

NO 18/79

MINISTRY PAPER 18/79PROGRAMME FOR ECONOMIC RECOVERY

On Wednesday, April 25, 1979, I made a broadcast to the nation in which I outlined Government's programme for economic recovery for 1979-80. Subsequent to that address, I have the honour of submitting to Members of the House a formal statement of this programme. In this statement, which is attached, the required contributions of each sector involved in the Social Contract are detailed.

Members are also asked to take note of a companion Ministry Paper to be submitted by the Honourable Minister of Finance. This Paper reviews the state of the economy and details the economic measures to be implemented to ensure increased production and employment in the society.

Michael Manley,
Prime Minister,
3rd May, 1979.

Programme for Economic Recovery

1. The economic difficulties of the last few years and, in particular, the foreign exchange crisis of 1977 and 1978, have forced the nation to struggle for its very economic survival. In order to achieve this survival, the Government has had to introduce extremely stringent economic policies which have involved:

- (a) reduction of the level of consumption to that which could be supported by the available local and imported resources;
- (b) restrictions on importation; and
- (c) a rapid but controlled increase in prices and a change in the exchange rate in order to achieve the reduction in consumption as well as to restore the competitiveness and profitability of local industry.

2. The package of economic policies has been largely successful in achieving its objectives - Jamaica has survived 1977 and 1978 and has survived without destruction of the social fabric which we have built up over the years and without sacrifice of the fundamental rights and freedoms which we cherish. Nonetheless, the cost of survival has been heavy. The nation, particularly the poor, has had to make tremendous sacrifices in terms of living standards, and the pressure of these sacrifices has, not surprisingly, led to a sense of national discouragement and a heightening of social tensions.

3. Looking ahead, through 1979 and 1980, it is clear that mere economic survival will not be enough if we are to keep the nation from self-destruction. There must be economic growth as well, so that the hardships can be eased and people can gradually move toward a better standard of living. If there is no perceptible improvement in the nation's welfare, then we run the serious risk of the social tensions building up and exploding into social unrest which in turn will lead to a deepening of the economic crisis, to even greater hardship and even greater social upheaval. In order to avert the danger of this vicious downward spiral, we must have economic growth.

4. Two factors are crucial to the achievement of economic growth in 1979 and 1980. The first of these is additional foreign exchange. During 1977 and 1978, we saw very clearly that the economy can barely survive at an import level of less than \$900 million (US). In order to have growth we need an import level of some \$100 million (US) more. We have now identified sources of additional foreign exchange to permit this. The second crucial factor is an atmosphere of mutual trust and co-operation between all sectors of the society so that all Jamaicans can get on with the business of producing.

5. During the last few weeks, the Government has had extensive consultations with all sectors of the economy to discuss the economic situation and what can be done about it. On the basis of these consultations, the Government believes that a viable programme for co-operation is possible. This programme will call for contribution from the various sectors as follows:

(a) Government's contribution. The Government will seek to ensure additional foreign exchange for importers, ease the restrictions on licensing, and give priority in the allocation of foreign exchange to export and key "linkage" industries. Government will also pursue policies that will provide the means to stimulate confidence amongst those engaged in production and exports and will preserve the right budgetary balance so as to reduce pressures on the cost of living. Government will examine the prevailing tax structure to ensure, so far

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as is reasonable and practicable, it is supportive of Government production policies and to provide a more equitable distribution of the tax burden.

(b) Private Sector's Contribution. The private sector will seek to ensure job security for its employees, increases in production using existing capacity and where possible, expansion of capacity, employment and investment in new projects and will restrict price increases to 10 per cent per year.

(c) Trade Union Contribution. The Trade Unions should seek to ensure a reduction in industrial strife through the use of all available procedures and agencies for the settlement of disputes. The Unions should also endeavour to keep the Wage Fund within a 10% growth per annum.

(d) Other Sectors. Government also calls on other sectors -- professionals, self-employed, farmers -- to exercise restraint in pricing and to display a sense of social responsibility in increasing production.

(e) Production Incentives. Employers and Unions are expected to devise ways of increasing productivity and to provide appropriate pay incentives to achieve this end.

(f) Worker Participation. Government expects the Trade Unions and management groups in both the public and private sectors to co-operate in order to ensure the successful implementation of appropriate models of Worker Participation.

These mutually supporting contributions will make it possible for us to stabilize cost of living pressures at roughly the prevailing international level to suspend the monthly "crawling peg" devaluation and to begin the task of economic growth.

6. The essence of the Programme for Economic Recovery is that it should be a programme of mutual co-operation based on a common understanding of the needs of the nation and on mutual trust and confidence that each sector will play its part. Therefore, the Programme will not be legislated; nor are there any new sanctions introduced. The true sanction is that if each party does not perform, then the whole programme fails and the entire nation suffers. In addition, there must be close monitoring of the Programme to see how it is working, whether new elements need to be introduced, or some elements modified. As far as specific elements of the programme are concerned, such as the wage guidelines and price restraints, the existing machinery at the Ministry of Labour and at the Prices Commission will be used. In the case of the element of job security for which no monitoring mechanism now exists, the procedure to be adopted is that an enterprise which feels that it must lay-off and make redundant workers must first submit its case to its representative organisation (e.g. Jamaica Manufacturers' Association, Jamaica Exporters' Association, Chamber of Commerce) and then to a special unit in the Ministry of Labour.

7. The Government considers that details have to be firmed up in some areas and problems of implementation will have to be resolved as they surface. Government will, therefore, continue to seek advice on how best to set up any additional institutional machinery that will give a firm foundation for co-operation among all parties to the Programme for Economic Recovery and allow it to develop over time.

Achievement of a social contract along these lines is a pre-condition for progress on the economic front. The alternatives to co-operative action could spell disaster for the economy and the nation.

Jamaica in 1977 and 1978 showed that it had the capacity to work together for survival. Let us make the further effort in 1979 to achieve a degree of mutual trust and co-operation which will allow us to move from the situation of survival to the path of economic recovery and growth.