction between the two forms of accounting centers on timing — cash accounting records the transaction when cash is exchanged, whereas accrual indicators record a financial flow at the time

economic value is created, transformed, exchanged, transferred or extinguished, whether or not cash is exchanged at the time. In practice, this means that non-cash items such as accruing superannuation liabilities and depreciation will now be regularly incorporated in the production of public accounts.

The transition to an accrual accounting framework does not change the objectives of fiscal policy. It will, however, be necessary to express the fiscal strategy and associated targets in accrual budgeting terms. The Government is pursuing a medium-term fiscal objective of achieving underlying cash balance on average over the economic cycle. Following the introduction of accrual accounting, the Government will aim to achieve fiscal balance — the accrual counterpart of the underlying cash balance — on average over the economic cycle. The fiscal balance, like the underlying cash balance, measures the Government's contribution to net lending (the national investment-saving imbalance) and hence to the external current account balance. The fiscal balance is an aggregate in the Government Finance Statistics (GFS) operating statement. It can also be derived from an accounting standard operating result by making two adjustments for economic revaluations and capital.

The main advantage of accrual measures (as opposed to cash) is that they provide a more comprehensive indication of the total activity of Government and the long-term effects of current policy. Cash measures do, however, have some advantages for tracking expenditures in a fiscal year and helping to identify the short-term effect of fiscal policy on the economy. Consequently, cash indicators for the headline and the underlying balance will continue to be produced.

The move to accrual budgeting will result in several presentational changes. First, budget reporting will adopt a consolidated framework by

shifting from budget sector to general government reporting. Second, as part of the Budget process, consistent with both accounting and Government Finance Statistic and the International Monetary Fund (IMF) requirements, the Government will produce a complete set of accrual statements, including:

- an operating statement;
- a statement of assets and liabilities; and
- a statement of cash flows.

Thirdly, to promote greater efficiency in the management of its assets, the Government will produce a capital budget statement that will account for all capital expenditure and funding.

Taken together, this series of reforms should contribute towards more transparent and informative public accounts and greater efficiency in the management of public resources.

While the fiscal balance is the accrual counterpart of the underlying cash balance, there will be differences as to when transactions are recorded on an accrual and a cash basis, with the result that the fiscal balance may differ from the underlying cash balance in a given period. Some company tax liabilities will be brought forward with the pay-as-you-go (PAYG) arrangements but certain tax installments (cash payments) will be deferred and paid in latter years. The bringing forward of tax liabilities will be reflected in accrual revenues , but they will not be recorded in cash revenues until the tax installments are paid. These timing differences will result in a sizeable divergence between the fiscal balance and underlying cash balance.

While unrelated to the movement to an accrual budget, another important change in the Budget is the treatment of Public Trading Enterprises (PTEs) superannuation liabilities. The Government still makes superannuation payments to current and former employees of PTEs who were once employees within the general government sector. These payments, have previously been treated as financing transactions and have therefore had no impact on the budget cash balances. However, consistent with changes to the National Accounts in line with international statistical standards, onwards, these payments will be effectively treated as budget outlays with the result that they will be recorded in (reduce) the underlying and headline cash balances.

Major differences between cash accounting and accrual accounting

Timing of transactions

Under a cash system, transactions are recorded in the reporting period in which cash changes hands. An accrual system records transactions in the period in which income is earned or expenses incurred, subject to the important caveat that the transactions are able to be reliably measured at that time. Effectively, assets, liabilities, revenues and expenses arising from transactions or other events must be recognised in the financial statements when they have an economic impact on the government, regardless of when the associated cash flows occur.

When applied to the Government, accrual reporting will cover some significant financial items that are not included in cash-based statistics because they do not have an associated cash flow. The major differences between cash budgeting and the accrual framework are outlined below.

Superannuation

Accrual budgeting will record the accruing superannuation expense whether the liability is funded or unfunded. The superannuation expense in the operating statement, in a given year, is equal to the superannuation accruing to current employees as well as the interest or growth on the outstanding liability. In calculating changes in the stock of unfunded superannuation liabilities, the actuary takes into account the number of salary earners and assumptions relating to wages growth, inflation and the expected rate of return on investment.

Public debt interest (PDI)

Under cash accounting, PDI is recorded as the interest paid during the year. Under an accrual approach, allowance is also made for interest accrued, but not actually paid, during the period.

A further difference between cash and accrual accounting for PDI concerns the treatment of premia and discounts when debt is issued or when it is repurchased.

Taxation revenue

The preparation of accrual estimates requires a conceptually consistent and reliable method of recognising when taxation revenue accrues to the Government.

The Government could record an accrual of revenue at the time that economic transactions, resulting in a taxation liability, took place. It is very difficult, however, to know when all such transactions take place. As a result, at this stage revenue will be recognised as accruing at the time the relevant tax law indicates the existence of a requirement to pay an amount

in tax or when a tax liability assessment is raised That is, revenue is only recognised when the taxpayer makes a self-assessment or the Tax authorities issues an assessment.

In effect only two changes to current cash estimates are required. These are adjustments for receivables, and for bad and doubtful debts.

1. The adjustment for receivables recognises revenue for which an assessment has been issued but which has not yet been received and excludes cash received which has already been accounted for in receivables (because it accrued in a previous reporting period).
2. The adjustment for bad and doubtful debts allows for the fact that some accounts receivable are never paid and are eventually written off. At the end of each financial year tax receivables that are likely to become uncollectable are brought to account and expensed to the year just finishing. In this way expenses are matched to the period in which they were incurred.

Capital

Accrual accounting records capital use (depreciation) in the operating statement, whereas cash accounting records capital expenditure. However, the Government's primary fiscal target — fiscal balance — will continue to record capital expenditure instead of depreciation. This treatment is necessary because the fiscal balance is intended to measure net lending, or the difference between saving and investment expenditure. Therefore the fiscal balance detects the cash 'investment' in a given year, not the capital used. The cash flow statement will outline most capital expenditure in purchase of property, plant and equipment, and intangibles while total capital expenditure will be published in the Government's capital budget statement.

Note To Political Representatives

Politicians (Members Of Parliament and Senators) the 81 members of the House will have to be put through extensive and intensive seminars to facilitate continued effective representation to the people with regards to these budget changes and the new interpretations required.

Can Higher Reserves Help Reduce Exchange Rate Volatility in Jamaica?

Overview

Does holding higher reserves reduce the volatility of the real exchange rate independently of the influence of the choice of exchange rate regime or of the role of foreign exchange intervention?

The literature has focused mainly on two classes of benefits arising from a high level of reserves as follows:

1. A high level of reserve adequacy has been shown to reduce the likelihood of currency crises that is, a sudden unwillingness by international lenders to renew their credit lines at times of market uncertainty.
2. A second beneficial effect is that higher reserve adequacy tends to be associated with lower external borrowing costs. This effect works both directly through improved confidence and indirectly through improved credit ratings on sovereign foreign currency debt, since the government's default risk is perceived to diminish with higher reserves.

Determinants Of The Volatility Of The Exchange Rate

The literature on the determinants of the volatility of the exchange rate has reached a number of conclusions:

1. Much more volatility of exchange rates than can be explained by the volatility of macroeconomic fundamentals, even in models that assume sticky prices, sluggish money adjustment, and time-varying risk premia.
2. Country differences in exchange rate volatility appear to be linked to a set of macroeconomic variables, as well as capital control measures, foreign exchange regime, and market structure.
3. Balance sheet factors matter; these include the size of external debt and domestic market liquidity, as well as country size and level of development. In particular, the choice of exchange rate regime can reduce currency volatility, given that prices are normally stickier than the exchange rate

Testing For The Determinants Of Nominal Exchange Rate Volatility

Canales-Kriljenko and Habermeier (1999) testing for the determinants of nominal exchange rate volatility on a cross-section of 85 developing and transition economies; using a cross-section regression permitted the inclusion of a very large set of structural variables with little or no time variation, such as, de jure exchange rate regime, and a set of measure Of exchange restrictions. On the basis of a model selection algorithm, they find that the most important macroeconomic determinants of nominal exchange rate volatility were:

1. Inflation,
2. Real GDP growth,
3. Fiscal deficit (in percent of GDP),
4. And trade openness.

Surprisingly, no measure of reserve adequacy was chosen by the model selection algorithm and none were, therefore, retained in the model.

Points For Jamaican Parliamentarians To Note

Ketil Hviding, Michael Nowak, and Luca Antonio Ricci (2004) draw the following conclusions on the issue:

1. If the average developing country halved its ratio of reserves to short-term debt, it could experience an increase in exchange rate volatility of up to 20 percent.
2. In terms of the channel through which this effect operates, only tentative conclusions can be made at this stage. The effect does not appear to operate via the use of reserves to intervene in the foreign exchange market, but rather through signaling a greater potential for foreign exchange intervention in a crisis situation or a generally increased comfort level. Further research would be needed to identify the channels through which the higher reserve levels are working. For example, a proxy for exchange market intervention that better captures policy intentions could provide further insights into this important issue.
3. Other policy actions may, however, be at least as powerful as reserve accumulation in reducing real exchange rate volatility. In particular, monetary volatility and external debt seem to be powerful determinants of real exchange rate volatility, suggesting that a credible and stability-oriented monetary policy combined with

external debt management would be important elements of any policy package aimed at reducing unwanted real exchange rate volatility.

Citizen Auditors: Taxpayers Should Take Responsibility For Overseeing How Their Municipalities Spend Money.

Overview

Not long ago, residents in a neighbourhood in Bogotá, Colombia, were pleased to see crews arrive to pave their streets. But their pleasure turned to alarm when they discovered that the construction company had decided to cut costs by using a layer of sand under the asphalt, which would have resulted in a much less durable surface. The residents immediately contacted the Veeduría Distrital, an advisory agency of the city that handles the citizen's participation in municipal affairs, which in turn reported the incident to the city's Urban Development Institute. The institute contacted the construction company and told them: either stick to the original plans, or you will be taken to court.

How did the neighbors know what type of material was supposed to be used for the filling? What made them think that their report would be effective?

Participation and control

The 1991 Colombian Constitution opened enormous possibilities for the involvement of civil society in public life; Our Local Government Reform

Programme is moving in that direction but the progress is slow. As a result, the Veeduría Nacional and several Veedurías Distritales were established.

Veeduría Distrital has a twofold purpose: 1) to oversee that the cities' procedures are effective 2) to organize the citizens in their new task as monitors.

The immediate objective is to mobilize this army of monitors. The Veeduría is promoting its own visibility and organizing meetings throughout the districts to help train citizens. Anyone can join as a volunteer as long as he or she shows the commitment to participate and participates in the training.

The agency plans to open information centers at strategic locations with easy access where people who volunteer to participate in this program can go to join, be trained and get information about the projects that could affect their neighbourhoods.

Transparency

Any citizen can find out if a public institution in his district or elsewhere overspent for articles or services, from the most important and expensive to the most trivial or inexpensive: stationery, computers, printers, vehicles, hospital equipment, pencils, almost anything. It is also possible to compare those prices with what other institutions paid for identical articles and services, or with the list of "recommended prices" that the Veeduría provides as a result of its own market research.

All this information is available in the Bulletins of Prices for the District, which are published and distributed periodically by the Veeduría, and in Bogotá Transparente, a magazine of the same agency. These publications

have had enormous success and have forced the local agencies to carefully examine their practices. The Veeduría also publishes bulletins with detailed accounts of the annual budget as well as regular updates on current expenses.

Corruption Prevention

The city helps to prevent corruption by signing transparency agreements with construction companies, auditors and evaluation committees to prevent and deter bad practices. As for internal transparency, the Veeduría can undertake investigations against public officials. An agreement with the office of the Public Prosecutor and with the Department of Security Administration allows initiating judicial procedures,

Citizen's Meetings are another part of this strategy to promote transparency. They give opportunities for residents to discuss and help plan local development strategies for the following four years. The Municipality of Bogotá also holds a series of public hearings to report on the city's budget that are usually broadcast live by the local television stations.

Can we in Jamaica learn anything from this positive Colombian experience?

Economic Stabilization Policy and Political Opportunism

Overview

It is clear that politics influences economic policy. Determining the extent to which this happens is quite a challenge, particularly for researchers studying developing countries.

It is a challenge worth meeting, however, because failing to design the appropriate policy may have a major negative impact on the welfare of these societies.

An example of a policy with a high political dimension and strong welfare impact is the choice of nominal anchor to stabilize inflation. In response to high and chronic inflation, many countries have adopted stabilization policies. These policies differ in their design, but to what extent these differences arise from political, rather than economic, motives is not clear. Nor is it known whether and to what extent policymakers take advantage of the consumption cycles derived from the different stabilization strategies in order to further their political career.

ERBS vs. MBS

There are basically two possible anchors available for policymakers to stabilize inflation: the exchange rate and a monetary aggregate. These alternatives lead to two different consumption paths even if to the same end result in terms of welfare. **Exchange rate- based stabilization** programs generate an initial consumption boom and later a recession in the economy whereas **money-based stabilizations** generate an early consumption bust followed by a recovery. A benevolent dictator might be

indifferent to the differences between both strategies but **elected officials** must be **sensitive to the reaction of voters**.

If voters are not perfectly forward looking, then the timing of elections might matter, and knowledge of these consumption patterns allow politicians to use both nominal anchors opportunistically. In particular, an opportunistic politician might use **exchange-rate-based stabilizations** prior to elections whereas **monetary anchors** might be employed after elections.

Timing Of Elections Affect The Choice Of Anchor For Stabilization

Research out of the International Monetary fund using results derived from fairly simple econometric models using data on 34 full-fledged stabilization episodes clearly indicate that the timing of elections affect the choice of anchor for stabilization. In particular, policymakers assess how distant the next elections are before making their choice of nominal anchor in the inflation stabilization program that they have decided to embark on.

Estimates strongly suggest that the probability that policymakers adopt an exchange-rate based stabilization is higher when they are closer to the date set for future elections. The probability of adopting a money-based stabilization, on the other hand, is higher when future elections are far away and previous elections are closer. Moreover, the results show that the

stock of international reserves available for policymakers, and the extent of the openness of the economy and fragmentation of the political power not only affect the choice of anchor to stabilize inflation but also the degree to which policymakers may be more or less opportunistic in their choice of anchor. For example, three different policymakers who decide to launch a

stabilization program at different moments of their election cycle will have, respectively, 45 percent probability of choosing the exchange rate as the anchor three years before elections, 78 percent two years before elections, and 99 percent one-year prior to elections, for the case where reserves cover 10 percent of M3. Likewise, other things being equal, a difference of about three years in the time remaining to next elections implies a difference of 24 percentage points in the probability of adopting an exchange-rate-based stabilization (76 percent five years before elections and 100 percent two years prior to elections).

The Impact Of Elections On Different Economic Variables

The political economy literature has documented the impact of elections on different economic variables ranging from public budget deficits to inflation and real exchange rate. In particular, theoretical and empirical papers have established that the existence of political opportunism in developing countries creates a common pattern where these different variables cycle around elections.

Chronic inflation has been a major problem in the late 20th century for many countries in the developing world and especially in Latin America. The diverse stabilization attempts pursued in Latin America, Israel, Turkey, and Iceland have allowed some economists to identify unique stylized facts for each type of stabilization strategy. The debates over what strategy to adopt in order to stabilize the economy have been intense, and have been centered around whether exchange-rate-based stabilization (ERBS henceforth) is superior to money-based stabilization (MBS henceforth). Formally, the difference between these programs lies in the selection of the nominal anchor to bring inflation down to normal rates. The ERBS chooses the exchange rate as its nominal anchor while the MBS traditionally adopts a monetary aggregate, such as M1 or monetary base. The consequences

of the choice of the nominal anchor differ considerably and have important implications.

The different experiences from the stabilization programs mentioned above have generated a very controversial literature regarding the effects of disinflation programs on consumption and output. Easterly (1996) in a study of a sample of stabilization programs has concluded that they are always expansionary. Kiguel and Liviatan (1992) and Végh (1992) study the business cycles associated with ERBS in chronic inflation countries concluding that they greatly differ from those associated with MBS. In particular, their study of a sample of stabilization episodes shows that the business cycle associated with ERBS begins with a boom and ends with a recession. Calvo and Végh (1999) analyze stabilization programs adopted in Latin America and Israel. The theoretical work and empirical results of their paper are important because of the stylized facts they help to establish. Table 1 shows the most relevant empirical regularities of ERBS and MBS considered in their paper.

Exchange-rate based stabilization

Slow convergence of the inflation rate to the rate of devaluation

Initial increase in real GDP and private consumption followed by a later contraction

Real appreciation of the domestic currency

Deterioration of the trade balance and current account deficit

Ambiguous impact response of domestic real interest rates

Money-based stabilization

Slow convergence of the inflation rate to the rate of growth of the money supply

Initial contraction in economic activity

Real appreciation of the domestic currency

No definite response of the trade balance and the current account

Initial increase in domestic real interest rates

The most striking difference between the two stabilization strategies is the real effects on economic activity. In particular, as described above, ERBS exhibit a consumption boom early on in the program followed by a later contraction. In contrast, MBS exhibit an initial consumption bust followed by a later recovery. The literature exploring these boom-bust cycles has concentrated on theoretical models replicating the empirical regularities in consumption following stabilization programs. The empirical literature sought to test what is known as the “recession-now-versus-recession-later” hypothesis, making reference to the possibility of delaying the disinflation costs (recession) using the exchange rate as the nominal anchor. It is important to note that ERBS attempts often lead to balance-of-payments crisis, loss of international reserves, and major devaluations. Therefore, ex-ante, it is not a simple task to determine which stabilization strategy should be pursued, since initial consumption booms are definitely an advantage of ERBS over MBS. This might be especially true if the economy is in a recession prior to the launching of the program.

Calvo and Végh (1999) also provide theoretical models to explain consumption boom-bust cycles. Perhaps one of the most important assumptions of their main model is that, at least a priori, one stabilization strategy should not be preferred over the other. The only difference between them depends on when the stabilization costs will be paid — earlier in the case of a MBS and later in the case of an ERBS. In other words, in an infinite horizon economy, the present value of consumption after the adoption of either stabilization strategy can be assumed to be equal.

In spite of the distinctive empirical regularities following ERBS and MBS described by Calvo and Végh (1999), some studies in the recent literature dispute their validity.

Echenique and Forteza (1997) re-examine the existence of consumption and output cycles after ERBS and conclude that they have taken place because the ERBS are generally launched when the world economy is booming and the country has experienced positive terms-of-trade shocks. Therefore, they conclude that the consumption booms after ERBS were more the direct result of positive macroeconomic shocks than of a particular choice of nominal anchor. Gould (2001) argues that the initial consumption boom and bust in ERBS and MBS are endogenously determined by the initial conditions such as initial GDP and the level of international reserves of the different economies and bear no relation with the choice of anchor to stabilize inflation.

How Opportunistic Politicians Can Choose Their Policies To Their Own Benefit

It is natural to ask how opportunistic politicians can choose their policies to their own benefit and still be reelected. The traditional literature has attributed two main alternatives regarding voters' behaviour that are theoretically consistent with political opportunism.

1. According to the first tradition (Nordhaus, 1975), voters may be myopic or short-sighted. The implications of assuming backward-looking adaptive expectations are straightforward: voters base evaluations on the recent past and thus reward governments producing consumption booms before elections.

2. Alternatively, a later tradition appeared with newer models based on the “politician’s competence” (Rogoff 1990) where voters have rational expectations but lack information regarding the level of competence of the different politicians.

The implications of assuming rational expectations are that politicians make every effort to signal their type to voters by successfully generating a consumption boom before elections with either a MBS or an ERBS depending how distant are future elections. Edwards (1994) provides evidence that adaptive expectations models (retrospective voting) outperform rational expectations models of political business cycles in Latin America. Even so, since consumption booms prior to elections can be engendered by both traditions, it is safe to remain agnostic about what should be the appropriate variant. In fact, this paper provides results that should be consistent with both theories of voter behaviour.

Conclusion

The most important result of this paper is the observed pattern regarding the choice of anchor to stabilize inflation in high and chronic inflation countries. In particular, since **ERBS generate an initial consumption boom they are on average adopted before elections and since MBS generate an initial recession they are on average launched after past, and faraway from future, elections.**

1. This paper also provides a rationale for why policymakers may choose a short-run hard MBS. It seems advantageous to do it right after elections for two reasons. First, because economic recovery will take place during the term of office of the politician and,
2. second, because the politician may blame the previous government for the costs implied by the adoption of the MBS. Additionally, it can

be an alternative strategy for some countries that, due to the numerous failed attempts, might have exhausted the ability to use the exchange rate as the nominal anchor.

3. Most importantly, this paper provides insight on the motivations behind the policymakers' choice of anchor to achieve low inflation. A relatively large stock of international reserves, a high level of openness, and high political fragmentation not only increase the probability of adoption of an ERBS but also affect the degree of political opportunism behind the choice of nominal anchor for stabilization.

This paper has suggested some possible theoretical channels that can be used to explain the facts that were obtained. Voters' behaviour and the ability of policymakers to opportunistically choose economic policies are essential ingredients in the construction of an interesting theoretical model. The main objective of this paper was to seriously document the economic and political variables affecting the decision over the anchor to stabilize inflation without taking any position in favour of a particular theoretical model of political opportunism or voting behaviour.

It is not surprising that politicians choose economic strategies that align with their own goals of re-election.

Depending on how widespread this behaviour (see table 2 & 3) is within a country, this may suggest that stronger institutional arrangements that oversee politicians could reduce the degree of political opportunism benefiting societies in many developing countries.

TABLE 2

JAMAICAN DATA	1997/8	1998/9	1999/0	2000/1	2001/2	2002/3
	\$JA(Billions)	\$JA(Billions)	\$JA(Billions)	\$JA(Billions)	\$JA(Billions)	\$JA(Billions)
Net International Reserves (NIR)	21.72	21.807	29.899	57.883	94.753	87.9
Exchange Rate(End Of Period) (\$US/JA)		38.1	42.2	45.7	47.5	56.1

Source: IMF Article IV 2003 & 2004

TABLE 3

JAMAICAN IMPORTS	1999	2000	2001	2002
	IMPORTS	IMPORTS	IMPORTS	IMPORTS
	\$JA'000	\$JA'000	\$JA'000	\$JA'000
ALL SECTIONS	115,690,225	141,986,736	154,799,256	19,344,285
FOOD	17,969,547	19,231,697	21,899,825	3,962,022
BEVERAGES & TOBACCO	1,271,835	1,169,438	1,387,916	1,082,063
CRUDE MATERIALS	2,004,156	2,224,431	2,158,594	10,136
MINERAL FUELS LUBRICANTS	16,421,471	27,961,289	27,122,564	10,112,413
ANIMAL & VEGETABLE OILS & FATS	820,017	846,337	788,434	143,911
CHEMICALS	13,351,110	16,141,395	17,264,771	1,325,511
MANUFACTURED GOODS	17,132,954	19,029,430	21,446,750	1,881,737
MACHINERY & TRANSPORT EQUIPMENT	25,801,624	32,220,846	40,512,298	218,207
MISC. MANUFACTURED ARTICLES	17,272,441	19,377,008	18,141,990	608,286
OTHER	3,645,070	3,784,865	4,076,114	0

Source: Statistical Institute Of Jamaica

Formal Sector Pay and Employment: Two Contrasting Cases

If one agrees that in the Jamaica, labour market policies are passive rather than active, as such, this has required need for a Memorandum of Understanding (MOU) and the pending Partnership for Progress, which seeks to embrace the Leprechaun theory of Ireland but perhaps not the philosophy of the pot of gold thinking; then what follows may be of interest as it applies to Jamaica.

East Asian Experience

In some developing countries, such as those in East Asia, Arup Benerji, Edgardo Campos and Richard H. Sabot (1995) observed in the market for wage labor the felicitous combination of non-confrontational labor and a non-distributional, or encompassing, elite. By non-confrontational we mean that wage labor was willing not to, or was unable to, use its collective power to extract short-term wage and employment gains.

Rather, wage earners accepted wage and employment levels determined, respectively, by the interaction of labor supply and demand and by the equalization of wages and the marginal product of labor. When labor decided on the non-confrontational stance voluntarily, they did so in the expectation that this market oriented approach would yield attractive labor market dynamics - that future levels of wages and employment would be higher if workers cooperated with management than if they did not.

Key Features

The key feature of the "non-distributional" or "encompassing" elites behaviour was that they acted as if their future well-being was a function of the future well-being of those not in the elite—all groups benefited as the elite adopted a labor demanding development strategy that was in accord with factor endowments and comparative advantage. This strategy, with its favourable implications for labor market dynamics, not only yielded high rates of growth, but ensured that the benefits of growth were widely shared. In this way, it also helped ensure that labour's expectation regarding the payoff to non-confrontation would be fulfilled. This in turn reinforced labour's non-confrontational attitude.

Latin America And The Caribbean

In many other countries in Latin America and the Caribbean, Arup Benerji, J. Edgardo Campos and Richard H. Sabot (1995) observed in the labor market the less attractive combination of confrontational labor and a distributional elite. In these countries, wage earners consolidated and exercised their collective power, successfully lobbying to raise wages above market levels, and above income levels prevailing among the self-employed in agriculture and elsewhere. This segmented the labor market and created a wage labor elite. Confrontational labor also succeeded in driving a wedge between wages and the marginal product of labor - as employers, particularly in the public sector, succumbed to pressure to provide more (of the now scarce, relatively high wage) employment opportunities than warranted by the derived demand for labor. The resulting labor market dynamics tended to be unattractive: that is, labor demand, wages and employment grew more

slowly than in the non-confrontational case and were eventually eroded in many countries.

Development Strategies

The development strategies adopted by distributional elites caused the benefits of what growth there was to be concentrated in the hands of a few. The elites behaved as if they believed that their own future well-being was independent of the future well-being of non elites, and nearly everyone was less economically secure' as a consequence. Their economic strategies tended not to be in harmony with factor endowments and comparative advantage.

While these strategies may have yielded rents to the elites in the short run, over the longer run output growth was slow and employment growth slower still. This behaviour of the elites reinforced labor's confrontational stance.

Labor Market Combinations & Developing Countries

One of these two combinations - non -confrontational labor paired with non-distributional elites, and confrontational labor in a distributional regime - seem to characterize most developing countries. In a few instances we observe non-confrontational, marginalized labor coexisting with a distributional regime. For fairly obvious reasons, however, the fourth possible combination - confrontational labor and a non-distnbutional, market-oriented elite - is not sustainable.

“Labour and The Elite”

The literature referred to the two groups very broadly as "labor" and "elite," it is useful to recognize the obvious - that neither are monolithic groups. This is especially true for the elite. We will confine our attention to only to those elite groups who directly affect the policymaking process and labor-elite interactions. These are usually alliances of three distinct groups - the political elite (the ruling party, president or junta), the economic elite (large industry and commercial leaders) and the policy elite (Intellectuals and bureaucrats). A fourth group, the military, is often a major influence in policymaking in some developing countries, and may be identified with the non- policymaking political elite.

Labor almost always refers to organized wage labor, either represented by large national trade unions or industry groups. Given the possibility of heterogeneity within both groups, there is occasion for dissent and conflicting objectives. In cases where they arise, the preferred outcome - non-confrontation or confrontation -- may be less likely. When there is a less unified elite, similarly, the preferred outcome by the policymaking group may not be endorsed by competing elite

How Can Jamaica Learn From These Experiences?

The review of the literature on these contrasting cases poses two questions. First, what determined whether a country adopted and sustained the non-confrontational, non-distributional mode of labor market behaviour or the confrontational, distributional mode? The combination of non-confrontational labor and non-distributional development strategies have paid off for the countries that followed them, while distributional

strategies and confrontational labor have resulted in slower growth and lower welfare for most groups in society.

This raises the second question. When countries in which labor market problems have contributed to poor performance are faced with this reality, why doesn't labor become non-confrontational and why don't elites adopt a non-distributional policy? In essence, this change in the stance of the two groups is what the labor market dimension of structural adjustment programs is trying to accomplish, but with only limited success. To rephrase the question, if the advantages of non-confrontation and encompassment are so great, why is it so difficult to accomplish labor market reform? On the surface there could be serious lack of trust. However, Jamaica's adoption of the Leprechaun theory of Ireland and practicing the Pot Of Gold philosophy could give clarification and answer the second question in the future in Jamaica. Time will tell.

General Conclusions

- Domestic labor market outcomes influence the direction and magnitude of the flow of international migration. When wages are low and jobs are scarce, there is an incentive for workers to migrate to environments where jobs are available at higher wages. As labor demand grows, however, a labor-exporting country may become a net labor importer.
- An efficient, flexible and responsive labor market contributes to the growth process through the creation of an appropriate economic environment. In this respect, labor market policy is like macroeconomic and trade policy. In contrast to the accumulation of physical and human capital and technical progress, a well-

functioning labor market is not, in itself a source of economic growth. Yet, labor market pathologies, like macroeconomic mismanagement, can be extremely costly, severely constraining growth of output and employment, and increasing inequality. Likewise, failure to adequately address the labor market dimension of policy reform can result in the failure of other dimensions of reform.

- Good labor market performance feeds on itself, enhancing the credibility of both labor and the elite. Likewise, poor labor market performance can also be self-reinforcing.

Attempts at labor market reform are therefore likely to be hampered by the lack of credibility of both labor and the elite. The payoff to reform can be high for both groups; the challenge is to find mechanisms whereby the credibility of both groups can be bolstered.

Government Spending In The Context Of The Developing Country Paradigm.

Overview

“Government activity increases as economies grow, with the pace of increase being different for different branches of government”

(Wagner, A. 1911).

There has been much discourse in the public media about the quality of and effectiveness of government spending in Jamaica. However to put in context and do a comparative analysis should serve to highlight critical discourse analysis and thinking rather than speaking to hyperbolic political diatribe; furthermore it will also serve to promote Real Time Thinking (RTT).

Benedict Clements, Sanjeev Gupta, and Gabriela Inchauste (2004) in examining the short- and long-term movements of government spending relative to output in 51 countries found that in the short term, the main components of government spending increase with output in about half of the sample countries, with some variation across spending categories and countries. Further, that there is a long-term relationship between government spending and output for the majority of countries for at least one spending aggregate. In the short term, that power dispersion and government size typically dampen the positive response of government spending to output. Output volatility and financial risk, on the other hand, contribute to the procyclicality of government spending.

The Cyclical Behavior Of Macroeconomic Aggregates

There has been less research on the cyclical behaviour of macroeconomic aggregates in developing countries:

- One reason for this is the relatively weak quality of data and its frequency in many developing countries. For example, quarterly GDP data are available for only a limited number of countries, and even when they are available they are usually of significantly lower quality and reliability than annual estimates.
- Another constraining factor is that developing countries often experience abrupt economic changes, making it particularly difficult to separate cyclical influences from structural breaks.

A better understanding of the factors underlying the cyclical pattern of macroeconomic aggregates is useful for at least two purposes:

- First, examining the relationship between overall economic activity and fiscal and monetary aggregates has analytical value from the perspective of business cycle modelling.
- Second, as Agénor and Montiel (1996) argue, this type of analysis can make a valuable contribution to the design of stabilization and adjustment programs. Such as an **Exchange Rate Stabilization Programme** or a **Money Based Stabilization Programme**.

The World View

Standard neoclassical and Keynesian approaches suggest that fiscal policy should ideally be countercyclical, with fiscal deficits declining when the economy is expanding and increasing during economic downturns. For example, Barro's (1979) neoclassical analysis of optimal fiscal policy suggests that, for a given path of government spending, tax rates should be held constant over the business cycle, and the budget surplus should move in a procyclical fashion—the "tax smoothing" hypothesis. However, with regard to the cyclicity of government spending, neoclassical theory has little to say: the typical assumption is that government spending is exogenously determined (Lucas and Stokey, 1983; Blanchard and Fischer, 1989; Taylor and Woodford, 1999). The Keynesian approach to optimal fiscal policy reaches a broadly similar result by a different logic. According to this view, policy should, during economic booms, at least accommodate surpluses that emerge from the operation of automatic stabilizers and, if necessary, go further with discretionary tax increases or spending cuts.

The Developing Country Paradigm

The limited number of empirical studies for developing countries suggests that government spending tends to be procyclical. For example, Kaminsky, Reinhart, and Végh (2004) find that fiscal policy is procyclical in their sub sample of 83 low- and middle-income countries. Similarly, Braun (2001) finds that government expenditure is procyclical in a panel of 35 developing countries for the period 1970–98. Gavin and Perotti (1997) find that in Latin America, total expenditures and its components are highly procyclical, with recessions being associated with exaggerated collapses in

public spending. Further support for this is found in Stein, Talvi, and Grisanti (1999), who find an average correlation coefficient of 0.52 between the cyclical component of government consumption and the cyclical component of output over the period 1970–95 for a sample of 26 Latin American countries. Similarly, for their sample of 36 developing countries in Asia, Africa, the Middle East, and Latin America, Talvi and Végh (2000) find that government consumption is highly procyclical, with a correlation coefficient of 0.53. However, by contrast, Agénor, McDermott, and Prasad (1999) find that government consumption expenditure is countercyclical for a group of four middle-income countries including **Chile, S. Korea, Mexico, and the Philippines.**

Challenges in implementing countercyclical policy

Difficulties in implementing countercyclical policy may be the cause of procyclical government spending in some countries.

- One such factor is the structure of the budget. Developing countries have few automatic stabilizers built into their budgets, which would lead one to expect government spending in these countries to display less of a countercyclical pattern than in industrial countries. For example, Gavin and Perotti (1997) note that Latin American countries spend much less on transfers and subsidies than do richer OECD economies (24 percent of total government expenditures, compared with 42 percent in the industrial countries). Similarly, Braun (2001) finds that 40 percent of the difference in the degree of cyclicity between high income and developing countries can be explained by the larger size of government in the former, and by the larger

proportion of transfers in expenditure, which act as automatic stabilizers.

- Liquidity constraints could also play a role in limiting the capacity for countercyclical policy: during economic downturns, countries often face a loss of market confidence, and thus intensified borrowing constraints. The loss of market access makes it impossible to run a countercyclical fiscal policy, at least in periods of sharp contractions in output. However, as Talvi and Végh (2000) point out, it would be somewhat far-fetched to argue that most developing countries have lost access to international credit markets during recessions on a systematic basis over the past three decades.
- Another important factor behind the procyclicality of government spending relates to institutional factors and the underlying power structure of the economy. These considerations explain overspending of transitory increases in fiscal revenues (Velasco, 1993; Perotti, 1996; and Tornell and Lane, 1998 and 1999). This is commonly known as the “voracity” effect, whereby a positive shock to income leads to a more than proportional increase in public spending, even if the shock is expected to be temporary. This in turn is the consequence of weak institutions and fractionalization, manifested by the presence of multiple powerful groups in a society attempting to grab a greater share of national wealth by demanding larger public spending on their behalf. In a similar vein, Stein, Talvi, and Grisanti (1999) find that, for their Latin American sample, countries with a

large number of representatives elected per district, a large number of effective parties represented in the legislature, and weak support for the governing party in the legislature are associated with a stronger procyclical response of government consumption to the business cycle. In this context, Lane (2003) finds that the political economy factors explaining the cyclicity of government spending in OECD countries vary in importance across spending categories, with the government wage bill being especially influenced by these variables. Braun (2001) finds that political competition among powerful groups is stabilizing in OECD countries, but destabilizing in developing countries.

Wagner's Law(Wagner, A)

A vast literature exists on "Wagner's law," **which states that government activity increases as economies grow, with the pace of increase being different for different branches of government** (Wagner, 1911). Wagner's law has been tested empirically for various countries using both time-series and cross-sectional data sets. Some of these tests have used the stationarity properties of the data, as well as cointegration analysis, to test whether there is a long-run relationship between income and government spending (Bohl, 1996; Lin, 1995; Murthy, 1993; Payne and Ewing, 1996; and Chang, 2002). The results are mixed, with studies finding a cointegrating relationship in some countries, but not in others. The cointegration approach is consistent with Wagner's view that there is a long-run relationship between government spending and output, without necessarily implying causality.

Political Business Cycle

Wagner, Robert E (1980), Buchanan And Wagner, Robert E. (1977) and Tuftte (1978) speak to the concept of a **Political Business Cycle**.

A political business cycle can result from self-interested attempts by politicians to obtain reelection. The PBC literature indicates that to the extent that politicians can control the business cycle, they can manipulate such items as inflation, employment and disposable income for self-interested political reasons.

Specifically, the literature on the PBC charges that politicians themselves understand the relationship between the phase of the business cycle (and economic indicators) and their reelection prospects. These effects are summarized as follows:

- 1) Politicians know that economic movements in macroeconomic variables such as inflation and unemployment rates in the months before an election make a real difference in whether they will lose or win the election.
- 2) The people who vote will reward incumbent politicians with for prosperity (full employment and price stability) and will punish incumbent politicians for inflation and recession (which can be interpreted as high unemployment rate and reductions in growth rate in disposable income and in industrial production).
- 3) Short run spurts in real disposable income before an election help politicians who are in office.
- 4) Politicians will act in self-interested fashion whenever possible by manipulating taxes,, government spending, and possibly the money supply(producing a Political Business Cycle) in order to stay in office.

These propositions have been given a fairly wide variety of aggregate empirical tests that have provided broad support for the existence of a PBC. However, economists do not appear to be in agreement on which variables are most important.

Policy Implications For Government

- First, in many countries there may be scope for fiscal rules or fiscal responsibility laws that limit the discretion for procyclical fiscal policy during upswings in the business cycle.
- Second, a strengthening of checks and balances— that is, a greater dispersion of power—is fully compatible with good economic policymaking, since it helps reduce the cyclicalities of government outlays.
- Third, in many countries there is a long-term relationship between the level of output and government spending. In these countries, short-run cuts in spending, or surges in government outlays, will eventually be erased as the government spending/GDP ratio returns to its long-term average. In these countries, special care will need to be taken to ensure that spending cuts achieved over the short run are accompanied by longer-term structural reforms to ensure these savings are durable.

JAMAICAN DEMOCRACY AND PUBLIC EXPENDITURE

Developing country Overview

Countries vary systematically with respect to the incentives of politicians to provide broad public goods and to reduce poverty. Even in developing countries that are democracies, politicians often have incentives to divert resources to political rents and to private transfers that benefit a few citizens at the expense of many. These distortions can be traced to imperfections in political markets that are greater in some countries than in others. In reviewing the theory, there is evidence of the impact of incomplete information of voters, the lack of credibility of political promises, and social polarization, on political incentives. There are strong arguments that the effects of these imperfections are large but insufficiently integrated into the design of policy reforms aimed at improving public good provision and reducing poverty.

Misallocation and Voter apathy

Misallocation has persisted despite major changes in the way in which governments are selected and remain in office. From 1990 to 2000, the number of countries governed by officials elected in competitive elections rose from 60 to 100 (Beck and others 2001, Database of Political Institutions).

A large fraction of voters in many of these countries are low income, if not poor in the strictest and most technical sense of the word. Democratization might be expected to benefit these voters. However, policymakers in poor democracies regularly divert expenditures away from those areas that most

benefit the poor, or fail to implement policies that improve those services from which the poor are known to benefit disproportionately.

Public Expenditure Decisions

One way in which governments can accelerate economic development is through their decisions regarding public expenditures. Keefer and Khemani (2003) are of the opinion if allocated appropriately, public expenditures can overcome market failures that exacerbate poverty, such as the inability of the poor to borrow for education, their lack of information about preventive health care, or the externalities that exacerbate public health hazards to which the poor are most exposed. However, distortion and misallocation of public expenditures are common and often undermine development.

Public expenditures flow to wage bills for bulky state administrations, to farm subsidies absorbed by the wealthiest farmers, or to public works projects with limited public utility, all at the expense of quality public services.

Income Distribution

In most countries, the distribution of income is skewed to the right—towards the higher end of the income spectrum—so that the income of the median voter is less than the average income of all voters. Under these circumstances, government should be larger and social services should be correspondingly more extensive (Meltzer and Richard 1981).

However, this prediction actually exacerbates the puzzle of why many countries severely under-provide social services, since it is in many countries where the poor are the median voters that social services are often the most woeful. Moreover, there is little evidence that redistribution

is greater in countries with greater income inequality (Knack and Keefer 1997).

Political Market Imperfections And High Quality Public Services

There are numerous imperfections in political markets that help to explain this puzzle.

It is important to focus on three political market imperfections that are particularly important in distorting political incentives to provide high quality public services:

- Lack of information among voters about politician performance;
- Social fragmentation among voters manifested as identity-based voting;
- And lack of credibility of political promises to citizens.

Existing efforts to improve the quality of public policy towards the poor may fall far short of achieving their goals unless they are expanded to address specifically these imperfections.

Broad public services most important to the poor—health and education—are also the services most vulnerable to these three distortions of the political marketplace. It is especially difficult for voters to assess the quality and efficiency of service provision and to evaluate the responsibility of specific political actors for service breakdowns. By the same token, political competitors find it especially difficult to make credible promises about service provision. Moreover, politicians in many countries can only make credible promises to narrow groups of voters. For these voters, it may be politically more efficient to promise narrow targetable goods, such as infrastructure provision, than it is to promise improvements in broad public

services. Social fragmentation in the electorate exacerbates these problems of voter coordination in determining reward and punishment based upon political actions towards the quality of public services. To the extent that in developing countries, poor voters are more likely to vote in uninformed ways, being susceptible to campaign slogans, or polarized along non-economic ideological dimensions such as religion or ethnic identity, and political promises are particularly lacking in credibility or prone to what the late professor Carl Stone spoke to, clientelism, it is precisely the broad social services that are most likely to suffer.

Social Services Suffer

Theory and evidence suggests that the impact is large, and largest for those social services such as education and health that are most important to the poor. Information gaps, social polarization and the absence of credible political competitors lead to the under provision of government services to the least informed, to the most polarized and to the vast majority who do not have personal connections with a powerful patron.

Though there are many important efforts experimenting with different ways to improve the ability of the poor to secure their own interests in government decision making, to “empower” them, the design of these typically does not explicitly address the underlying political market imperfections. Legislative reservations for minority groups in India, decentralization in Pakistan, and participatory budgeting in Brazil, for example, are all most effective to the extent that they overcome the underlying political market imperfections that notably impair governments services to the poor. As the earlier discussion of the effects of reservations in India suggests, the improvements wrought by these reforms may be

only partial to the extent that they leave unchanged many aspects of the political marketplace.

Decentralization Policy

Two types of decentralization, in particular, are often seen as responses to inadequate central government attention to social service delivery. The political economy analysis here has implications for both:

- Decentralization of responsibilities for the provision of local public goods to the level of locally elected village and municipal governments;
- And greater autonomy of decision-making at the level of service providers such as schools and clinics, with greater participation of citizens through community based organizations such as parent-teacher associations and health committees.

For decentralization to have a positive impact on social services, the following conditions must be satisfied:

- One, voters must be more likely to use information about the quality of local public goods in making their voting decisions for local elections;
- And two, political promises to voters at large must be more credible, than when decision-making over local public goods was in the hands of regional or national governments. Theoretically, the impact of decentralization on informed voting and political credibility could go in either direction.

Voters may use more information about local public goods in their voting decisions because such information is easier to come by and coordinate upon, perhaps given a more restricted set of responsibilities and greater observability of actions of local governments; and political agents may have greater credibility because of proximity to the community and reputation developed through social interaction over an extended period of time.

Local Government Elections And Voter Apathy

Keefer, Narayan and Vishwanath 2003, on the other hand, are of the opinion local voters may be apathetic to local elections and have little or no information about the resource availability and capability of local governments, if resources are concentrated in higher tiers of government; social polarization may be more intense at more local levels due to age-old differences across settled communities and perhaps weaker at the national level owing to national campaigns of nation-building; and clientelist promises to a few voters may be easier to make and fulfil due to closer social relations between the elected representatives and their clients.

The Problem of Credibility

Credibility, like information, is particularly likely to be problematic in developing countries and also requires special attention. Here the key is to bring together two key strands of assistance to countries; one strand, by far the most important, to provide support for better education or health outcomes, and the other strand, to support political party development and the development of political institutions. These strands are brought together when outside interventions that help politicians both implement and take credit for broad public good improvements can lead to sustainable

improvement in public good provision, if they help politicians build a reputation for performance. This is challenging – it means specifically that aid be provided for education and health especially in those cases where politicians have made emphatic, public and verifiable promises regarding health and education, which is not common in many developing democracies.

Social Polarization

Social polarization can have harmful effects on social service provision, just as on other aspects of civic life. One response of outside intervention is to insist that criteria other than those related to social cleavages determine access to resources. This may not be practical; for example, if one group is poorer than the other, redistributive transfers on the basis of income will always favour that group. Other responses depend on the sources of polarization.

Political Polarization

The response to pure taste-based affiliations (voting systematically for the representatives of one particular ethnic group or tribe out of an exogenous and strong preference for anyone from that group or tribe over any other candidate) demands educational responses to moderate these tendencies. Strong signals from the center about the inappropriateness of such behaviour or preferences can, over time, soften them, if not eliminate them entirely. However, if polarization is due to tremendous imperfections in political and economic markets, as is more often the case, so that people retreat into the groups with which they have the strongest personal links and the greatest hope of accessing resources, the appropriate response is to assist in reforms that remove those imperfections.

How does Jamaica measure up? You be the judge.

Maritime Transport Costs and Port Efficiency: A Historical Perspective

"... A ship's carrying power varies as the cube of her dimensions, while the resistance offered by the water increases only a little faster than the square of her dimensions".

Alfred Marshall, Economist

Overview

Recent literature (Clark, Dollar and Micco 2001) has emphasized the importance of transport costs and infrastructure in explaining trade, access to markets, and increases in per capita income. For most Latin American countries, transport costs are a greater barrier to U.S. markets than import tariffs. In investigating the determinants of shipping costs to the U.S. with a large database of more than 300,000 observations per year on shipments of products from different ports around the world. Distance and containerization matter. In addition, it was found that efficiency of ports is an important determinant of shipping costs. Improving port efficiency from the 25th to the 75th percentile reduces shipping costs by 12 percent. (Bad ports are equivalent to being 60% farther away from markets for the average country.) Inefficient ports also increase handling costs, which are one of the components of shipping costs. Finally, variations in port efficiency are linked to excessive regulation, the prevalence of organized crime, and the general condition of the country's infrastructure.

The Liberalization Of the 1980's and 1990's

These recent liberalizations have reduced tariff and, in some cases, non-tariff barriers too. For instance, Asia reduced its average tariff rate from 30% at the beginning of the 1980s to 14% by the end of the 1990s, and Latin America reduced its average tariff rate from 31% to 11%.

These reductions in artificial trade barriers have implied that the relative importance of transport costs as a determinant of trade has increased.

In 1997 total import freight costs represented 5.25 percent of world imports. This percentage -which may seem low- is mainly driven by developed countries, which represent more than 70 percent of world imports and whose proximity to each other is reflected in a relatively low freight cost (4.2%). When disaggregating these costs by region, they turn out to be substantially higher. Although Latin America appears to have low freight costs relative to the other developing regions (7% compared to 8% for Asia and 11.5% for Africa), the Latin American figure is weighted by Mexico's proximity to its main trading partner, the United States, and consequently low freight costs. When Mexico is excluded, Latin American average freight costs rise to 8.3 percent, more similar to the rest of the developing countries.

How much do these transport costs affect trade and growth?

As a result, some immediate questions arise. How much do these transport costs affect trade and growth? How much of these costs can be affected by government policies? The broad literature that applies the gravity approach

to the study of international bilateral trade shows that geographical distance, which is used as proxy for transport costs, is negatively related to trade. In a recent paper, Limao and Venables (2000, henceforth LV) show that raising transport costs by 10 percent reduces trade volumes by more than 20 percent. They also show that poor infrastructure accounts for more than 40% of predicted transport costs. In a different analysis, Radelet and Sachs (1998) show that shipping costs reduce the rate of growth of both manufactured exports and GDP per capita. These authors claim "... doubling the shipping cost (e.g. from an 8% to 16% CIF band) is associated with slower annual growth of slightly more than-half of one percentage point."

Directional imbalance in trade between countries

Directional imbalance in trade between countries implies that many carriers are forced to haul empty containers back. As a result, either imports or exports become more expensive. Fuchsluger (2000) shows that this phenomenon is observed in the bilateral trade between the US and the Caribbean. In 1998, for instance, 72 percent of containers sent from the Caribbean to the US were empty. This excess of supply in the northbound route implied that a US exporter paid 83 percent more than a US importer for the same type of merchandise between Miami and Port of Spain (Trinidad and Tobago). Similar phenomena occur in the Asian-US and the Asian-European trade routes, where excess of supply means that Asian exporters end up paying more than 50% of extra charge in transport costs compared to suppliers in the US and Europe.

Increasing Returns To scale

Maritime transport is a classic example of an industry that faces increasing returns to scale. Besides increasing returns at the vessel level, there are economies of scale at the seaport level. For instance, at the port of Buenos Aires (Argentina) the cost of using the access channel is \$70 per container for a 200 TEU (TEU is a standard container measure and it refers to Twenty Feet Equivalent Unit.) vessel but only \$14 per container for a 1000 TEU vessel. In general, even though most of these economies of scale are at the vessel level, in practice they are related to the total volume of trade between two regions. Maritime routes with low trade volumes are covered by small vessels and vice versa.

In addition, the development of containerized transport has been an important technological change in the transport sector during the last decades. Containers have allowed large cost reductions in cargo handling, increasing cargo transshipment and therefore national and international cabotage (Cabotage refers to transshipment of the merchandise before it arrives to its final destination). In turn, this increase in cabotage has induced the creation of hub ports that allow countries or regions to take advantage of increasing return to scale.

The quality of onshore infrastructure is an important determinant of transport costs. LV (2000) find that it accounts for 40 percent of predicted transport costs for coastal countries, and up to 60% for landlocked ones.

If a country with a relatively poor infrastructure, say at the 75th percentile in an international ranking, is able to upgrade to the 25th percentile, it will be able to reduce transport costs by between 30 and 50 percent.

Port Efficiency and Maritime Transport Costs

Port efficiency affects maritime transport costs. The activities required at port level are sometimes crucial for international trade transactions. These include not only activities that depend on port infrastructure, like pilotage, towing and tug assistance, or cargo handling (among others), but also activities related to customs requirements. It is often claimed that "...the (in)efficiency, even timing, of many of port operations is strongly influenced (if not dictated) by customs"

Some legal restrictions can negatively affect port performance. For example, in many countries workers are required to have special license to be able to provide stevedoring services, artificially increasing seaport costs. Other deficiencies, associated with port management itself, are also harmful to country competitiveness. For instance, some ports still receive cargo without specifying the presentation of a Standard Shipping Note, which is inconceivable in modern port practice. In many ports, it is quite impossible to obtain a written and accurate account of the main port procedures, and sometimes port regulations are not clear about the acceptance of responsibilities (for cargo in shed or on the quay, for instance). All of this generates unreasonably long delays, increases the risks of damage and pilferage of the products (in turn raising the insurance premiums), and as a consequence considerably increases costs associated with port activities.

The Crime Variable

The crime variable also turns out to be highly significant.

In terms of this sample, an increase in organized crime from the 25th to 75th percentiles implies a reduction in port efficiency from 50th to 25th percentiles. In other words, if countries like Brazil, China or India (all with indices around the 75th percentile) reduced their organized crime to levels attained by countries like Australia, New Zealand or the United Kingdom (all around the 25th percentile), then they would be able to increase their port efficiency index roughly one point. This in turn would generate a reduction of maritime transport costs of around 6%.

Conclusion

The literature within this research area draws upon the following conclusions:

- By the 1990s many countries had adopted a development strategy emphasizing integration with the global economy and therefore had reduced their tariff and non-tariff barriers to trade. This reduction in artificial trade barriers has raised the importance of transport costs as a remaining barrier to trade. Therefore, any strategy aimed at integrating a country into the trading system has to take transport costs seriously.
- Besides distance and other variables that no government can change, an important determinant of maritime transport costs is seaport efficiency. An improvement in port efficiency from 25th to 75th

percentiles reduces shipping costs by more than 12%, or the equivalent of 5,000 miles in distance.

- Seaport efficiency is not just a matter of physical infrastructure. Organized crime has an important negative effect on port services, increasing transport costs. In terms of the sample, which this research draws upon, an increase in organized crime from the 25th to 75th percentiles implies a reduction in port efficiency from 50th to 25th percentiles.
- In addition the results suggest that some level of regulation increases port efficiency, but excessive regulation can be damaging.

The KSAC Sustainable Development Plan And The St Andrew Municipality.

Overview

“We have been listening and learning. Conservatives now understand that getting big government off the back of people requires trusting local communities. Restoring faith in politics means moving government closer to the people. Strengthening the role of local councils and local communities is the way to achieve this.”

William Hague. Former Leader of the UK Conservative Party (2001)

KSAC City Development Strategy

The KSAC has put firmly back on the table their Sustainable Development Plan/City Development Strategy and justifiable so as any well-organized city requires such a plan. However, will this plan reinforce the 1947- 58-year-old model, when St Andrew was pens and grass pieces or should it operate within the paradigm of 21st Century Jamaican Local Governance?

In addition shouldn't the KSAC also put on the table the issue of funding through Municipal Bonds (see Local Government ministry paper 7/03), which could be a panacea for funding woes not only for the KSAC but all parish councils?

The St. Andrew Municipality

In the Parish of St Andrew (**which accounts for 85% of the councillor divisions in the Kingston And St Andrew corporation**) many residential areas are under siege from:

- 1) Creeping commercialism (**Eastwood Park gardens** has gone under, and it would appear **Constant Spring Gardens** is next))
- 2) Public Health violations, which the United Nations Environmental Programme (UNEP) highlights but obviously the system in Jamaica views as not necessary.
- 3) The Citizens' Associations are not as strong as they used to be as such the AUTHORITIES view requests and needs and wants not as priorities (The exception being The National Solid Waste Management Authority Hotline).
- 4) However, our taxes must be paid or threat of levy on property becomes second nature.

The Importance Of The Parish Councillor

The role of the Parish councillor is an important factor in whether or not democracy works to the satisfaction of the citizens in St. Andrew. More often than not, these are the individuals who decide those issues that make life easier for all of us in St Andrew.

Many Parish Councillors were elected because they are successful in some other endeavour in the community. Unfortunately, this doesn't mean they will be successful automatically in their new role as councillor. Success in whatever you do to earn a living should not be construed as the only preparation they need to be successful elected leaders.

The Importance Of Leadership

The importance of leadership at the local level is important for the following reasons:

1. Never before has the need for leadership at the local level been so important obvious. We live in a global world, one where actions that are taken in one part of the world often affect those who live thousands of kilometres away.
2. Many of the problems parish councillors are called upon to solve as an elected councillor are so complex that they require **leadership strategies**, not **administrative fixes**.
3. The magnitude and frequency of “foreign policy” issues and concerns (working with others beyond the borders of the local government you serve) have increased significantly in recent years. You can no longer ignore these external affairs in your efforts to build your own community.
4. The seemingly endless saga of shrinking resources and growing demands for services at the local level has rendered the caretaker approach to government not only inoperative, but dangerous to the long term health and viability of your communities.

Parish Councillor Empowerment (PCE)

In order for serious Parish Councillor Empowerment (PCE) to occur in order to heighten service levels (especially the enabling and facilitator roles of the parish councillor) socially, politically and economically the parish of St Andrew must become a municipality.

Municipality Structure

The Municipality membership would be comprised of

The Councillor divisions of:

- St Andrew South
- St Andrew South West

- St Andrew E.C.
- ST Andrew W C
- ST Andrew NW
- ST Andrew NE
- ST Andrew NC
- ST Andrew SE
- ST Andrew West Rural
- St Andrew East Rural
- St Andrew Eastern
- St Andrew Western

We in St Andrew would elect our own mayor, similar to Portmore.

The Primary Objectives Of The St Andrew Municipality

The Primary Objectives Of The St Andrew Municipality would be as follows:

1. Improved quality of life through well-managed urban service delivery, enhanced urban design and land use zoning, and infrastructure improvements.
2. Improved environmental quality of the municipality through the management of coastal and mountain ecosystems, integrated land use planning, enhanced environmental stewardship of the urban built environment and the design and upgrading of urban green spaces.
3. Increased socio-economic opportunities through the creation of an enabling environment for business (public order, rule of law, orderly planning and enforcement, the restoration and maintenance of infrastructure such as markets, parking lots, property tax reforms etc) the creation of city-wide strategies for economic development

and revenue enhancement and strategies that explicitly target the urban poor.

4. Improved management capability within the local authority as well as civil society to undertake and manage local sustainable development.
5. The transfer of lessons learned in the unfolding of local sustainable development process in the municipality into national planning and local government reforms.

Financing Of The St. Andrew Municipality

The St Andrew Municipality would be financed from:

- Property taxes collected from holdings in the boundaries of the Municipality
- Motor vehicle Licence fees (a proportionate share Of receipts by the Parish Council)
- Local rates: in respect of specified related services and municipal improvements
- Trade and spirit licenses
- Building fees
- Fees from other regulatory functions
- User fees and charges

Local Government Reform Programme

Finally, since the vision of the **Local Government Reform Programme** (see ministry paper 7/03,pg. 10) is as follows:

1. **Participatory:** it will create the space for our citizens to become involved in the affairs of their communities as a right, thereby establishing a firm and transparent basis upon which our societal arrangements may be made to flourish.
2. **Autonomy:** there would be a clear defining line between the roles of Central Government and Local Government.
3. **Accountability:** the citizens themselves would constitute a monitoring mechanism to ensure efficiency in the use of financial and other resources that are available to address the economic and social development of specific localities.
4. **Developmental:** it will facilitate a process of development that makes for the creation of wealth and the reduction of poverty.
5. **Empowerment:** it will empower citizens and communities to take responsibility for the management of their economic, health, educational, cultural and recreational needs.

The Ministry Of Local Government should have no problem in considering this radical suggestion, which some (the less politically focussed) would say is bordering on the ranting and ravings of political lunacy.

Appendix 1: Local Government Elections

2003

K.S.A.C.

JLP 22

PNP 18

2005

St Andrew Municipality

JLP 19

PNP 15

Kingston Municipality

JLP 03

PNP 03

Total

JLP 22

PNP 18

2006 Local Government Election Results (Projected)

Kingston Municipality

JLP 03

PNP 03

St Andrew Municipality

JLP 22

PNP 12

Total

JLP 25***

PNP 15

***** Assumptions:**

- 1) The formation of the St. Andrew Municipality between 2003-2006.
- 2) Adjustment of Funding/Budget to St Andrew instead of Kingston.
- 3) 3-5 councillor seats that could swing to the JLP, based on actions resulting from (2). (See Local Election results 2003).
- 4) Sitting JLP councillors maintain their majority as of June 2003.

The Brain Drain: A Developing Country Perspective

Overview

The current wave of economic globalization has opened a window of opportunity for human capital to agglomerate where it is already abundant and yet best rewarded, i.e., in the most economically advanced countries. This natural tendency has been strengthened by the gradual introduction of selective immigration policies in many developed countries since the 1980s. What started as an effort to increase the "quality" of immigration in countries such as Australia or Canada has developed into an international competition for attracting the highly educated and skilled. Together with traditional self-selection effects on the supply-side, this explains the overall tendency for migration rates to be much higher for the highly-skilled. While the world export/GDP ratio has increased by 51 percentage points between 1990 and 2000 (WTO, 2004), the total number of foreign-born individuals residing in developed countries has increased in the same proportion (51%) over that period, a ...figure that jumps to 70% for highly skilled migrants against only about 28% for low-skilled migrants

(Docquier and Marfouk, 2004).

Consequences of this human capital flight for Jamaica

What are the consequences of this human capital flight for developing countries like Jamaica? In a world of perfect competition with complete markets, the free mobility of labor would seem to be Pareto-improving: migrants receive higher incomes, locals in the receiving countries can share

the immigration surplus, and remaining residents in the sending countries can benefit from the rise in the land/labor and capital/labor ratios.

However, in the case of **highly skilled migrants**, such labor movements also generate a number of externalities that have to be factored in:

- First, skilled migrants are net contributors to the government of Jamaica's (GOJ)'s budget and their departure, therefore, increases the fiscal burden on those left behind (fiscal externality).
- Second, skilled labor and unskilled labor complement one another in the production process; in a context of scarcity of skilled labor and abundant unskilled labor, as is the case in developing countries like Jamaica, skilled labor migration may have a substantial negative impact on low-skilled workers' productivity and wages (intergenerational spillover) and increase domestic inequality.
- Third, human capital depletion through emigration would seem to impact negatively on a country's growth prospects, inasmuch as human capital formation is now viewed as a central engine of growth (intergenerational spillover).
- Fourth, as demonstrated in various new economic geography frameworks (e.g., Fujita et al., 1999), skilled labor is instrumental in attracting FDI and fostering R&D expenditures (technological externality); hence, the mobility of human capital is contributing to the concentration of economic activities in special locations, at the expense of origin regions.
- On the other hand, high-skill migration may also induce positive feedback effects as skilled emigrants continue to affect the economy of their origin country. Such possible feedbacks:

1. Include migrants' remittances,
2. Return migration after additional skills have been acquired abroad,
3. And the creation of networks that facilitate trade, capital inflows and knowledge diffusion.

Government Policy Implications

- From the perspective of developing countries like Jamaica, the "optimal" emigration rate for the highly skilled is with respect to the country's level of development.
- As to education policy, the role of taxes and education subsidies is significant when human capital is mobile internationally and show how optimal policy responses to such mobility.

Conclusions

Docquier and Marfouk (2004) who have done extensive research on the international mobility of the highly-skilled; based on immigration data collected from nearly all OECD countries in 1990 and 2000 draw the following conclusions:

- The main conclusion to draw from the above analysis is that for any given developing country such as Jamaica, the optimal migration rate of its highly educated population is likely to be positive. Whether the current rate is greater or lower than this optimum is an empirical question that must be addressed country by country.
- This implies that countries that would impose restrictions on the international mobility of their educated residents, arguing for example that emigrants' human capital has been largely publicly

financed, could in fact decrease the long-run level of their human capital stock.

- This also suggests that rich countries should not necessarily see themselves as free riding on poor countries' educational efforts.
- The difficulty is then to design quality-selective immigration policies that would address the differentiated effects of the brain drain across origin countries without distorting too much the whole immigration system; this could be achieved, at least partly, by designing special incentives to return migration to those countries most negatively affected by the brain drain, and promote international cooperation aiming at more brain circulation.

THE M.O.U. VS. ALMP'S

Overview

The Memorandum of Understanding arrived at on the 16th day of February 2004 between the Government of Jamaica and The Jamaica Confederation of Trade Unions Acknowledged that the country faces:

- (a) A High Debt to Gross Domestic Product (GDP) ratio
- (b) A large Fiscal Deficit
- (c) Low Economic Growth and
- (d) Low Employment Creation

it was also recognized that these combine to create a path that is unsustainable and therefore agree that in the National Interest it is imperative that all sectors should cooperate to halt and correct the situation. Consequently, it was agreed that the Government would in good faith pursue the appropriate macro-economic policies, which provide a stable economic environment and encourage GDP growth and employment creation.

With respect to section d, **low employment creation**, what if Active Labour Market Policies (ALMP's) were seriously pursued in Jamaica, would there be a need for a Memorandum Of Understanding (MOU)?

Among the possible solutions could be the introduction of government policies to better mold labor force characteristics to changes in demand, to lower firms' labor costs directly and to increase job-search efficiency.

These policies have been grouped under the label of Active Labour Market Policies (ALMPs).

The aggregate effect of ALMPs on employment finds a positive correlation between spending on ALMPs as a percentage of GDP and the employment rate in the business sector.

ALMPs, direct subsidies to job creation were the most effective in raising employment rates, while expenditures on training programs seem to have been largely ineffective. By estimating a wage-setting curve for the same it is also shown that substantial wage moderation (reduction in real wages adjusted by technology for a given rate of unemployment) was associated with increases in ALMPs.

Even though ALMPs do increase employment, they also weigh heavily on the budget. Institutional reforms to lower production costs and enhance labor market flexibility and work incentives are a better way to increase employment rates.

Advantages Of ALMP's

Marcello Estevão (2003) summarizes the advantages of ALMP's as follows:

- ALMPs may generate more efficient matching between job vacancies and unemployed workers because of adjustments in job seekers' skills (for instance, through training programs) or more effective searching (for instance, through more active employment agencies). The resulting smaller ratio between vacancies and unemployment reduces wage pressure, which causes a downward shift in the wage-setting curve, and, because vacancies are costly to employers,

provides an outward shift in labor demand. Both effects will tend to raise employment with an uncertain final effect on real wages.

- Labor force productivity may increase, owing to either training programs or on-the-job learning, in the case of direct subsidies to job creation. It may also affect non-program participants through an externality effect. This productivity increase would shift labor demand up and lift employment and wages.
- ALMPs may keep unemployed workers attached to the labor force, even after a longer period of inactivity. The resulting stronger competition for jobs would shift the wage-setting curve down, raising employment and reducing wages.
- Job creation programs (e.g., direct subsidies to low-skill employment) may generate windfall effects, i.e., substitute for non-subsidized employment, making ALMPs ineffective. However, the associated income effect from an overall reduction in labor costs could be large enough to increase labor demand, implying higher wages and employment in equilibrium.
- An important caveat should be noted. Even if a positive effect on employment might be discerned, the fiscal cost of ALMPs may be very high, raising the question of their overall effectiveness in a general equilibrium or cost-benefit sense.

The OECD Labor Market Policies

Martin and Grubb (2001) OECD Labor Market Policies database includes expenditures on programs targeted to particular labor market groups, therefore excluding general employment or macroeconomic policies. So, some important policies, as non-targeted reductions in taxes and social security contributions, would not be considered expenditures in labor market programs even if they lowered labor costs. The data for ALMPs are broken down into five categories:

- Public employment services and administration – It includes placement, counseling, and vocational guidance; job-search courses; support for geographic mobility and similar costs in connection with job-search and placement. It also encompasses overhead costs of labor market and unemployment benefit agencies, and other administrative costs.
- Labor market training – It includes measures related to labor market policies that are not targeted to youth or disabled individuals. It is broken down in two parts: (i) training for unemployed adults and those at risk; and (ii) training for employed adults.
- Youth measures – It includes only special programs for youth in transition from school to work and is broken down in two parts: (i) measures for unemployed and disadvantaged youth; and (ii) support of apprenticeship and related forms of general youth training.
- Subsidized employment – It comprises targeted measures to promote employment for unemployed individuals (other than youth or the disabled) and is broken down in three parts: (i) subsidies to regular employment in the private sector; (ii) support of unemployed

persons starting enterprises; and (iii) direct job creation (public or nonprofit).

- Measures for the disabled – It includes only special programs for the disabled, limited to two types of policies: (i) vocational rehabilitation; and (ii) work for the disabled.

The identification of the effect of expenditures on these policies will depend on controlling for expenditures in PLMPs (Passive Labour Market Policies) to account for the strong positive correlation between them. The OECD database has information on PLMPs broken down in two categories:

- Unemployment compensation – It comprises all forms of cash benefits to compensate for unemployment, except early retirement. In addition to unemployment insurance and assistance, it includes publicly funded redundancy payments and other compensation for jobless workers due to firms permanent or seasonal shutdown.
- Early retirement for labor market reasons – It includes special schemes in which retirement pensions are paid to individuals without work or otherwise because of labor market policies. Only subsidized early pensions rather than funded schemes within regular pension plans (e.g., by actuarially calculations of the amounts paid) are taken into consideration.

The strict classification of programs into these categories may leave out key national policies which national researchers could consider important employment programs.

Conclusion

Whether ALMPs are cost-effective from a budgetary perspective remains to be determined. Despite their overall positive impact on employment rates, their budgetary cost is high and they are likely to be subject to diminishing returns as employment rates rise. At the present level of employment rates, ALMPs could recoup their cost (or not) if they place benefit recipients into jobs and these benefits are phased out. However, this type of accounting does not consider, among other factors, the social benefits of lowering unemployment. In any case, given the negative effect of current institutional arrangements on Jamaican employment, institutional reforms seem to be a better bet for improving labor utilization without unduly high costs to the society as a whole. Among the many possible reforms the research examined; the estimated coefficients for the (admittedly rudimentary) institutional variables used in the econometric work suggest that reductions in tax wedges, in benefits replacement rates, in public sector employment, and, more generally, in insiders' wage bargaining power, are a must.

THE ROLE OF THE JAMAICAN MEMBER OF PARLIAMENT

PROLOGUE

The Jamaican Member Of Parliament has gone through a multiplicity of role changes since 1944. This role has been changing and although others have evolved, in the paradigm of the 21st century Knowledge Based Society and Economy (KBSE) these need to be clearly defined. This brief serves as a prelude to the **Jamaican Member Of Parliament Manual: 21st Century Political Leadership For The Jamaican People.**

Community Driven Development/Community Based Development is facilitating economic development in developing countries like Jamaica. The top down approach in developing countries has proven to waste funds and not give communities what they really want. However some governments have deemed it fit to undermine this CDD/CBD approach by cutting off funds for maintenance after successful implementation of such projects.

The multilateral funding agencies are seeking to address this problem.

In the context of the Jamaican Local Government Reform Programme, what will eventually happen in the medium to long term (5-10 years) is the Jamaican Member Of Parliament will eventually become a legislator, SESP1 will disappear and the role of Local Government will become more prominent. This will require a Member of Parliament whose ability to operate within this new 21st century paradigm to be well educated (this is a life-long process and does necessarily speak to the post-secondary process), intelligent and extremely street smart (Emotional Quotient-EQ).

1 Social Economic & Support Programme (SESP), Jamaican Member of Parliament welfare programme.

In examining the Local Government 2003-2005(qualitatively and quantitatively), the successful mayors will not be judged by their ability to manipulate a **Public Relations Illusion (PRI)**, but those who are perceived to have performed, that is, those who have mastered the delicate balance between intricate public policy and its application on the ground. To tell Jamaica that you were not successful because you were not funded effectively, speaks to failed leadership. There are eight (8) who have mastered the balance; post the 2006 Local Government Elections these will have to be Case Studied for posterity. The remainder are victims of what Dollery and Wallis in their four-fold typology in public choice theory refer to as **Asymmetric Information Councillor Capture (AICC)** and do not clearly understand their roles (the same can be applied at the Member Of Parliament Level) as such their well intentioned vision for effective local governance has been lost in an abyss of political and administrative chaos, and attempts by them to seriously address this matter at this late stage is futile as the populace, the voters are no longer information ignorant.

The art of politics is dynamic, ever changing. As such, to operate within the paradigm of the 21st century Knowledge Based Society (KBS) is ideal. However, many Members of Parliament are not operating within, as they do not truly understand their role, as such, they continue to operate on the 1944 model (which saw unique political challenges in the 1997 and 2002 General Elections). The 1944 model speaks to a **Static Competitive Political Model (SCPM)** as opposed to a **Dynamic Competitive Political Model (DCPM)**, which is what is required.

In Mr. Edward Seaga's the **Jamaica Labour Party: Developing a New Political Order (1995)**, a seminal work, he speaks to the implementation of impeachment legislation; had this been implemented, 90% of Jamaican elected officials would have been impeached by now. **I guess the lord works in a mysterious way.**

The Manual will examine the role of the Jamaican Member of Parliament in the following areas but not limited to:

- 1) Member Of Parliament As Policymaker
- 2) Member Of Parliament as Decision maker
- 3) Member Of Parliament as Communicator
- 4) Member Of Parliament as Facilitator
- 5) Member Of Parliament as Enabler
- 6) Member Of Parliament as Negotiator
- 7) Member Of Parliament as Financier
- 8) Member Of Parliament as Power Broker
- 9) Member Of Parliament as Institution Builder
- 10) Member Of Parliament as Overseer
- 11) Member Of Parliament as Leader
- 12) Member Of Parliament as Guardian Of The Environment

Clearly, the task of Jamaican Member Of Parliament is an arduous one, however, to every problem or challenge there is a solution, some will survive by finding creative solutions to these challenges within the social, economic and harsh political environment of Jamaica. Others will not and be ravaged at the polls as their predecessors have been.

THE SPECTER OF AN IGNORANT OR INDIFFERENT POLITICIAN HAS LONG HAUNTED DEMOCRACY.

Overview

My recommendation is this: politicians ought, at this stage of history in Jamaica, to seize aggressively all opportunities for asserting their own ignorance. Especially those who have recently arrived and whose grasp of effective Political administration to seriously enhance their own positions in maintaining political patrimony is strongly self-evident; especially those in certain political parties who through the BGD (Bullets, Guns and Destruction) theory (a theory not new which goes back to the time of Attila the Hun) have come to power and now are attempting to re define policy and political theory along a type of anti thesis apriori approach (donkey Logic) and promote it as a winning formula.

Airhead Thinking

This "AIRHEAD" Thinking can possible win elections, but those who practice it when they come to power, their opponents use Asymmetric Information Politician Capture Theory (AIPCT) against them and bring them to ground zero. We only have to examine our political landscape within the last six to eight months to see this in action.

There are some politicians in Jamaica after they win elections they remain in the Campaign mode. From a party perspective this may be a good approach although costly; but their political ignorance of public administration, how government should run effectively and efficiently is sadly lacking as they know how to win votes and elections but their

political ignorance in converting this political capital in to serious political patrimony is seriously lacking. This leads to one-term governments and some are thrown out of office before their term ends. In being thrown out of power they blame their opponents for undermining them. Clearly they themselves through Public Policy Ignorance (PPI) are victims of their own over all political ignorance.

A Vast Fund Of Ignorance

I start from the premise that politicians in Jamaica have a vast fund of ignorance to exploit. There are important items of factual information they do not have, there are critical relationships they do not understand, and there are potentialities for the future that they are not aware of.

Politicians are generally well aware of the limitations of their knowledge. And they do not ordinarily conceal it from the non-politicians with whom they deal. But their statements of their own ignorance tend to be apologetic confessions, whereas my recommendation is that they should be aggressive assertions.

The inability of politicians to know certain important things is itself a fact of great significance. Politicians are probably the people best qualified to analyze the implications, for company action and for government policy, of their own ignorance.

They should strive to make their lack of knowledge a part of the positive content of decision-making, rather than a sad apologetic footnote to it. This is what I mean by an aggressive assertion of ignorance.

Decision-making is an inescapable necessity in government operations

I have in past writings occasionally ventured the opinion that much of the Political posturing that is done in the ordinary way is not only useless but also harmful. Decision-making is an inescapable necessity in government operations. Any decision has to be made in the light of relevant facts, which are known, but also in recognition of what is unknown and perhaps unknowable. The worst thing the politician can do for people is to obscure the line between what is known and what is unknown.

This is almost exactly what is done in the customary procedures of political posturing. The Politician, fully aware of his own limitations, feels obliged simply "to do the best he can" in providing forecasts of anything his principals want forecasted.

Formulation of National Economic Policies

I also believe that a more aggressive assertion by politicians of ignorance is desirable in the formulation of national economic policies. The fine-tuning approach to monetary and fiscal policy would, of course, be fully justified if their knowledge of the changing economic situation were always complete. But if their explanations of the limitations in their knowledge are apologetic, rather than aggressive, we are not likely to deter policy makers from the fine-tuning approach.

An aggressive assertion of their ignorance, and an analytic exploration of its consequences, leads however to a rejection of the fine-tuning approach altogether. The decision-making strategy which takes full account of ignorance leads in the direction of maintaining a relatively steady posture in fiscal and monetary policy.

The Crime Situation In Jamaica

National policy in regard to the crime situation in Jamaica is a prime example of how an aggressive assertion of ignorance can be of great help. Their own fund of ignorance on it is so large. Furthermore, I am proud of the fact that I came by my ignorance the hard way-through long study which revealed that most of what I knew about crime and violence in Jamaica wasn't so. An aggressive assertion of ignorance on the crime and violence problem (whatever that may be) would have led to better national policy decisions in that area than we have in fact had.

One logical reaction from Politicians to my emphasis on ignorance may be to advocate more and bigger programs of research to fill in the knowledge gaps. I don't mean to argue against this approach but I do have reservations about its fruitfulness. Much of what we would like to know is, I think, not only unknown in practice but also unknowable in principle.

The reason I say this is that there seems to me to be an inherent contradiction in the belief that we ever can know certain things. For example, if we ever became able to predict the large and sudden changes in the inventory situation that are occasionally recorded, they would cease to happen.

Heisenberg principle of uncertainty

Perhaps what is needed in politics in Jamaica is an equivalent of the Heisenberg principle of uncertainty in physics. This kind of precise definition of what we can know and can't know would, I believe, be a most notable contribution to the science and a most helpful guide to practitioners of the art of politics.

All this shouldn't be too shocking and it may even be trite. If politicians in Jamaica really knew what they are supposed (by others and sometimes by themselves) to know, there would be a good case for a centrally planned economy. We can save society from that fate by asserting our ignorance aggressively.

N.B. This is dedicated to a Politician who has become power drunk and whose IGNORANCE of important policy linkages at the local and national levels has become parochial, even though he has been in the political trenches for sometime.

Political Rule By “Thuggism”: Brawn vs. Brain

THUG, “Test Hugging Up Gunman”. The word originally comes from India and first coined by the British during their sojourn there until the Indian population asked them to leave.

THUGS are no longer illiterate they have gone to Universities worldwide in developing and developed countries, but their philosophy remains the same THUG, sociologically, they use their formalized knowledge and power to gain wealth to cement their thug theory of “bling” and overt showing of extravagance.

Countries of war torn Africa, Southern Europe and certain inner-city areas of developed and developing countries have displayed these characteristics.

THUG characteristics

As a result of their newly found formalized educational skills(formal, informal and non formal), the thug practicing Thuggism now known as the civilized thug, display the following philosophical thinking and they are found in many areas: Political life, Political parties ,government, public and private sectors; as follows:

- 1) Best practices and Corporate Governance is of little or no importance: the end always justifies the means.
- 2) Monetary gain always exceeds the Social, Political and Economic.
- 3) Power at any cost, whether this brings loss of life, loss of fame or serious scandal.
- 4) The theory of corruption is redefined.

- 5) They see no need to keep current, knowledge gained once is absorbed and that limits their databases for their particular gain forever.

Downside to THUGGISM and application of the theory in the Short term.

- 1) They achieve great strides in the short term, however in the medium to long term, which speaks to expanded and current data bases they falter seriously. This speaks to collapsed governments as seen in many developed and developing countries and high levels of corruption and white collar crime.
- 2) For the said reason they have alienated so called traditional thinking technocrats because of their thuggistic tendencies, low self esteem and limited databases; companies collapse, government collapses as they are overwhelmed by policy matters which to them are not really important but superficial. A good case study here is the state of Liberia.

Conclusion

Thuggism can make Governments win elections; companies grow, but in the medium to long term the art of Thuggism must be constrained and a balance of old and realistic political philosophy and concepts of accurate public administration must prevail. Failure to do so will result in serious anarchy and a failed state syndrome, whether it is an organization, a company or government.

To Serve the Jamaican Community or Oneself

“I Solemnly and Sincerely Swear that Above All Else I Will Faithfully Serve The People.”

Civil Servants Proclamation Act, Federal Republic of Ethiopia

Overview

Embezzlement of resources is hampering public service delivery throughout the developing world. Research on this issue is hindered by problems of measurement. To overcome these problems Barr, Lindelow and Serneels 2004 used an economic experiment to investigate the determinants of corrupt behaviour. They focused on three aspects of behaviour:

- (i) Embezzlement by public servants;
- (ii) Monitoring effort by designated monitors; and,
- (iii) Voting by community members when provided with an opportunity to select a monitor.

The experiment allows one to study the effect of wages, effort observability, rules for monitor assignment, and professional norms.

The following observations were made in the experiment:

- It was found that service providers who earn more embezzle less, although the effect is small.
- Embezzlement is also lower when observability (associated with the risk of being caught and sanctioned) is high, and

- When service providers face an elected rather than randomly selected monitor.
- Monitors put more effort into monitoring when they face re-election and when the public servant receives a higher wage.
- Communities re-elect monitors who put more effort into exposing embezzlement.

The Public Servant Conflict

Public servants often face a conflict between their private interests and the interests of the people they are hired to serve. Too great an emphasis on the former can manifest itself as inappropriate or corrupt behaviour, absenteeism, informal charging and misappropriation of equipment and other resources. Such behaviour is particularly prevalent in the developing world, although it is also a problem in many developed countries (Ensor and Duran-Moreno 2002).

The Principal-Agent Model and Corruption

The principal agent model provides the basis for much of the literature on corruption (Bardhan 1997; Klitgaard 1988; Rose-Ackerman 1978). Here, the focus is on the trade-off between the expected costs and benefits of a corrupt act. Most models identify wages as an important determinant of corruption, with low salaries increasing its prevalence (Becker and Stigler 1974; Chand and Moene 1999; Mookherjee and Png 1995). Low wages can also result in selection, whereby poor performers who are more likely to

engage in rent seeking are attracted to the public sector (Besley and McLaren 1993).

The Impact of Monitoring and Sanctioning Institutions

Monitoring and sanctioning institutions impact on the expected cost of corruption. But they also introduce new conflicts of interest. Indeed, corruption can emerge because there are opportunities for mutually beneficial transactions between monitors and agents (Becker and Stigler 1974; Khalil and Lawarree 1995; Mookherjee and Png 1995).

In most developing countries monitoring is the duty of (other) public servants who are themselves under-paid, under-motivated, and disinterested in the performance of public service providers. In the literature on decentralization, some have argued that community participation strengthens accountability and improves governance; others question this, pointing to the lack of salient capacity at the community level (Banfield 1979; Manor 1999; Prud'homme 1995). Shleifer and Vishny (1993) aim to reconcile these views by proposing that corruption may be less severe in highly centralized and decentralized states, than in states with an intermediate level of institutional centralization.

Empirical Analysis Of Public Servant Corruption

While this theoretical literature has generated many insights into the possible causes of corruption, empirical verification has proven difficult. Chiappori and Salanié (2002), for example, highlight the general mismatch between theoretical predictions and what is observed in terms of real

contract forms. The former tend to be much more complex than the latter. Factors such as merit pay, group incentives, career concerns, and the

possible role of professional cultures, norms and ethics only exacerbate this mismatch (Dixit 1997, 2001; Wilson 1989).

With few exceptions (e.g. Ablo and Reinikka 1998; Fisman and Gatti 2000; Svensson 2003), empirical analysis of corruption has often been based on cross-country perception data. This analysis has focused on a wide range of factors:

- Including legal systems,
- Socio-economic development,
- Political rights and democracy,
- Ethnic composition,
- Dimensions and degrees of decentralization,
- Political instability,
- Openness to trade, and
- Public sector salaries and recruitment policies (for a review, see Andvig and Fjelstad (2001)). Of particular interest to us here is the work of Van Rijkeghem and Weder (2001) who find that, although higher public servant salaries (relative to manufacturing wages) are associated with less corruption, those salaries would have to increase dramatically to eradicate corrupt behaviour.

Using alternative measures of public sector earnings, neither Treisman (2000) nor Rauch and Evans (2000) identify an effect on perceived corruption. Moreover, Rauch and Evans (2000) find that employment security and recruitment and promotion criteria may be of greater

importance. While interesting, these analyses have been subject to criticism on account of the unsatisfactory measurement of corruption and the potential endogeneity of public sector salaries.

Limited Conclusions

From the literature we identified possible causes of corruption:

- (i) Poor public servant pay;
 - (ii) The monitorability and sanctionability of public servants and the interests of those charged with monitoring and sanctioning;
- Two hypotheses relate to the effect of poor public servant pay. The results suggest that public servants who receive a higher wage expropriate less. However, in accordance with the findings of Van Rijckeghem and Weder (2001), the effect is small; a 200% increase in wages leads to only a 30% reduction in resource expropriation. Monitors put more effort into exposing expropriation by public servants who are receiving a higher wage. This corroborates Abbink's (2002a) observation that distributive fairness considerations cause well-paid public officials to behave less corruptly.
 - Turning to the hypotheses relating to the institutional environment of monitoring, Azfar and Nelson's (2002) found that public servants expropriate fewer resources when faced with community representative monitors; and monitors who are elected representatives put greater effort into monitoring public servants.

- It was found that public servants expropriate fewer resources when observability is higher; and that community members re-elect monitors who put more effort (money) into exposing expropriation. What the results cannot tell us is how observability might decline as we move from professional to community representative monitoring due to the change in the capacity to monitor in real contexts. This notwithstanding, the strength of the 'democracy effect' is worthy of note by those interested in policy in this area.

Jamaica And ZERO BASED BUDGETING

Many commentators have been suggesting for the developing country called Jamaica, GOVERNMENT ZERO BASED BUDGETING, what are the pros and cons?

In addition to saving money and improving services, zero-based budgeting may:

1. Increase restraint in developing budgets;
2. Reduce the entitlement mentality with respect to cost increases; and
3. Make budget discussions more meaningful during review sessions.

On the cost side of the equation, zero-based budgeting:

1. May increase the time and expense of preparing a budget;
2. May be too radical a solution for the task at hand. You don't need a sledgehammer to pound in a nail;
3. Can make matters worse if not done in the right way. A substantial commitment must be made by all involved to ensure that this doesn't happen.

First, the success of such a change like this hinges strongly on leadership that is dedicated to the task. If those appointed to conduct budget reviews are unwilling to truly assess every item in their budget, word will get out quickly that this new budgeting technique is more symbolism than substance.

Second, don't attempt to do zero-based budgeting for every department, every year. Such a move may prove impossible to manage. Instead, choose several departments and/or agencies, and rotate through every facet of state government over time.

Third, ensure that each review is conducted by referencing all aspects of a department, agency or program to what its goals are. This makes the very purpose of the entity being reviewed transparent, and can increase the opportunities available for making objective measurements of a department, agency or program's success rate.

As with most programs or reforms of programs, it must be done right, or it should not be done at all. For example, department, agency or program directors who feel endangered by this kind of scrutiny will be delighted to be placed in charge, so that they can do it wrong, waste everyone's time, and give a cutting-edge management tool like zero-based budgeting a bad name, all at the same time.