

Short Title

FISCAL POLICY AND ECONOMIC DEVELOPMENT, JAMAICA,
1953 - 1960

ABSTRACT

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THE ROLE OF FISCAL POLICY IN THE ECONOMIC DEVELOPMENT OF JAMAICA 1953 - 1960

Fiscal policy played an active and important part in Jamaica's economic development between 1953 and 1960. It promoted savings, encouraged capital accumulation and, generally, fostered a favourable investment climate. The policy pursued in this period was in contrast to the previous "policy" of non-intervention.

Structural change was the most interesting and, perhaps, the most significant aspect of growth during the 1950's. Agricultural predominance disappeared. Distribution and manufacturing assumed greater significance. Bauxite and tourism became important sources of foreign exchange and capital formation. Undoubtedly, the trend was towards diversification of production.

Many serious problems remained in 1960. Notably, savings and capital formation were still low. High unemployment persisted, and was aggravated by rising wages. Skills were deficient. Land was scarce and was under-utilised. Nevertheless, the initial application of fiscal policy to the problems of Jamaica's underdevelopment did produce encouraging results.

THE ROLE OF FISCAL POLICY
IN THE ECONOMIC DEVELOPMENT
OF JAMAICA 1953 - 1960

by

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CONTENTS

| | <u>PAGE</u> |
|--|-------------|
| ACKNOWLEDGEMENTS..... | ii |
| LIST OF TABLES..... | iii |
| LIST OF FIGURES..... | v |
| <u>CHAPTER</u> | |
| I. INTRODUCTION..... | 1 |
| Advanced and Backward Countries Contrasted..... | 5 |
| The Appropriate Role and the Goals of Fiscal Policy..... | 8 |
| Capital Formation..... | 10 |
| Employment..... | 11 |
| Stability..... | 12 |
| Income Redistribution..... | 13 |
| Summary..... | 13 |
| II. JAMAICA'S FISCAL POLICY OPERATIONS 1953 - 1960 - | |
| THE BUDGET AND RECEIPTS..... | 15 |
| The Budget..... | 15 |
| Revenues..... | 19 |
| Direct Taxes..... | 23 |
| Indirect Taxes..... | 28 |
| Other Receipts..... | 30 |
| Incentive Legislation..... | 30 |
| Some Effects of the Tax System..... | 35 |
| On Income Distribution..... | 36 |
| On Consumption..... | 37 |
| On Savings and Capital Formation..... | 39 |

| <u>CHAPTER</u> | <u>PAGE</u> |
|---|-------------|
| On Diversification, Dualism and Employment..... | 42 |
| Borrowing..... | 43 |
| Some Effects of Borrowing..... | 49 |
| Summary..... | 51 |
| III. JAMAICA'S FISCAL POLICY OPERATIONS 1953 - 1960 - | |
| EXPENDITURE..... | 53 |
| Some Effects of Expenditures..... | 65 |
| On Income Distribution and Welfare..... | 65 |
| On Savings and Capital Formation..... | 65 |
| On Stability, Employment and Dualism..... | 69 |
| On the National Product..... | 72 |
| Summary..... | 73 |
| IV. GROWTH OF THE JAMAICAN ECONOMY 1953 - 1960..... | 74 |
| Summary..... | 90 |
| V. CONCLUSION..... | 91 |
| BIBLIOGRAPHY..... | 103 |

LIST OF TABLES

| <u>TABLE</u> | <u>PAGE</u> |
|---|-------------|
| I. Revenues of Central and Local Governments of Jamaica 1953 - 1960..... | 20 |
| II. Jamaica's Revenues from Main Sources as Per Cent of Total Revenues 1953 - 1960..... | 21 |
| III. Jamaica's Tax Revenues as Per Cent of Gross Domestic Product at Current Factor Cost..... | 22 |
| IV. Value of Income Tax Exemptions Under Some of the Incentive Laws of Jamaica..... | 33 |
| V. Consumption Expenditures of Persons and Non-Profit Institutions of Jamaica, 1953 - 1960..... | 38 |
| VI. Jamaican Treasury Bills Outstanding December 1958 - December 1961..... | 45 |
| VII. Long Term Loans Raised Locally by the Jamaica Government 1953 - 1960..... | 47 |
| VIII. Long Term Loans Raised Externally by the Jamaica Government 1953 - 1960..... | 48 |
| IX. Functional Classification of Jamaica Government Expenditures 1953 - 1960..... | 56 |
| X. Total Jamaica Government Expenditures as Per Cent of Gross Domestic Product at Current Factor Cost..... | 57 |
| XI. Functional Classification of Capital Expenditures of the Government of Jamaica 1956 - 1960..... | 60 |
| XII. Investment in Social Overhead Capital by the Government of Jamaica 1956 - 1960..... | 62 |

| <u>TABLE</u> | <u>PAGE</u> |
|---|-------------|
| XIII. Surpluses of the Central and Local Governments of Jamaica, 1953 - 1960..... | 67 |
| XIV. Gross Fixed Capital Formation of the Government of Jamaica, 1953 - 1960..... | 68 |
| XV. Direct Purchases from Businesses by the Government of Jamaica, 1953 - 1960..... | 71 |
| XVI. Gross Domestic Product of Jamaica 1953 - 1960 Constant Factor Cost (1956 Prices)..... | 76 |
| XVII. Gross Domestic Product of Jamaica 1832 - 1953, at Constant (1956) Prices..... | 78 |
| XVIII. Per Capita Real Incomes of Jamaica, 1953 - 1960..... | 81 |
| XIX. Per Capita Real Incomes of Jamaica, 1832 - 1952..... | 82 |
| XX. Savings in the Jamaican Economy 1953 - 1960..... | 85 |

LIST OF FIGURES

| <u>FIGURE</u> | <u>PAGE</u> |
|--|-------------|
| 1. Gross Domestic Product of Jamaica at Constant Factor Cost (1956 Prices) 1953 - 1960..... | 77 |
| 2. Gross Domestic Product of Jamaica at Constant Factor Cost (1956 Prices) 1832 - 1952..... | 79 |
| 3. Gross Domestic Product of Jamaica at Constant Factor Cost (1956 Prices) 1832 - 1960..... | 80 |
| 4. Per Capita Real Incomes of Jamaica, 1832 - 1960..... | 83 |

CHAPTER 1

INTRODUCTION

Ever since the 1930's, responsible opinion has gravitated slowly, but steadily, towards the view that governmental action is necessary to promote a rapid development of Jamaica's backward economy. For some time, and especially since the 1950's, the budget has been increasingly adapted to the aim of promoting growth. But in spite of this, there has been a tendency to attribute the growth of incomes solely to the efforts of the private sector, and to ignore the invaluable contribution made by fiscal policy. It is contended in this essay, that Jamaica's fiscal policy operations contributed significantly to the achievement of rapid growth rates during the period 1953 - 1960.

Although professional economists devoted much attention to a discussion of the activities of the public sector, the relationship between a government's budget and the performance of the national economy was, perhaps, not clearly understood anywhere, prior to the 1930's.¹ Economists regarded government expenditures as collective consumption to be confined to certain types of goods and services, such as protection and justice, which were most conveniently provided by the state. They saw taxes as the cost of public expenditures. Taxes were levied on the basis of people's ability to

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See, for example, Adam Smith, An Enquiry into the Nature and Causes of the Wealth of Nations ed. Edwin Cannan (London: Methuen and Co., 1904) Vol. II, Book V, Chapters I and II; J.S. Mill, The Principles of Political Economy fourth edition; (London: John W. Parker and Son, 1857) Vol. II Book V; Richard Musgrave and Alan Peacock (editors) Classics in the Theory of Public Finance (New York: MacMillan Co., 1958).

pay or, alternatively, in proportion to the benefits conferred by permissible expenditures. Public sector expenditures and the problems concerning the maximisation of satisfaction derived from the consumption of public goods, as well as taxes and the problems related to the imposition of equal marginal sacrifice of the tax, were discussed in the context of the laissez-faire conditions postulated for the early capitalist societies. The conclusion was, that factor supplies and technology could be efficiently and fully utilised only when the economic effects of the state's financial transactions were neutral.² The doctrine prevailed that the economy would realise its maximum potential for growth only when state interference was at a minimum.

This early approach to the role of the public sector was accepted in Jamaica and was reflected in the budget. Public sector contribution to gross domestic product was a mere £0.3 million or 6% in 1832 and £0.8 million or 5.3% in 1930.³ In the first half of the nineteenth century, government expenditures were devoted mainly to administration, justice, defence, and ecclesiastical establishments. After 1865, more attention was given to communications and social services, so that by 1930 these two groups accounted for roughly 52.5% of total government expenditures.⁴ Credit for this changed emphasis may be given to such enlightened governors as Sir John Peter Grant and Sir Anthony Musgrave, who constructed new roads and bridges, developed a railway system, built irrigation canals, and improved public health. But expenditures remained low, and there was no conscious policy or desire to promote growth through fiscal measures. Public investment was sometimes undertaken to facilitate the exploitation of some resource such as

² On the classical assumption of full employment, a budget deficit would be inflationary, and a surplus deflationary. Hence, only a balanced budget could serve the purpose of an efficient allocation of resources.

³ Gisela Eisner, Jamaica 1830 - 1930 (Manchester, 1961), p. 119.

⁴ Ibid., p. 358.

sugar, for export, or to protect the health of the ruling classes. Even in such cases, the schemes were often bitterly opposed, despite the absence of private capital for the projects involved. It is not surprising that, in 1934, the comment was made that "the . . . government had no policy but to⁵ raise and spend money and to avoid deficits."

The departure from this principle of neutrality to one of purposeful intervention was sparked by intellectual developments of the 1930's. Under the revolutionary impact of Keynes' book published in 1936, professional economists shifted their interest to an aggregative analysis of the economy.⁶ Keynes' theory of national income and employment emphasized the fact that government's fiscal operations could be administered so as to influence the level of income and employment. In addition to the aim of securing collective consumption, taxes could be imposed to curtail effective demand, and expenditure could be incurred in order to increase investment, income, and employment. Compensatory financing was placed at the core of the new macro-economics. The budgetary weapons - taxes, borrowing, and expenditure - were analysed in the light of their effectiveness in promoting full employment with stable prices. In this way, the modern concept of fiscal policy as an instrument of economic growth, emerged.

The Keynesian exposition was a short-run analysis of the capital formation process. It took account of the income-increasing effects of investment. The classical discourse had considered the capacity-creating aspect under conditions of adequate demand. But by assuming a given stock of capital, Keynes ignored the long-run capacity-creating effects of

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Ronald V. Sires "The Experience of Jamaica with Modified Crown Colony Government", Social and Economic Studies Vol. 4, No. 2, June 1955, p. 157, referring to the files of the West Indian Critic and Review.

6

J. M. Keynes, The General Theory of Employment, Interest and Money (London: MacMillan and Co. Ltd., 1936).

capital accumulation. Later developments saw a shift from the Keynesian short-run emphasis to the post-Keynesian growth analysis of the Harrod-Domar type.⁷ These developments considered both the (short-term) income-creating effects and the (long-run) capacity-creating aspects of investment. In the final analysis, capital formation was assigned a decisive role in the development process.

By the early 1950's the Keynesian prescription of government intervention in the nation's economic activities in order to promote growth, had received wide acceptance in Jamaica. Fortunately Britain had, by then, ceased to exercise direct control of the country's purse, and the important fiscal decisions were, by and large, being taken locally.⁸ But even at that time, the pattern and composition of expenditures was not vastly different from that which had obtained in 1930.⁹ It was significant however, that, unlike the administrations of former years, the government was examining urgently the problems of Jamaica's lagging economy, with a view to determining the best and most feasible solution.

An important consideration was the fact that the Keynesian analysis with its later refinements, was not applicable to an underdeveloped country such as Jamaica, because it had been cast in terms of the conditions existing in advanced countries. The policy measures which flowed from the

⁷ R.F. Harrod, "An Essay in Dynamic Theory," Economic Journal, Vol. XLIX, No. 193, Mar. 1939, pp. 14 - 33; Evsey D. Domar, "Capital Expansion, Rate of Growth and Employment," Econometrica, XLIV, No. 2, April 1946, pp. 137 - 147.

⁸ The process of gradual transfer of fiscal control began with the Constitution of 1944, which established an Executive Council as the chief instrument of policy (instead of the Governor of the Colony) with responsibility for preparation of the annual budget. This process culminated in the achievement of full internal self government in 1959, and the formation of a Public Accounts Committee in 1960 to consider the Auditor General's Report.

⁹ A.P. Thorne, "Size, Structure and Growth of the Jamaican Economy," Social and Economic Studies Vol. IV (supplement), Dec. 1955, p. 79, Table 9.

analysis would yield different results when applied to a backward country. Consequently, suitable changes in economic priorities and in fiscal policy measures were required for countries at the stage of development that Jamaica had reached. By way of elucidation, some of the more important differences between advanced and backward countries are pointed out below.

Advanced and Backward Countries Contrasted

In most developed countries, net private savings range from 10 per cent to 20 per cent of the national income. Inadequacy of savings is not a problem. The usual problem is one of unstable growth. In contrast, inadequate savings are a major problem in underdeveloped countries. In Jamaica, for instance, total gross fixed capital formation amounted to less than 10 per cent of domestic output during most of the nineteenth and early twentieth centuries.¹⁰ It was only 10.2 per cent in 1950 and 14.1 per cent in 1952.¹¹ The result was low net investment, low productivity, low incomes, and high unemployment.

With a high ratio of savings to national income, and with continuous capital accumulation, it is possible, in theory, for the advanced country to move to an "equilibrium" in which per capita incomes are high, and capital is underemployed. With the low savings ratios in countries like Jamaica, the likelihood is that stagnation will appear at low levels of per capita income with unemployment, not of capital, but of labour.

In advanced industrial societies, economic fluctuations frequently originate from variations in domestic demand. In those countries, the volume

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Gisela Eisner, Jamaica 1830 - 1930 (Manchester, 1961) p. 306, Table LXII.

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Thorne, op. cit., pp. 67 - 68, 81.

of demand depends on the volume of investment. Investment is a significant proportion of the national income, and its flow determines the pace of economic activity. Changes in the rate of investment lead to changes in income, demand, and employment. In lesser developed countries such as Jamaica, investment accounts for only a small portion of the national income; and variations in its flow are not the main cause of economic fluctuations. Rather, variations in the level of export earnings, and changes in weather conditions which affect agricultural production, are more important in determining the level and pace of economic activity in backward countries. This is so, because the value of exports and of domestic agricultural production are each a significant fraction of the national income. Where exports comprise mainly one or two primary products (such as sugar and bananas in Jamaica up to 1952) the probability is greater that fluctuations¹² will be more frequent and pronounced. In spite of the destabilising influences of export earnings and weather conditions, however, the essential character of the mass unemployment that exists in backward countries, is that it arises from a scarcity, not of demand, but of the co-operating factors of production, especially of capital and skills.

A marked interdependence between economic sectors is evident in modern economies. The finished product of one industry or productive process becomes the raw material for another industry or productive process within the same economy. Accordingly, the repercussions from a changed pace of economic activity in one sector, spread rapidly in all directions like ripples created by a stone thrown in a pond. In underdeveloped countries like Jamaica, sectoral interdependence is less pronounced, and the consequences of a changed level of economic activity in one sector do not spread as rapidly

or as far.

Untapped resources are more readily available in developed countries, and may be brought into use at rather short notice. The engagement of these additional resources results in a primary increase in money incomes and employment, and in a secondary increase in output, income, and employment in the consumption goods industry. In backward countries like Jamaica, there is a scarcity of resources - of raw materials, skilled labour, fuel, credit facilities, and so on - and this scarcity creates bottlenecks in the productive process. Consequently, an increase in investment may augment money incomes in the short run as in advanced countries, but real output and employment may not grow correspondingly. This means that the multiplier effect may be reflected in money incomes only; and expenditure on a new project or investment may generate steep price increases unless adequate savings are extracted to counter the rising prices.

In developed countries, the relative abundance of capital and the relative scarcity of labour, lead to the use of capital intensive techniques of production in agriculture and industry. Agriculture is usually less important than industry in its contribution to national income and employment. In countries like Jamaica, the relative abundance of labour tends to lead to the use of labour-intensive methods of production. Agriculture is more important than industry in terms of output and employment.

The advanced economy completes the bulk of its contracts through the exchange of money; and it is highly responsive to economic stimuli. In particular, it is capable of regulation through the use of monetary and fiscal tools. An underdeveloped country like Jamaica uses relatively less money. It does not respond as readily to the application of the refined tools of monetary policy; it is more likely to respond to fiscal policy

measures.

These differences illustrate the nature of the problems which face the policy maker in lesser developed countries like Jamaica, when he tries to learn from the experiences of rich countries. Such differences warn him of the pitfalls of fiscal policy formulation. A policy measure which is successfully applied in an advanced country may be wholly inappropriate for backward economies.

13

The Appropriate Role and the Goals of Fiscal Policy in Jamaica

Any attempt made to formulate an appropriate fiscal policy for Jamaica, must take account of the defects of the existing method of deployment of capital resources. The market method has not functioned satisfactorily because, in general, the low incomes do not support the desired return on the capital necessary to bring resources together into productive use. Some projects which are socially desirable, may not be sufficiently profitable to attract private capital; or their immediate benefits may be so diffused as to preclude market pricing and private profits; or their period of gestation may be too long; or their capital requirements may be too large for private sources to supply. What is more, a single investment project may require complementary investments such as river training, electricity development, and educational facilities, all of which the would-be investor is unable to undertake. For one reason or another, a needed investment may fail to be realised through the market mechanism. In other words, investment in accordance with short-run estimates of the market profitability of a project, channels capital flows away from

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See, for instance, Walter Heller "Fiscal Policies for Underdeveloped Countries," Taxes and Fiscal Policy in Underdeveloped Countries (New York: United Nations, 1954) p. 1.

areas which are vital for long-run economic growth. The need is for capital resource allocation in accordance with long-run estimates of welfare maximisation; and the state must play a part in this.

Why should the state intervene? It should, because intervention is the only alternative where the profit motive is absent in vital areas of development. As Higgins tells us, "the needed investment is unlikely to take place without government intervention in the decision-making process."¹⁴ Fiscal policy in Jamaica, then, must be geared to play an allocative role.

Equally important at least, Jamaica's fiscal policy must operate to enhance the level of resources to be allocated. Its tools must be directed to raising the ratio of savings to national income. This idea of raising the savings ratio is supported by well-known authorities. Lewis asserts that "the central problem in the theory of economic growth is to understand the process by which a community is converted from being a 5 per cent to a 12 per cent saver; . . ."¹⁵ Chelliah makes it the theme of his book.¹⁶

Higgins affirms that "the sheer poverty of underdeveloped countries makes the raising of the propensity to save, as well as the inducement to invest, a necessary part of fiscal policy."¹⁷ The higher the level of resources which can be allocated to the development process, the higher is the rate of growth which becomes possible.

¹⁴ Benjamin Higgins, Economic Development (New York: W.W. Norton and Co. Inc., 1959), p. 388, discussing underdeveloped countries in general.

¹⁵ W. Arthur Lewis, The Theory of Economic Growth (London: George Allen and Unwin Ltd., 1955), pp. 225 - 226.

¹⁶ Raja J. Chelliah, Fiscal Policy in Underdeveloped Countries (London: George Allen and Unwin Ltd., 1960), p. 44.

¹⁷ Higgins, op. cit., p. 474.

Finally, the tools of fiscal policy must be directed to maintaining stable growth. If an increased flow of funds into the economy is not appropriately matched by an increase in the supply of consumption goods or in the amount of savings, prices will tend to rise. On this account, under-employment and inflation may subsist side by side when an attempt is made to raise the level of capital formation. The promotion of capital accumulation with a minimum of inflationary consequences, ensures that productivity gains are not dissipated in price increases.

What are the appropriate goals of policy for Jamaica? The two most important and most feasible, appear to be the maximisation of the flow of investment, which is the key to the process of growth, and the maintenance of internal and external stability. Other desirable but less feasible goals are the reduction of unemployment (which is directly related to the flow of investment), the control of population growth, and the reduction of extreme inequalities of consumption and wealth. With the exception of the control of population, which was not attempted during 1953 - 1960, a discussion of these goals now follows.

Capital Formation A high rate of capital formation is indispensable for rapid economic growth. The higher the rate of formation, the more rapid the growth is likely to be. With low savings propensities in Jamaica, private domestic savings do not grow readily to the level required to finance the necessary capital requirements. Private savings become adequate only in the long run after substantial increases in the national income have occurred. In the short run, the public sector must assume responsibility for much of the capital formation that is required.

A given quantity of capital injected in the Jamaican economy has a greater expansionary effect than it would have if injected into a modern economy such as the United States of America with its large aggregate income.

It is generally recognised that a minimum amount of capital is necessary to launch a poor economy successfully on to the path of self-sustaining growth. The Center of International Studies at the Massachusetts Institute of Technology had this to say in a "Submission" to the Special
19
Committee to study the Foreign Aid Program:

There is a minimum level of resources that must be devoted to . . . a development program if it is to have any chance of success. Launching a country into self-sustaining growth is a little like getting an airplane off the ground. There is a critical ground speed which must be passed before the craft can become airborne . . .

To be adequate, the capital injection must give the economy a "big push" along the growth path. It must take the form of social overheads as well as of investments in diverse consumption goods industries. Diversification of these industries promotes growth and stability; but it may be necessary, sometimes, to serve the narrower purpose of complementarity. Evidently, even at the lowest minimum, the amount of capital required to initiate a respectable rate of growth is likely to be quite large. Consequently, a fiscal policy for Jamaica must be geared to mobilise large aggregations of capital in the public as well as the private sectors of the economy.

Employment There is a large force of unemployed workers in Jamaica. As long as these workers remain idle, production will not be maximised. Full and efficient use of labour is important for the country's economic development. Fiscal policy should aim, therefore, at substantial increases in employment levels, with the ultimate aim of eliminating unemployment.

If employment goals are set in terms of the number of new jobs, resources may be dissipated in fruitless attempts at a cure of unemployment. Under the stimulus of higher wages paid by new sources of employment, workers

move out of old low-wage sectors, like agriculture, in greater numbers than are required for filling the new jobs available, and refuse to return to their old jobs. For this reason, if the vacancies created by the move from agriculture are not filled by the agricultural unemployed, as well might be the case, unemployment may actually increase even where there is a substantial growth in the number of new jobs, and where there is no rise in total labour population. Another factor is the conflict between the growth of employment and the increase in incomes. Where resources are deployed in labour-intensive techniques, employment grows, but productivity and incomes may not rise, and may even fall. These two factors would seem to dictate that employment goals should be set in terms of the most efficient level of production at existing factor cost. Nevertheless, considerations of social and political stability in Jamaica, point to the necessity for a compromise between the achievement of high growth rates and the realisation of the full employment goal.

Stability Since weather conditions and variations in export proceeds are the main causes of economic fluctuations in a country like Jamaica, fiscal policy measures for stabilisation must usually be confined to alleviating the effects of natural disasters and of changes in export earnings. In boom conditions, selective taxes on imports may serve to discourage the importation of consumption goods, especially of luxuries, and to withdraw excess liquidity. Proceeds from such taxes may be used subsequently for financing capital formation. In a depression, government expenditures, especially those on capital formation, should continue unabated, even where revenues have been depressed. This will tend to create problems of an expansionary nature, which are normally associated with deficit spending in an underdeveloped country. Owing to the high marginal propensity to import in both the private and the public sectors,

imports will tend to rise, thereby worsening the balance of payments. If imports are restricted, then demand will be shifted, correspondingly, to locally-produced goods with attendant price increases. In order to prevent this shift of purchasing power to local goods, excess liquidity may be withdrawn by the use of appropriate tax measures. Hence, tax policy may be the core of the fiscal tools used for promoting stability in a country such as Jamaica.

Another solution to the problem of stability lies in the diversification of production. Diversification makes available a wider range of home-produced goods to absorb increased purchasing power. In a diversified economy, the probability is lower that a slack in foreign demand for a particular export good will deal a crippling blow to the economy. However, low supply elasticities make diversification a relatively long term solution to the problem of stability. In any event, the chief purpose of producing a wide variety of goods is to promote rapid growth. Hence, stability through diversification, is a secondary rather than a primary function of fiscal policy.

Income Redistribution Basically, two alternatives exist. Incomes may be redistributed in favour of low income groups in order to provide a reasonable standard of living. Enough money to purchase proper food, clothing, shelter, and medicine, ensures the health and efficiency of the nation. On the other hand, a redistribution in favour of high income groups which have a low consumption propensity, raises savings to a higher level. It is a matter of practical judgement how far policy pursues the redistributive process in each direction.

Summary

It is contended that Jamaica's fiscal policy operations made a

significant contribution to the growth of the Jamaican economy between 1953 and 1960. This is not generally conceded. For some time, the budget has been geared to the promotion of economic growth. Nevertheless, credit for any growth that occurs is usually given to the efforts of the private sector.

Up to the 1930's, budgetary policy in Jamaica was based on the classical doctrine as to what was sound, or unsound. The cardinal principle was to balance the budget. For that reason, Jamaica's public expenditures were largely for consumption purposes. However, the Keynesian revolution of the 1930's changed this outlook.

The Keynesian theory had to be adapted to the particular circumstances of Jamaica's economic backwardness. Accordingly, fiscal policy for Jamaica had to play an allocative role, because the market method of allocation was shifting resources away from vital areas of development. Fiscal policy had to play a stabilising role, also; and it had to be adapted to the goals of maximising the flow of investment, and of increasing the volume of employment. With these modifications, fiscal policy could be regarded as appropriate for Jamaica's condition of economic underdevelopment.

CHAPTER II

JAMAICA'S FISCAL POLICY OPERATIONS, 1953 - 1960

- THE BUDGET; RECEIPTS, AND INCENTIVE LAWS

The Budget Before the end of each financial year, the Ministry of Finance commenced the preparation of an estimate of all receipts for the ensuing year from taxes, loans, and other sources, and of intended expenditures during the same period. The Ministry brought these figures together in a document called the "Estimates" or the "Budget", which was then submitted to the legislature for approval. With the necessary approval, the Civil Service proceeded to raise the sums indicated for the purposes authorised. It was mainly through this process of collecting and spending again, that the government sought to influence the rate of economic growth.

As a first step, tax revenues and recurrent or consumption expenditures - otherwise inescapable commitments - were estimated. Comparison of total tax revenues with total recurrent expenditures, provided a good indication of the likely funds available at current rates of taxation, for the expansion of existing services and for public capital formation. If the Cabinet (or, prior to 1959, the Council of Ministers) considered the residue insufficient, it authorised additional taxation, or new loans, or both. This first step in the estimating process provided invaluable information on the effectiveness of tax policy in meeting the increasing demands that were being made on the treasury.

At the next stage, the sums to be spent on capital formation and on new services were incorporated, and the Estimates were ready for presentation to the legislature. The main difficulty was to ensure an adequate

and intelligent discussion by the House. To meet it, the House adjourned into an informal Committee, and discussed the proposals in detail without regard for party loyalties. In this way, final approval was given after full, frank, and open discussion.

After the third stage in which the Civil Service implemented the approved proposals, the final stage was reached, whereby the House satisfied itself that its budgetary commitments had been fulfilled. Between 1952 and 1960, this function was performed by the Secretary of State for the Colonies in London, to whom the audited financial statements of the colony were sent. In 1960, however, a Public Accounts Committee was set up in Jamaica, with membership drawn from the House. The Committee was chaired by a member of the Opposition. Its function was to ensure a proper accounting for all sums received, and the proper disbursement of all sums voted in the Estimates of expenditure. This final accounting completed the process of translating fiscal policy into action through the budget.

Prior to 1953, budgetary presentation laid emphasis on administrative control. This emphasis was clear in the Administrative Budget which was then in use, and in which departments of the Civil Service were exhibited in alphabetical order regardless of the functions they performed. But as the budget grew in size and scope, sophistication became necessary, and a clearer picture of the types of services embodied in the fiscal operations was desired. The Administrative Budget was unsuited to these requirements and it was discarded in 1953.

The grouping of departments according to ministerial responsibility, was first made in the 1953/54 Estimates. This functional classification was an improvement on the Administrative Budget. It grouped together all the departments which were under the control of each Minister of government,

and showed the amount of expenditures devoted to each Ministerial portfolio. For example, it showed the total expenditure allocated to the Minister of Education, the total to the Minister of Agriculture and Lands, and so on. This classification facilitated a decision by the legislature, as to whether each broad sector of economic and social activity was receiving its merited attention.

Another innovation in the 1953/54 Estimates was the inclusion of a Development Budget. The intention was that the Development Budget should incorporate all capital expenditures; but this gave rise at once to arguments concerning the definition of capital. It was eventually decided to include all new expenditure which was not related to the expansion of existing services. On this definition the Development Budget included, inevitably, some expenses which did not directly increase capital formation. Another problem was the association it raised, in people's minds, between capital expenditures and development expenditures. People tended to assess the government's concern with development purely on the basis of the size of the capital budget, and to ignore the effects of recurrent expenditures on the inducement to invest. Nevertheless, the introduction of the Development Budget was a recognition of the necessity to provide specifically for capital formation, and was a step in the right direction.

Yet another innovation in the 1953/54 Estimates was a consolidated statement of expenditures. This statement did not follow the new grouping of the Estimates; that was its main weakness. But the mere fact of its presentation indicated that thought was being given to the budget as an integrated document rather than as the collection of disunited and unrelated items which the Administrative Budget had exhibited. Incorporation of the statement was, in fact, a sign of a definite advance in budgetary thought and practice.

In view of the emphasis the country was placing on economic development, an economic and functional classification of the Estimates could have been attempted. Such classification would divide current, capital, and transfer payments into separate, identifiable groups. It would facilitate preparation of the National Accounts, and would assist in preliminary forecasts of national accounting magnitudes. In short, the economic and functional classification would have assisted the policy makers in their deliberations on fiscal policy.

There were difficulties, however, in adopting such a system of presentation. The necessity for additional staff with specialised training would raise costs. Another factor was the resistance Jamaicans exhibited to changes which merely made more information become available. On the technical side, problems would arise in the treatment of interest payments on loans which were spread over a multiplicity of uses, and of subsidies which affected, simultaneously, the income of producers and the price paid by consumers. Nevertheless, these problems were not insuperable. Costs and resistance to changes were probably the deciding factors against adoption of the economic and functional classification.

The legislature was hardly in a position to determine and assess progress in its fiscal operations, because it did not have a Performance Budget at its disposal. The Performance Budget would provide a mechanism for relating the cost of services supplied to the benefits actually received. In general it would provide a ready comparison of the results of expenditures with a stated set of the government's intentions and goals. The Performance Budget, in other words, would have filled the need to determine whether the objectives of taxation and expenditures had been achieved.

However, the cost-benefit approach implied in the Performance

classification was fraught with difficulties. Goals were not always capable of expression in objective units of measurement, and benefits could, sometimes, be assessed only intuitively, as in the case of social services. Furthermore, there might be some decisions which were taken purely on political grounds; their benefits could not be measured. These considerations would seriously limit the usefulness of the Performance Budget.

Revenues and Taxation. Between 1953 and 1960, total revenues grew at more than 12 per cent per annum. As Table I shows, they more than doubled from £14.1 million in 1953 to £33.4 million in 1960. Revenues were 13.2 per cent of gross domestic product at current factor cost in 1953 and 14.5 per cent in 1960. Growth occurred both in absolute terms and as a proportion of domestic product.

By far, the greater proportion of total revenues was obtained through taxation. Tax revenues, throughout the period studied, were in excess of 90 per cent of total government revenues (Table II). They increased from £13 million or 12.2 per cent of gross domestic product in 1953 to £31.2 million or 13.5 per cent in 1960. This means that tax revenues were a rising function of output; that is, the tax burden per pound sterling of income was on a rising trend (Table III).

This rising trend was a good sign. Martin and Lewis have suggested that the government of an underdeveloped country needs between 17 per cent and 19 per cent of gross national product in order to give an average standard of service to its people.¹ Calculated as a percentage of gross national product, Jamaica's tax intake was higher than is indicated by Table III but lower,

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A. M. Martin and W.A. Lewis, "Patterns of Public Revenue and Expenditure," Manchester School of Economic and Social Studies, XXIV, No. 3, Sept. 1956, p. 221.

TABLE I

REVENUES OF CENTRAL AND LOCAL GOVERNMENTS OF JAMAICA, 1953 - 1960

| Revenue Item | Year ending Dec. 31 (J\$'000) | | | | | | | |
|----------------------------|-------------------------------|--------|--------|--------|--------|--------|--------|--------|
| | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 |
| (a) Direct Taxes | | | | | | | | |
| On Income | | | | | | | | |
| (i) Corporate | 1,725 | 2,156 | 2,740 | 3,011 | 6,556 | 6,550 | 6,478 | 6,625 |
| (ii) Personal | 1,391 | 1,637 | 1,844 | 1,976 | 2,482 | 2,653 | 3,132 | 3,942 |
| On Land | 887 | 971 | 1,006 | 1,105 | 1,381 | 1,204 | 1,258 | 1,426 |
| Estate Duties | 157 | 195 | 226 | 203 | 166 | 116 | 283 | 171 |
| Other | 127 | 132 | 146 | 159 | 9 | 307 | 316 | 331 |
| Total Direct Taxes | 4,287 | 5,091 | 5,962 | 6,454 | 10,594 | 10,830 | 11,467 | 12,495 |
| (b) Indirect Taxes | | | | | | | | |
| On Expenditure | | | | | | | | |
| (i) Customs Duties | 4,943 | 5,513 | 6,487 | 7,809 | 8,798 | 9,729 | 11,206 | 11,860 |
| (ii) Excise Duties | 3,062 | 3,457 | 3,798 | 4,226 | 4,398 | 4,358 | 4,490 | 4,684 |
| (iii) Stamp Duties | 207 | 235 | 283 | 308 | 399 | 400 | 448 | 572 |
| (iv) Entertainment Tax | 75 | 72 | 86 | 112 | 116 | 149 | 161 | 179 |
| (v) Licences and Fees | 430 | 404 | 477 | 817 | 864 | 856 | 935 | 1,063 |
| (vi) Other | - | - | - | - | 247 | 212 | 223 | 329 |
| Total Indirect Taxes | 8,717 | 9,681 | 11,131 | 13,272 | 14,822 | 15,704 | 17,463 | 18,687 |
| (c) Other Current Revenue* | 872 | 1,121 | 1,206 | 1,085 | 1,389 | 1,625 | 1,622 | 1,772 |
| (d) Gross Trading Income# | 222 | 216 | 236 | 281 | 291 | 350 | 353 | 447 |
| TOTAL | 14,098 | 16,109 | 18,535 | 21,092 | 27,096 | 28,509 | 30,905 | 33,401 |

* Includes interest and dividends, royalties, fines, and other current receipts; Excludes foreign interest and dividends, and foreign grants.

Includes gross income from rents and government enterprises, e.g. abattoir, markets.

SOURCE: Department of Statistics, National Income 1958, 1959, p. 67, Table 17, p. 73, Table 20; 1961, p. 67, Table 18, p. 71, Table 20.

TABLE II

JAMAICA'S REVENUES FROM MAIN SOURCES AS PER CENT OF TOTAL REVENUES 1953 - 1960

| Source of Receipts | Year Ending December 31 | | | | | | | |
|-----------------------|-------------------------|-------|-------|-------|-------|-------|-------|-------|
| | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 |
| <u>Direct Taxes</u> | | | | | | | | |
| (a) Income Tax | 22.1 | 23.5 | 24.7 | 23.4 | 33.4 | 32.3 | 31.1 | 31.6 |
| (b) Other | 8.3 | 8.1 | 7.4 | 7.2 | 5.7 | 5.7 | 6.0 | 5.8 |
| Sub Total (%) | 30.4 | 31.6 | 32.1 | 30.6 | 39.1 | 38.0 | 37.1 | 37.4 |
| <u>Indirect Taxes</u> | | | | | | | | |
| (a) Customs Duties | 35.1 | 34.2 | 35.0 | 37.0 | 32.5 | 33.8 | 36.3 | 35.5 |
| (b) Excise Taxes | 21.7 | 21.5 | 20.5 | 20.0 | 16.2 | 15.3 | 14.5 | 14.0 |
| (c) Other | 5.0 | 4.4 | 4.6 | 5.9 | 6.0 | 6.0 | 5.7 | 6.4 |
| Sub Total (%) | 61.8 | 60.1 | 60.1 | 62.9 | 54.7 | 55.1 | 56.5 | 55.9 |
| Non-tax Receipts | 7.8 | 8.3 | 7.8 | 6.5 | 6.2 | 6.9 | 6.4 | 6.7 |
| TOTAL (%) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

SOURCE: Table I.

TABLE III
JAMAICAN TAX REVENUES AS PER CENT OF GROSS DOMESTIC
PRODUCT AT CURRENT FACTOR COST

| Year Ending Dec. 31 | Tax Revenues (£ million) | GDP (£ million) | Tax Revenues as % of GDP |
|------------------------|---|--------------------------------|-----------------------------|
| 1953 | 13.0 | 106.7 | 12.2 |
| 1954 | 14.8 | 119.7 | 12.4 |
| 1955 | 17.1 | 136.4 | 12.5 |
| 1956 | 19.7 | 158.5 | 12.4 |
| 1957 | 25.4 | 191.9 | 13.2 |
| 1958 | 26.5 | 198.7 | 13.4 |
| 1959 | 28.9 | 212.1 | 13.2 |
| 1960 | 31.2 | 230.8 | 13.5 |

SOURCE: Table I; Department of Statistics, Jamaica, National Accounts 1958, 1959, p. 45, Table 5; 1961, p. 44, Table 6.

nonetheless, than the desired level suggested by Martin and Lewis. Although taxation could not yet provide the money for a reasonable standard of service, it was rapidly moving towards that stage.

One of the factors inhibiting a faster growth of tax revenues was the narrowness of the tax base. Customs duties, excise taxes, and the income tax were the three main pillars of the tax system. Together, they accounted for more than 75 per cent of total receipts (Table II). They were the means by which most of the increases in the tax rate were imposed. As long as the tax base remained narrow, progress in financing development from taxation would be retarded, and the effectiveness of taxation would be less than optimum.

Three broad categories of receipts can be distinguished in Table I. The first two relate to tax revenues and comprise, mainly, income taxes, customs and excise duties. The third is a non-tax grouping of miscellaneous receipts. Discussion of these categories follows.

Direct Taxes comprised the income tax, land tax, and estate duties. Collections rose quickly from £4.3 million in 1953 to £12.5 million in 1960. The sudden rise in 1957 when collections increased by £4.1 million or 64 per cent over the 1956 intake, was the result of a similar movement in income tax receipts. This increase in income tax receipts is explained below. Direct taxes increased in importance from 30.4 per cent of total revenues in 1953 to 37.4 per cent in 1960 (Table II).

The income tax was the most important of this group, accounting for between 70 per cent and 80 per cent of collections of direct taxes. It was important in its own right, also. From a total of £3.1 million or 22.1

Because of factor payments abroad which were negative in 1953 and 1954 and positive thereafter, gross national product was slightly more than gross domestic product in 1953 and 1954, but was less in each of the years 1955 to 1960.

per cent of total revenues in 1953, income tax collections grew to ~~£~~^{\$}10.6 million or 31.6 per cent in 1960. The income tax overshadowed, in fact, all other sources within the group.

Two fiscal policy measures which affected the tax liabilities of bauxite companies combined to increase income tax revenues. From Jamaica's point of view, the government had originally made a bad arrangement in regard to the benefits to be derived from the exploitation of bauxite resources. Apart from the wages paid to the relatively few workers in this highly capital-intensive industry, the island was receiving very little cash from the operations, because the royalties and the imputed profits were low. This resulted from the fact that, during the original negotiations, the government did not command the necessary expertise to bargain knowledgeably and effectively with the companies' experts. It was agreed with the American companies (Kaiser Bauxite Company and Reynolds (Jamaica) Mines Limited) that, effective January 1, 1957, a higher rate of profit would be imputed to each ton of bauxite exported. The revised agreement resulted in a tax yield per ton that was 6-1/2 times the previous yield.³ As a hedge against devaluation of the Jamaican currency, it was agreed, also, that the computation of imputed profits and payment of the taxes would both be designated in dollars of the United States of America. An escalator clause was agreed on, by which one-half the total of income tax and royalty would vary directly with the price of aluminium. In the case of the other company, Alumina Jamaica Limited, (now Aluminum Company of Canada Limited) the circumstances were different. Apparently, the company had been erroneously granted exemption from income tax liability under the Income Tax Amendment Law, 1951. The exemption was valid until 1957, but commencing in the year of assessment 1958, the company became liable for normal

payments. The two policy measures resulted in large additions to the tax liabilities of bauxite companies from 1957 onwards, and boosted the significance of income taxes as a source of revenues.

The income tax structure and its administration were patterned on the British system. Incomes of persons as well as of companies were taxed. The rates on personal incomes were progressive. For the lower income groups, they were generally higher than those applied on lower incomes in Great Britain. For the higher income groups, however, the rates in Jamaica were lower than obtained for the higher income groups in Britain. Company profits attracted a lower rate - 40 per cent in Jamaica as against 52 per cent in Britain. Of the 40 per cent levy, 2-1/2 per cent was regarded as a payment by the company on its own behalf, and 37-1/2 per cent as a payment on behalf of its shareholders.⁴ The pattern of a fixed rate on company incomes and a progressive rate on personal incomes was similar, therefore, to the British system. The actual rates were different, however, reflecting local needs.

Only about 3 per cent of the population paid the personal income tax in Jamaica, whereas between 30 per cent and 40 per cent paid the tax in the United Kingdom and the United States of America.⁵ This was due to the fact, mainly, that the taxable minimum was set at a point far above the level of average incomes as a consequence of the high cost of collecting taxes on small incomes. The effect was to exempt a majority of the people, including

⁴ All shareholders received dividends less 37-1/2 per cent. In the case of foreign shareholders, no further adjustments were made since their personal incomes were not taxable in Jamaica. In the case of local shareholders, gross dividends were regarded as taxable income with 37-1/2 per cent being credited as already paid. These arrangements had the effect of reducing the liabilities of those persons whose incomes attracted a tax of less than 37-1/2 per cent, but it is not likely that the resulting tax loss was significant.

⁵ A. R. Prest, Public Finance in Underdeveloped Countries (London: Weidenfeld and Nicholson, 1962), p. 28.

the thousands of small farmers whose income was mostly in kind. Tax evasions may have played a role too, especially in respect of the self-employed. However, the percentage of the population caught in the income tax net would automatically rise as incomes increased and more people became employed.

Companies, on the other hand, could not easily evade the tax net; their whereabouts and their activities were known to the tax authorities. Profits were a more fruitful source of revenues than were personal incomes; as is indicated in Table I, they accounted for more than one-half of total income taxes between 1953 and 1960. Collections of the company income tax were made fairly easily, and individual amounts were large, with the result that costs of collection were low. Consequently, company profits were quite attractive as a source of tax revenues.

Foreign companies paid more income taxes than local companies, because they made more profits as a group. Taxing foreign companies ensured the retention, for local use, of funds which might have been repatriated in the normal course.⁶ For any given tax load, the greater the incidence on foreigners, the lighter would the burden be on Jamaican nationals. However, care had to be taken that foreign companies were not taxed out of the economy.

The possibility that higher taxes might discourage additional foreign investments could not be overlooked. Profits on foreign investments in Jamaica were subject to the Jamaican tax as well as to that of the country from which the investment originated. Since the two major sources of capital inflows were Great Britain and the United States of America, it was necessary to take their tax structures into account in establishing the Jamaican tax on foreign companies. The problem was resolved by double taxation arrangements.

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Retention would be effective only in so far as the marginal propensity to import of government revenues was less than unity. This is an implied qualification.

Double taxation arrangements were aimed at preventing the profits of foreign companies operating in Jamaica from being taxed twice - once by Jamaica, and again by the foreign country. They provided for the Jamaican tax to be satisfied first, and in full. Where the foreign tax rate was higher than the Jamaican, the foreign country would receive the difference between its rate and the Jamaican rate. For example, if a foreign company operating in its home country is normally taxed at 52 per cent, then the profits of its Jamaican operations would be taxed at 52 per cent also, but Jamaica would receive 40 per cent, and the difference of 12 per cent would go to the foreign treasury. These arrangements served to safeguard the Jamaican tax position in regard to company taxation.

United States companies operating as Western Hemisphere Trade Corporations were liable, under American law, for a 38 per cent tax on profits and suffered a slight disadvantage by having to pay the Jamaican tax of 40 per cent. In the case of subsidiary investments, however, the foreign tax was applicable on distributed profits only. This means that after paying the Jamaican tax of 40 per cent, the subsidiary had an incentive to postpone distribution of its profits, and to plough back those profits into its Jamaican operations. In all cases, therefore, Jamaica received her full share of 40 per cent, with the possibility of receiving more capital inflows through the incentive provided for undistributed profits to be ploughed back into Jamaican operations.

Was the Jamaican tax rate on company profits at an appropriate level? It was delicately balanced between the American and the British rates, and had to be fixed at some point between 38 per cent and 52 per cent. A rate lower than 38 per cent would have entailed the surrender of sorely needed revenues to rich governments; a rate higher than 52 per cent might have discouraged foreign investments. According to the Hicks Report, in the circumstances "the Jamaica rate of company tax has to be more or less where

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it is." It may have been, in truth, the optimum rate; but this aspect of tax policy requires constant review to ensure that opportunities for increased revenues are not missed.

As may be seen from Table I, the other sources of direct taxes did not yield substantial amounts of revenue. Although receipts from land taxes almost doubled between 1953 and 1960, they accounted for less than 5 per cent of total revenues at the latter date. Land taxes were levied on the assessed value of land and buildings. One element in their relative unimportance was the fact that re-assessments did not keep pace with the rise in land values and in the general price level. Another was the small size of land holdings. The numerous small holdings occupying predominantly hilly country could not yield large amounts of taxes. Large estates were taxed progressively, but the land areas they occupied was relatively small. The yield from estate duties was small and irregular. There was a feeling that their abolition could be a means of attracting retired capitalists and their money to Jamaica. However, it seems that estate duties could have been re-shaped to provide revenues which were not collected in the absence of a capital gains tax. In addition to having a small yield, these various sources of direct taxes (other than the income tax) declined in importance from 8.3 per cent of total revenues in 1953 to 5.8 per cent in 1960 (Table II).

Indirect Taxes consisted of customs and excise duties, and other taxes on expenditure. Collections doubled from ~~£~~8.7 million in 1953 to ~~£~~18.7 million in 1960; but they remained a fairly constant proportion of domestic product, being 8.2 per cent in 1953 and 8.1 per cent in 1960. Because of the growing significance of the income tax, indirect taxes suffered a decline in relative importance from 61.8 per cent of total revenues in 1953 to 55.9 per cent in

7
J.R. Hicks and U.K. Hicks, Report on Finance and Taxation in Jamaica (Kingston: Government Printer, 1955) p. 78.

1960. Nevertheless, indirect taxes still occupied a dominant position in the tax structure.

Indirect taxes were popular with the government for a number of reasons. They were a good means of distributing the tax burden over the entire population. Since imports were such a significant item of the national expenditure, it seemed reasonable to tax them; consequently, import duties had always occupied a foremost position in the tax structure. Under the Navigation Laws, they were applied to all imports except British goods. Together with the excise tax on locally-consumed rum, import duties accounted for more than half of the tax revenues throughout most of the nineteenth century.⁸ But possibly the most important factor in the popularity of indirect taxes, is the ease and certainty with which they can be collected.

Both ad valorem and specific duties were incorporated in the Jamaica tariff. In general, goods considered to be luxuries were taxed heavily, while equipment and raw materials were either admitted free of duty or were taxed lightly. Goods originating from Commonwealth countries received preferential treatment. In some cases, both specific and ad valorem duties applied; but by far, the more important of the two was the ad valorem tax.

Some important problems were associated with the customs levy. If tariffs were too high, they would discourage imports and encourage smuggling, and the treasury would lose revenues. This would be most undesirable, since the tariff existed mainly as a revenue instrument. High duties would, also, keep retail prices too high, thereby feeding the demand for higher wages and supporting cost-push inflationary pressures. Because of these considerations, tariff increases were often related to non-essential items such as alcoholic drinks and tobacco, items with a demand that is fairly price-inelastic. In

general, tariff problems operated to limit dependence on the customs as a source of revenue.

Stamp duty collections grew mainly as the result of an increasing use of cheques. The total number of cheques stamped and issued for sale increased⁹ from 3.98 million in 1956 to 6.1 million in 1961. Yield from licences and fees was related to the increasing number of motor vehicles in use and to increases in the tax rates. Entertainment taxes were levied on cinema tickets and on horse races; collections more than doubled between 1953 and 1960. Altogether, these indirect taxes brought in 5 per cent of total revenues in 1953 and 6.4 per cent in 1960.

Other Receipts comprised local interest and dividends, bauxite royalties, fines, and other current (miscellaneous) receipts. They doubled from £1.1 million in 1953 to £2.2 million in 1960, but they remained stable at 1 per cent of domestic product. The "other receipts" category was a useful though not a highly significant source of revenues. Its relative importance dropped from 7.8 per cent of total revenues in 1953 to 6.7 per cent in 1960.

Incentive Legislation. The purpose of incentive laws is to induce additional investment flows. The method is to raise the profitability of investments through the grant of relief from taxes. Relief from taxes and from import duties is intended to create a rise in the anticipated rate of return. In turn, the rise in the rate of anticipated profits stimulates capital formation on the principle that capital tends to flow into the most profitable avenues of investment.

The provisions for tax relief were applicable to productive enterprises in manufacturing, in mining, tourism, and agriculture. In principle, such relief was extended for the short period usually necessary for a well-managed

firm to become established. Within a short while, therefore, firms enjoying tax privileges were expected to enhance the country's taxable and employment-creating capacity. The danger was that those firms would succeed in securing preferred treatment beyond the intended initial period.

Tax incentives as a tool of fiscal policy were in use prior to the period under study. Witness

- (a) The Hotels Aid Law, 1944
- (b) The Textile Industry (Encouragement) Law, 1947
- (c) The Cement Industry (Encouragement and Control) Law, 1948
- (d) The Pioneer Industries (Encouragement) Law, 1949
- (e) The Bauxite and Alumina Industries (Encouragement) Law, 1950

These were supplemented by the Industrial Incentives Law, 1956, and the Export Industry (Encouragement) Law of the same year. Goods produced under the last-named law could not be sold locally. All incentive laws followed a basic pattern of granting relief from taxation. For present purposes, it is not necessary to examine the detailed provisions of each. A discussion of the salient features of the Pioneer Industries (Encouragement) Law which is generally regarded as a prototype, follows.

The Pioneer Industries (Encouragement) Law, 1949, was the first to have a general application to industry. It permitted duty-free imports of capital equipment required for building, operating, and administering a pioneer factory. The duty-free concession was applicable during a period of five years commencing from the date on which the manufacturer was declared to be a pioneer for the purposes of the law or, alternatively, from the first date on which he imported scheduled capital items. Provision was made, also, for income tax relief by way of accelerated depreciation allowances. In each of any five years during an eight year period, a pioneer manufacturer was allowed to deduct from his taxable income earned from the manufacture and sale of pioneer products,

10

a sum equal to one-fifth of his permitted capital expenditure. This was additional to the normal depreciation write-offs, provided that the total of normal plus accelerated depreciation allowances did not exceed 100 per cent of permitted capital expenditure. Amounts representing accelerated write-offs could be distributed free of income tax and surtax to debenture holders and shareholders, if such distribution was made within six years after the end of the year of assessment in which the deductions were made. This privilege to make tax-free distributions to shareholders was regarded as a particularly generous and attractive feature. Lent has commented, in fact, that "Jamaica has perhaps the most liberal investment allowances of any country."

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The sacrifice of revenues entailed in applying the incentive laws was, perhaps, not very high. Examination of the annual reports of the Commissioner of Income Tax discloses that for at least five of the eight laws listed above, the income tax revenues given up amounted to £64.3 thousand in the financial year 1953/54, and to £387.1 thousand in 1960/61 (Table IV). The amounts involved were a small proportion of total company income tax collections, and were partly offset by taxes on the incomes of employees. A similar position probably existed in relation to import duties, even after taking into account the loss of duties on the imports of very expensive equipment by the bauxite

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Permitted capital expenditure was defined as the sums expended by the manufacturer upon the purchase of building material, plant, machinery or appliances for constructing, altering or equipping a pioneer factory.

The method of relief by accelerated depreciation write-offs, merely postponed tax payments. For this reason, its effect was to create an interest-free loan from the treasury. Full recoupment could be expected shortly after tax payments commenced, since no further depreciation expenses were allowable on the capital equipment already written off.

¹¹ George E. Lent, "Tax Incentives for Investment in Developing Countries," International Monetary Fund, Staff Papers, XIV, No. 2, July 1967, p. 267.

TABLE IV

VALUE OF INCOME TAX EXEMPTIONS UNDER SOME OF THE INCENTIVE LAWS OF JAMAICA

| Year Ending March 31 | Hotels Aid Law, 1944 (£'000) | Pioneer Industries (Encourage- ment) Law 1949 (£'000) | Industrial Incentives Law, 1956 (£'000) | Export Industry (Encourage- ment) Law, 1956 (£'000) | Other (£'000) | Total Exemptions Identified (£'000) |
|----------------------------|------------------------------------|---|--|---|------------------|--|
| 1954 | 41.5 | 7.8 | | | 15.0 | 64.3 |
| 1955 | 39.4 | 4.8 | | | 89.9 | 134.1 |
| 1956 | 14.5 | 11.5 | N11 | N11 | 84.6 | 110.6 |
| 1957 | 46.1 | 10.3 | N11 | N11 | 51.0 | 107.4 |
| 1958 | 127.3 | 12.5 | N11 | N11 | 97.2 | 237.0 |
| 1959 | 105.6 | 32.8 | N11 | N11 | 72.9 | 211.3 |
| 1960 | 103.6 | 52.2 | 23.0 | N11 | 2.3 | 181.1 |
| 1961 | 106.5 | 37.2 | 75.6 | 1.3 | 166.5 | 387.1 |

SOURCE: Income Tax Department, Report of the Commissioner of Income Tax (Kingston: Government Printer), 1958/59 to 1960/61. The necessary calculations were made from data on deductions from taxable incomes. Information for the years 1954 - 1958 was obtained from the Department.

companies. Nevertheless, it is a reasonable inference that the sacrifice in revenues as a consequence of incentive legislation was not large.

The establishment of industry is generally regarded as depending on a host of factors, any one of which may be very important in a particular case. The indispensable condition is the opportunity for making profit. This, in turn, depends on the size of the market, and on the comparative costs of factors of production such as raw materials, fuel, labour, and transportation. Lent suggests that "tax concessions typically play a role subordinate to more¹² basic economic factors in the location of industry." Nevertheless, Jamaica needs every dollar of capital the country can get. Failure to attract an investor who may regard tax concessions as important for his plans, could be a crucial error for the country's development programme.

Notwithstanding, it is questionable whether some firms would not have been established in the absence of tax incentives. The Caribbean Cement Company Limited is a case in point. There was a strong home demand which was supplied by imports from Britain. Raw materials of the highest quality were readily available in Jamaica, and labour was cheap. The evidence pointed to viability from the outset. Nevertheless, in addition to the normal packet of generous incentives, cement imports were banned, and the price was guaranteed at a level that was not lower than that at which the imported good would be sold. After its first year of operations in 1952, the company reported profits of 10.8 per cent on share capital, and in 1961,¹³ 36.3 per cent. The argument has been advanced, with reason, that "in their present form the tax incentives to firms oriented to the local

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Lent, op. cit. p. 315.

¹³

Caribbean Cement Co. Ltd., Annual Report 1961, p. 14.

14

market do not appear to be economically justified."

What is more, the fact that consumers did not get the benefit of lower prices from home-produced cement, had repercussions in the construction sector. High prices for cement constituted high building costs, and a brake on the construction industry. In turn, employment tended to be less, rents and living costs to be higher, with consequent wage pressures. The package of incentives for the cement industry appears to have contained too much of a good thing.

The case of the bauxite firms was hardly different. Bauxite deposits were known to be highly concentrated, to be of good quality, and easily accessible. Aluminum had an excellent future. Labour was cheap. Even if the expertise necessary to enable the government to bargain from a position of strength was not then to be found within the civil service, it could have been purchased. It is a reasonable assumption that the high profits being made out of bauxite could have been foreseen, and that more was surrendered than was
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necessary to induce investment in the industry.

Some Effects of the Tax System. One of the major concerns of tax policy was to raise the rate of capital formation by providing funds for economic and social overhead capital, and by inducing the optimum flow of private

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George Lent, op. cit., p. 305, quoting Paul L. Chen-Young "An Economic Evaluation of the Tax Incentive Program of Jamaica" (Unpublished dissertation, University of Pittsburgh, 1966), p. 262.

So far as the remission of taxes is concerned, this argument needs qualification. Where the remitted tax would have increased the fixed cost of a depreciable asset, it is eventually recouped by way of the income tax, since profits are increased by the full amount of the tax remitted. This assumes, of course, that the company makes taxable profits during the life of the fixed asset. Where the tax would have been an item of variable costs, there is a permanent tax advantage to the company. But this must be modified by the amount of the income tax paid on the increased profit which results from remission.

15 The qualifications of footnote 14 are hardly relevant for bauxite firms which impute rather than calculate profits per ton of bauxite exported, for income tax purposes.

funds into productive investments. Funds had to be raised to meet government's contractual obligations as well, but the fundamental problem was the necessity to raise the rate of capital formation. Because the tax structure was the result of a conglomeration of historical and foreign influences and of ad hoc decisions, changes had to be made from time to time in the tax coverage and the tax rates in order to serve the objectives of increasing revenues, of controlling consumption, and of increasing capital formation. Inevitably, taxation produced effects which were bad for some aspects of economic growth, and good for others. Some of these effects are examined below, and the effects of spending tax revenues will be examined later, in Chapter III.

On Income Distribution and Welfare. The redistributive effects of direct taxes were exerted principally through the application of the income tax. Personal income taxes, being progressive, fell more heavily on the richer income groups than on poorer groups. Land taxes, also, were progressive and tended to have the same effects. Death duties fell almost exclusively on the assets of the well-to-do, and so reduced the income-earning capacity of the rich. Direct taxes operated, in general, towards an equality of income distribution.

The redistributive nature of indirect taxes was seen very clearly in customs and excise duties. Essentially, these were taxes on consumption, and so they fell more heavily on the lower income groups than on other groups. Where customs and excise duties formed part of the cost on which profits were calculated, they tended to increase prices by more than the amount of the unit tax, given the essentially monopolistic position enjoyed by importers in the economy. In that case, they redistributed incomes towards the richer merchant and industrial groups. In general, indirect taxes tended to accentuate the inequality of income distribution, especially in cases where there were ample opportunities for passing them on to the consumer.

All taxes affected welfare through their action upon people's purchasing

power. They did so either by reducing the amount of disposable income or by raising prices. Some accomplished both. By reducing purchasing power, the tax system restrained consumption and affected welfare adversely.

Monopolistic and oligopolistic elements in the distributive trades reinforced the effectiveness of the tax system in restraining consumption and in lowering welfare. In such a small community as Jamaica, it was natural for merchants to get to know each other intimately, and to get together for profitable collusion in keeping profit margins high. Some merchants were sole distributors of goods for which there were no close substitutes. Others found that the market for their wares was shared by only one or two others e.g. importers of lumber, dry goods, and transport equipment. Some merchants exploited the situation by channelling the goods through a succession of selling outlets before final sale was made to the consumer. At each outlet, the price of the good would be raised and, eventually, the consumer would be faced with quite a high price. This was just one facet of the general philosophy of high unit profits with a lower volume of sales. The slightest increase in taxes on these goods would result in a more than proportional increase in price. Taxation in these circumstances tended to check the rate of growth of consumption and the spread of welfare, and to redistribute incomes towards the merchant classes.

On Consumption. Taxation lowered the proportion of the total product demanded by consumers. Insofar as it reduced spending power or redistributed incomes away from spenders, it tended to lower the position of the consumption function. Personal consumption expenditures rose from £97.3 million in 1953 to £184.1 million in 1960; but they declined from 91.2 per cent of gross domestic product in 1953 to 79.7 per cent in 1960 (Table V). It is a normal tendency for consumption to rise more slowly than incomes do; but the tax system reinforced the tendency by its restraining influence on purchasing power.

TABLE V
 CONSUMPTION EXPENDITURE OF PERSONS AND NON
 PROFIT INSTITUTIONS OF JAMAICA, 1953 - 1960
 (Current Values)

| Year | Amount (£ ^p million) | % of G.D.P. |
|------|------------------------------------|----------------|
| 1953 | 97.26 | 91.2 |
| 1954 | 106.57 | 89.0 |
| 1955 | 121.03 | 88.7 |
| 1956 | 131.33 | 82.9 |
| 1957 | 145.84 | 76.0 |
| 1958 | 155.56 | 78.3 |
| 1959 | 169.78 | 80.0 |
| 1960 | 184.08 | 79.7 |

SOURCE: Table III; Department of Statistics, National Accounts 1958, 1959, pp. 61 - 63, Table 15; 1961, pp. 61 - 63, Table 16.

On Savings and Capital Formation Taxation affected savings through its effects on consumption. In any given year, total domestic savings S, would be equal to the difference between total domestic output Y, and the portion of the total output consumed, C. Symbolically,

$$S = Y - C$$

With a given Y, any reduction in C must be counterbalanced by a rise in S. To the extent, therefore, that taxation reduced consumption, it increased savings.

Tax policy encouraged investment at every stage of production. By permitting duty-free importation at the stage of factory construction, it reduced capital requirements for construction materials and factory equipment, and lowered fixed costs. At the manufacturing stage, duty-free imports lowered the cost of raw materials, thereby reducing competitive disadvantage. At the selling stage, the remission of excise duties on exports reduced competitive disadvantage also. The generous concessions allowed on earned incomes increased distributable profits and enabled a quick recovery of capital outlays. Tariff protection on goods such as cement, shoes, and sugar, raised prices so that higher profits were realised. In a word, tax policy reduced the risk inherent in investment and raised the level of profits, thereby contributing to the development of a more favourable investment climate.

There was positive evidence that incentive laws assisted in attracting investments. For instance, the number of firms established and operating under the three laws which had general application to industry - the Pioneer Industries (Encouragement), the Industrial Incentives and the Export Industry (Encouragement) Laws - rose from 19 in 1956 to 58 in 1960. At the end of 1961, these firms had increased in number to 72 and had a total investment of

over £5 million.¹⁷ At that date, too, the Caribbean Cement Company had a total shareholders' equity in excess of £3 million, of which £1.8 million represented issued and fully-paid ordinary shares. Plans were in progress for the company to double its plant capacity within two years at a cost of £2.8 million.¹⁸ At the end of 1956, capital invested in the bauxite industry amounted to £35.5 million (or more than twice the gross domestic capital formation of Jamaica in 1953), and was expected to reach a total of £57.2 million in 1958, or nearly four times the 1953 amount of gross domestic capital formation.¹⁹ In tourism, the total invested at the end of 1956 was £6.5 million or about 42 per cent of gross domestic capital formation for 1953, and projects under construction involved an additional £3 million.²⁰ The evidence points to the conclusion that the incentive laws played an important role in attracting sizeable investments to Jamaica.

Tax incentives which allowed accelerated depreciation on capital goods, gave a greater tax advantage to firms using more expensive equipment. The higher the value of the equipment, the greater the annual depreciation allowed, and the greater the tax advantage. Thus of two firms making identical profits before depreciation, that with the more expensive capital equipment in the process of being written off would enjoy higher tax benefits. This encouraged, perhaps, the acquisition of more expensive plant and machinery.

Agreements concerning double taxation of profits affected capital formation in two ways. In the first place, they ensured that foreign companies would become liable for the full amount of the Jamaican tax, and so protected

¹⁷ Ibid., p. 1.

¹⁸ Caribbean Cement Co. Ltd., Annual Report, 1961, pp. 7 - 8.

¹⁹ A National Plan for Jamaica 1957 - 1967 (Kingston: Government Printer 1957) p. 9.

²⁰ Ibid., p. 10.

the government's revenues from which capital assets could be acquired. In the second place, by removing the danger that the same profits could be taxed twice, they eliminated an important disincentive to capital inflows. As a result, double taxation arrangements permitted public sector investments and private sector capital inflows to proceed simultaneously.

One possible effect of the tax on profits was that it may have tended to reduce the amount of re-investments. However, spending the revenues in acquiring economic and social overhead capital may have produced social benefits in greater amounts than the private benefits derivable from investing the sums privately. This was the justification for taxing profits. Benefits from overhead investments counterbalanced the unfavourable effects of the tax on profits.

All taxes on imports had a protective effect where similar goods were being produced locally. Since import duties increased the price of imports, they encouraged capital flows into the import-competing sector. Specific duties tended to protect the cheaper lines of goods because they constituted a greater proportion of the price of those goods than of dearer goods. Insofar as they encouraged capital flows into poor-quality production, specific duties were an undesirable element in the tax system. As a general rule, however, protection as a strategy of economic development had no strong emphasis in the government's policy manoeuvres up to 1960. Some protection was practised through quotas, licences, and a complete ban on imports. But the dire need for revenues militated against the application of protection on a large scale.

Absence of a tax on capital gains encouraged speculation in real estate. Prices of commercial and residential holdings rose markedly between 1953 and 1960. In some instances, they trebled in the Kingston metropolitan area. Without a tax on capital gains, the tax system was unable to discourage the dissipation of resources into speculative real estate ventures; and an additional source of revenues which could help pay for capital formation in

the public sector was left untapped.

On Diversification, Dualism, and Employment The tax system fostered the establishment of a large number of firms making a wide variety of new products. The 72 firms operating in 1961 under the three incentive laws²¹ which could be applied generally, were manufacturing 52 products. But there were many others, including the cement company, and firms in the bauxite and tourist industries. Some of the new products such as bauxite, alumina, and baseball bats, were produced exclusively for export. Others, such as shoes, competed with imports. Still others enjoyed both a local and a foreign market (tourism and apparel, for example). Production increased significantly, too. Bauxite output grew from 2.1 million tons in 1954 to 5.7 million tons in 1960, and alumina from 0.2 million tons in 1955 to 0.7 million tons in 1960;²² cement from 73,000 tons in 1952 to 209,000 tons in 1960.²³ Tourist receipts increased from \$5.4 million or 3.4 per cent of gross domestic product in 1956 to \$14.4 million or 6.2 per cent in 1960.²⁴ Production of boots and shoes²⁵ trebled between 1953 and 1959. The new industries, led by bauxite and tourism, made a significant contribution to production; they also changed the traditional composition of the national output and enlarged the modern sector. Thus, because of its stimulation of bauxite production, tourism, and manufactures,

21

Jamaica Industrial Development Corporation, Statistical Report of Manufacturing Enterprises Operating Under Industrial Incentive Laws (Mimeographed) pp. i - iii.

22

Department of Statistics, Annual Abstract of Statistics, 1959, No. 19, p. 13, Table 2.01; 1962, No. 22, p. 20, Table 27.

23

Department of Statistics, Annual Abstract of Statistics, 1962, No. 22, p. 21, Table 32.

24

Department of Statistics, The Balance of Payments, 1961, p. 18, Table 14.

25

Department of Statistics, National Accounts, 1958, 1959 (Government Printer, Jamaica) p. 76, Table 23.

the tax system exerted a favourable and powerful influence on the diversification of domestic production, and simultaneously assisted in weakening the dualistic structure of the economy.

Diversification strengthened the country's capacity to meet its foreign exchange obligations. Bauxite and tourism were large earners of foreign exchange; cement reduced expenditure on imports. These were obvious cases. But there was a miscellany of other products which contributed to foreign exchange earnings or savings. In all, by promoting diversification, the tax system assisted in solving the debt servicing problem - the necessity to repay foreign loans and other foreign exchange obligations.

Since the economic growth induced by incentive laws was mainly the result of the establishment and expansion of industries using capital-intensive techniques in production, the effect of the laws on employment was less than was desired. In December, 1960, workers employed by 58 firms operating under the three incentive laws of general application, totalled only about 3,400;²⁶ in textiles there were 1,130 textile firms employing 5,370 persons; 37 firms in the chemical industry employed 960 persons while the four firms in the bauxite industry employed 3,560 persons.²⁷ The low ratio of employment per firm was not explainable entirely by the small size of the firms involved, since it obtained in the large bauxite firms as well.

Borrowing Funds were borrowed both locally and externally to supplement tax revenues. Since revenues were larger than recurrent expenditures, it was assumed that long term loans were negotiated not for recurrent payments, but for capital purposes only. The period for which a loan was required, was

²⁶

Jamaica Industrial Development Corporation, Annual Report, 1961 (Kingston, 1962), p. 5.

²⁷ Department of Statistics, Industrial Activity 1960, pp. 32, 109, 204.

synchronised with the time interval required for the capital outlay to bear fruit. This means that loans were required, usually, for a period of from ten to twenty-five years. Cost, amount, and availability of the loans required, generally determined whether local or foreign sources would be approached.

Experience with local loans between 1953 and 1960 disclosed a thinness of the market for public securities. Jamaicans lacked experience in security dealings in general, and were not interested in lending to the government. They were using their funds more profitably elsewhere, especially in mortgages, real estate speculation, and in distribution. Long-term government securities were illiquid, and had a low yield which could not escape taxation. ²⁸ Consequently, there was a scarcity of local funds seeking investment outlets in securities issued by the government.

Short-term loans were raised mainly in the local market. Loans by overdraft at commercial banks were decidedly small. Large bank borrowings were rare, and were confined to statutory bodies. Government short-term borrowings were, in large measure, its treasury bill operations.

The treasury bill market was weak. It was dominated by public sector funds. More than 70 per cent of the bills was subscribed for by government departments and statutory bodies (Table VI). This placed the government in the ridiculous position of borrowing its own funds at interest. Commercial banks, financial houses and individuals showed little interest. Without private sector support, the market could not be sustained.

Attention should be drawn to two important policy changes implemented in 1961, which affected the basis of treasury bill operations. The first was

28

The problem of liquidity was solved only after the central bank, which was established in 1961, guaranteed encashment of government securities before maturity.

As regards the tax problem, it was generally assumed that there was ample opportunity for escaping the income tax on income earned from other forms of investment.

TABLE VI
JAMAICAN TREASURY BILLS OUTSTANDING DEC. 1958 - DEC. 1961
(£'000)

| Purchasers | Dec. 1958 | Dec. 1959 | Dec. 1960 | Dec. 1961 |
|------------------------|----------------|----------------|----------------|----------------|
| Commercial Banks | 35.0 | 129.0 | 518.3 | 2,303.7 |
| Insurance Companies | 65.0 | 31.0 | 38.0 | 20.0 |
| Approved Brokers | 120.0 | 69.5 | 82.0 | 80.0 |
| Building Societies | 16.0 | 718.0 | 82.0 | 81.0 |
| Firms | 167.7 | 41.5 | 139.5 | 34.0 |
| Private Individuals | 41.3 | 20.8 | 12.7 | 5.1 |
| Statutory Bodies | 464.0 | 495.0 | 1,234.0 | 1,138.0 |
| Government Departments | 1,132.7 | 2,829.4 | 1,420.0 | 530.5 |
| Bank of Jamaica | - | - | - | 2,138.2 |
| TOTAL | 2,241.7 | 4,334.2 | 3,526.5 | 6,330.5 |

SOURCE: Memorandum to the United States Government, Submitted Jan. 14, 1963. (Prepared by the Economics Division of the Ministry of Finance, Jamaica) Table 3. (Mimeographed.)

the requirement under The Banking Law, 1960, for commercial banks to maintain liquid assets equal to 15 per cent of their total deposits. This virtually forced the banks to increase their treasury bill holdings; and it accounts for the steep rise in commercial bank purchases between December 1960, and December 1961, (Table VI). The other change related to the new basis on which the bills were offered for tender. Prior to 1961, the Treasury offered the bills at a fixed rate of discount, and had difficulty in reconciling price with desired volume. In 1961, administration passed to the Bank of Jamaica (the newly-created central bank) and a new tender basis was introduced. Each month thereafter, the volume (rather than the price) of the bills to be sold, was decided on. Then tenders were invited. In order to remove public sector influence upon price, public funds were channelled into "tap bills" which were bills issued on request only, and at a rate which was 1 per cent below the bank rate. Together, the two policy changes provided a basis for the development of a dynamic and modern money market.

Beginning in 1961, also, the treasury bill market was geared as much to government's requirements for short-term funds as to the goal of developing a money market. The Bank of Jamaica found it convenient to take up bills on its own account, and it submitted its own tenders. According to Table VI, it held £2.1 million of the bills in December 1961. By selling from its own portfolio of bills, it could withdraw liquidity from the economy; by buying securities, it could replenish the money supply. The weapon of open market operations became available, but no more than that could yet be claimed in its behalf.

Long term loans were raised locally for relatively small amounts. On the average, less than £1.0 million were raised annually (Table VII). The official view was that the market would not support an issue much larger than £1.5 million in any one year. Cognisance was taken of the view, also, that

TABLE VII

LONG TERM LOANS RAISED LOCALLY BY THE JAMAICA GOVERNMENT 1953 - 1960

| Date of Issue | Term (in years) | Rate of Interest (%) | Issue Price (%) | Subscribed (£'000) |
|---------------|-----------------|----------------------|-----------------|--------------------|
| 1953 May | 10 | 4.50 | 100 | 500.0 |
| 1954 May | 10 | 4.50 | 100 | 350.0 |
| 1955 Sept. | 12 | 4.50 | 100 | 600.0 |
| 1956 Aug. | 5 | 4.75 | 100 | 1,000.0 |
| 1957 Sept. | 8 | 5.00 | 100 | 816.0 |
| 1958 Mar. | 7 | 5.75 | 100 | 1,000.0 |
| 1959 May | 7 | 5.25 | 100 | 655.0 |
| 1959 May | 17 | 5.75 | 100 | 620.0 |
| 1960 July | 15 | 6.00 | 99 | 1,520.0 |

SOURCE: Memorandum to the United States Government, Submitted Jan. 14, 1963, (Prepared by the Economics Division of the Ministry of Finance, Jamaica) Table 4. (Mimeographed.)

TABLE VIII

LONG TERM LOANS RAISED EXTERNALLY BY THE JAMAICA GOVERNMENT 1953 - 1960

A. ON THE LONDON MARKET

| Date of Issue | Term (in years) | Rate of Interest (per cent) | Issue Price (per cent) | Amount Subscribed (£'000) |
|---------------------|--------------------|-----------------------------------|------------------------------|---------------------------------|
| 1953 April | 15.0 | 4.25 | | 3,590.0 |
| 1958 July- Sept. | 24.0 | 6.00 | 96.5 | 4,212.0 |
| 1960 May | 20.0 | 6.25 | 99.5 | 3,380.0 |

B. ON THE NEW YORK MARKET

| | | | | |
|----------|------|------|------|---------|
| 1959 May | 3.5 | 5.50 | 99.1 | 893.0 |
| 1959 May | 15.0 | 5.75 | 95.5 | 3,571.0 |

SOURCE: Memorandum to the United States Government, Submitted Jan. 14, 1963.
(Prepared by the Economics Division of the Ministry of Finance,
Jamaica, 1963), Table 5. (Mimeographed.)

the government should not compete too vigorously with the private sector for local funds. If loan requirements exceeded what were considered to be the capacity of local resources, an approach was made to foreign sources.

Foreign loans were made on a long-term basis. Table VIII discloses that the government availed itself of foreign loans in the years 1953, 1958, 1959 and 1960. Prior to 1959, the London market was the sole source of foreign loans because, no doubt, of the overwhelming British influence on Jamaican affairs. The 1959 approach to the New York market was in the nature of a probe. It was discovered that borrowing terms were slightly less favourable than in London. Although borrowing overseas was considered to be a costly affair, and although there was a reluctance to accumulate foreign debts, the real reason for the low scale of foreign borrowing was the absence of proposals for large capital projects such as a comprehensive system of education, adequate domestic water supplies, and modern roads.

Some Effects of Borrowing Local borrowing broadened the scope of security transactions, and assisted in inculcating an awareness of dealings in securities. Trading in monthly offerings of treasury bills and in annual issues of registered stock exceeded, by far, the activities in company securities. Dealings in company securities were light, and sporadic, because the usual type of business was the family firm which obtained its capital privately, and because foreign companies sought their capital overseas, except for the usual bank loans for working capital purposes. It was unusual for the shareholders of well-established businesses to make their holdings available to the market. Consequently, government's borrowing activities helped to keep the market alive until development could take place under the impetus of the industrial growth which fiscal policy was encouraging.

Insofar as government competed with the private sector for available funds, government borrowing may have impeded private investment. This was not

necessarily bad, because the process of choosing between public and private investment is, in many cases, more an exercise in value judgement than in rationality. In any event, the formulation of appropriate fiscal policy in conditions of underdevelopment, requires that considerations of the public good take precedence over opportunities for private gain. On that account, competition with the private sector for scarce funds is justifiable on the basis of an assumption of greater gains from public investments in some undertakings.

Since Jamaican government accounts were held at the commercial banks, local borrowings left the economy's liquidity more or less unchanged. (The switch of the accounts to the central bank did not occur until after 1961). Short-term loans tapped mainly the idle funds of financial firms (such as brokers, insurance companies and banks), of rich individuals, of commercial firms, and of the public sector itself. Long-term loans were issued in denominations which were too large to be subscribed for by the average wage earner. In these circumstances, it is unlikely that local borrowing activities did much to reduce excess demand.

Foreign borrowing increased real resources. Some of the proceeds were dissipated in the purchase of capital goods; in such cases, the loans had no immediate effects on prices, because of the time lag involved in accomplishing an increase in productive capacity. Some of the proceeds were undoubtedly monetised, however, and served to increase the liquidity in the banking system.²⁹ The resulting increased purchasing power, exerted upward price pressures which were not counterbalanced by any enhanced productive capacity. On balance, foreign borrowing was probably expansionary. Equally important, foreign borrowing created foreign exchange debt obligations.

29

Currency notes in circulation rose from £5.2 million in January 1955 to £9.9 million in January 1961. See Department of Statistics Monetary Statistics (Kingston: March, 1962) p. 26, Table 23.

Repayment of long term loans was usually by the sinking fund method. Each year, a sum equal to a small percentage of the loan was set aside into a fund which was invested. The aggregate of sums set aside plus the yield on the investment, reduced the amount of money which had to be provided when the loan became due for redemption. In the case of foreign loans, the fund was required to be invested abroad, and the sinking fund principle was valid. In the case of local loans, however, the fund was invested locally, in government securities! This vitiated the sinking fund principle, and called into question its utility in respect of local issues.

Summary

The form of budgetary presentation was revised in 1953 to reflect a changed outlook in the scope and function of fiscal activities. Departments of the Civil Service for which a particular Minister was responsible were grouped together, and a separate section on capital expenditures was incorporated. As a result, the budget presented a clearer picture of the types of services embodied in the fiscal operations. It became possible, also to ascertain fairly easily, the amounts that were to be expended in various spheres of government activity. Nevertheless, the revisionary process could have proceeded farther, to provide assistance in policy deliberations and in the assessment of fiscal performance.

Tax revenues doubled from £13 million or 12.2 per cent of gross domestic product in 1953 to £31.2 million or 13.5 per cent in 1960. Customs and excise duties and the income tax were the three main sources; together, they accounted for more than 75 per cent of total receipts. Customs duties were levied for their revenue earning capacity rather than for protective purposes. Company income taxes were a more fruitful revenue source than personal income

The receipts side of the budget was fairly well presented, and the changes were not far-reaching.

taxes; and foreign companies paid more than local companies, because they earned more profits as a group. In order to attract foreign investments, the company income tax had to be fixed at a point between 38 per cent which was applicable to firms qualifying as Western Hemisphere Trade Corporations under the laws of the United States of America, and 52 per cent which applied under United Kingdom and Canadian laws. Simultaneously, agreement had to be reached with the United States, the United Kingdom, and Canada, for the guarantee of a single taxation of profits and full payment of the Jamaican tax. The rising trend of total revenue collections was a sign that government's receipts were advancing towards the stage where a reasonable standard of service could be provided for the people.

Incentive laws were framed with the object of inducing additional flows of investment through the grant of relief from taxation. They were applicable to industries which the government was anxious to stimulate, such as exports, tourism, and import substitution industries. In applying the principle of incentives, it is possible that Jamaica was somewhat too generous. In the case of investment allowances, for example, Jamaica was the most liberal in the world. Available evidence points to the fact that incentives assisted in attracting capital inflows.

Taxes and incentives combined to increase the rate of savings and capital formation. Taxes restrained consumption, thereby increasing savings, while incentives increased profits and induced investments. In this way, production increased and became more diversified. The effect on employment was, however, less satisfactory.

Local borrowing activities broadened the scope of securities transactions. They helped to keep the market alive. Foreign borrowing increased real resources, but created a foreign debt burden.

CHAPTER III

JAMAICA'S FISCAL POLICY OPERATIONS 1953 - 1960

- EXPENDITURE

Consideration was given to selecting that pattern and rate of expenditures that would best achieve the aim of rapid and stable growth. Theoretically, the realisation of high levels of employment and incomes through massive programmes of expenditure is quite attractive. However, large expenditures, even if possible, have drawbacks.

In the short run, large expenditures would probably endanger economic stability. Imports would be expanded by the acquisition abroad of capital equipment and raw materials. More employment on capital projects would raise incomes and purchasing power to a greater extent than it would add to production. The increased demand would lead to an increase in imports through the marginal propensity to import; and to an increase in prices insofar as there was an insufficiency of supplies from an expanded home production, the release of inventories, and the rise in imports. Higher prices would tend to build up wage pressures; and increased costs and prices together would tend to weaken the competitive position of exports and of import replacements. Thus, the danger to stability in the short run, emanated from the likelihood of higher prices, a greater volume of imports, and a weakening of the foreign trade sector.

In the long run, the effects on economic stability are less obvious. Increased capital formation could enhance productivity and strengthen the competitive position of the foreign trade sector. It could raise the volume of home supplies, also, thereby reducing prices and imports, and lowering the

pressure on wages. The final results would depend on the elasticities of the supply of factors of production, and on the proportion in which output is divided between consumer goods and producer goods.

Probably a smaller programme of expenditures would involve less risks to stability, because its undesirable influences would be weaker. By raising incomes and purchasing power to a lesser degree, its direct impact on prices and imports would be less. But its desirable influences would be weaker, too. It would promote the development of smaller sectors for exports and import replacements. By creating a smaller amount of capital formation it would induce a slower rate of growth. Nevertheless, even a slow rate of growth could initiate a wage-price spiral that would be difficult to check. The outcome of a smaller programme could be, therefore, a slower rate of growth with no corresponding diminution in the danger to economic stability.

The key to the decision obviously lies in the amount of resources available to the government. In the case of Jamaica, the small volume of tax resources - a mere 12 per cent of gross domestic product in 1953 - effectively restrained any tendency towards an overly-ambitious programme. Yet, to have confined expenditures within the limits provided by taxes alone, would have been to ignore completely the principle of the "big push". It seemed that there was room for borrowing on a larger scale than had been attempted hitherto. Furthermore, funds were lying idle in London in respect of investments of the Government Savings Bank and the Note Security Fund, among others. Much of these savings could be brought home for use in development programmes. It happened that increased taxes, an enlarged foreign debt, and repatriated savings, provided the bulk of the financing for a programme of expenditures that was, probably, neither too daring nor yet too cautious.

Between 1953 and 1960, annual expenditures increased almost three-fold from £14.2 million to £37.0 million (Table IX). These amounts represented 13.3 per cent and 16.0 per cent respectively, of gross domestic product (Table

X). They reflected a growth rate in excess of 13 per cent per annum or slightly higher than the rate at which tax revenues were being withdrawn from the private sector. Because total expenditures were greater than total tax revenues, more was being pumped into the economy than was being taken out by way of taxes. The increase and redirection in the volume of annual spending was in accordance with the goal of pushing the economy on to a higher growth path.

Some of the increased spending was devoted to an expansion of existing services, the provision of new ones, and the construction of new capital works. Inevitably, maintenance costs of the new works accounted for some of the increases, too. Some of the increases represented sums set aside for expanding the private sector by way of capital loans, factory building, and technical assistance. But in this admixture of consumption and capital expenditures, consumption spending was, by far, the greater amount.

Public sector consumption expenditures rose from £10.6 million or 9.9 per cent of gross domestic product in 1953 to £23.5 million or 10.2 per cent in 1960 (Tables IX and X). All components shared in the increase. Expenditures on education and research almost trebled from £1.5 million to £4.2 million; on justice there was almost a doubling from £1.3 million to £2.1 million; so too, on public health a more than doubling from £2.2 million to £5.2 million. But, possibly, the most notable was the rise in general administration expense from £1.7 to £5.4 million, a more than three-fold increase. This increase arose from the necessity to overhaul the decision-making process by re-organising and strengthening the civil service administration. In addition, revenue assessments and collections (particularly of the income tax) had to be expedited, greater provision had to be made for combating tax evasion, and there was an inherently limited scope for productivity increases in the civil service. Altogether, increases in consumption spending reflected the need to expand public services, and to facilitate the quickened pace of fiscal activities.

It was noted in Chapter I that, before the 1930's, social services and

TABLE IX

FUNCTIONAL CLASSIFICATION OF JAMAICA GOVERNMENT EXPENDITURES* - 1953 - 1960

(Current values: £million)

| Purpose of Expenditure | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| A. CONSUMPTION | | | | | | | | |
| 1. General Administration | 1.7 | 1.9 | 2.5 | 3.6 | 3.9 | 3.9 | 4.6 | 5.4 |
| 2. Justice and Police | 1.3 | 1.4 | 1.5 | 1.8 | 1.8 | 1.9 | 2.1 | 2.1 |
| 3. Education and Research | 1.5 | 1.7 | 2.0 | 2.7 | 3.0 | 3.6 | 3.8 | 4.2 |
| 4. Public health and Sanitation | 2.2 | 2.3 | 2.4 | 3.0 | 3.4 | 3.5 | 4.1 | 5.2 |
| 5. Special Welfare Services | 0.7 | 0.8 | 1.1 | 1.2 | 1.4 | 1.3 | 1.4 | 1.9 |
| 6. Transportation, Communication, etc. | 0.9 | 0.9 | 1.1 | 1.1 | 1.3 | 0.8 | 0.9 | 0.9 |
| 7. Agriculture, Forest and Lands | 2.3 | 2.2 | 2.5 | 2.8 | 3.2 | 1.9 | 2.0 | 1.9 |
| 8. Other Services | | | | | | 1.6 | 1.7 | 1.9 |
| TOTAL CONSUMPTION | 10.6 | 11.2 | 13.1 | 16.2 | 18.0 | 18.5 | 20.6 | 23.5 |
| B. CAPITAL | | | | | | | | |
| 9. Local Government | - | - | - | - | - | 0.8 | 0.8 | 0.8 |
| 10. Central Government | 2.8 | 3.6 | 3.9 | 6.5 | 8.9 | 9.3 | 11.2 | 10.6 |
| TOTAL CAPITAL | 2.8 | 3.6 | 3.9 | 6.5 | 8.9 | 10.1 | 12.0 | 11.2 |
| 11. Transfers (Subsidies and Grants) | 0.8 | 0.7 | 0.6 | 0.7 | 0.8 | 2.2 | 2.2 | 2.1 |
| TOTAL EXPENDITURES | 14.2 | 15.5 | 17.6 | 23.4 | 27.7 | 30.8 | 34.8 | 37.0 |

* Excludes expenditures of statutory bodies and public sector trading entities.

SOURCE: Department of Statistics, Jamaica. National Accounts 1958, 1959, pp. 66, 68, Tables 17 and 18; 1961, pp. 66, 68, Tables 18, 19.

TABLE X

TOTAL JAMAICA GOVERNMENT EXPENDITURES AS PER CENT OF GROSS
DOMESTIC PRODUCT AT CURRENT FACTOR COST, 1953 - 1960

| Year | Consumption (%) | Capital (%) | Subsidies and Grants (%) | Total (%) |
|------|--------------------|----------------|--------------------------------|--------------|
| 1953 | 9.9 | 2.6 | 0.8 | 13.3 |
| 1954 | 9.4 | 1.2 | 0.6 | 11.2 |
| 1955 | 9.6 | 2.9 | 0.4 | 12.9 |
| 1956 | 10.2 | 4.1 | 0.5 | 14.8 |
| 1957 | 9.4 | 4.6 | 0.4 | 14.4 |
| 1958 | 9.4 | 5.1 | 1.0 | 15.5 |
| 1959 | 9.7 | 5.7 | 1.0 | 16.4 |
| 1960 | 10.2 | 4.9 | 0.9 | 16.0 |

SOURCE: Tables III and IX.

communications accounted for over 50 per cent of total expenditures.¹ This emphasis shifted in the 1950's. While communications remained important, education, administration, and public health, accounted for over 50 per cent between 1953 and 1960. This change in emphasis reflected, in part, the efforts made to develop population resources as a pre-requisite to vigorous economic development.

Capital expenditures increased more than three-fold from £2.8 million or 2.6 per cent of gross domestic product in 1953 to £11.2 million or 4.9 per cent in 1960 (Tables IX and X). This was equivalent to a growth rate of approximately 20 per cent per annum, or faster than the rate of rise in tax revenues. It was faster, also, than the rate (13 per cent per annum) of total spending. This relatively rapid rise in capital expenditures was designed to facilitate capital formation in the private sector.

Capital outlays were spread out among many sectors - in agriculture, education, public health, social welfare, communications, and industrial development and trade. Table XI displays the pattern that was typical for the period, agriculture and communications accounting for more than 50 per cent up to 1959. The emphasis on communications was a reflection of its importance for tourism; it was related to improvements in road, rail, and air communications as a means of facilitating the development of the tourist trade. The concern exhibited for agriculture was for peasant agriculture; large scale commercial farming was not eligible for assistance. There was a keen desire to keep people on the land by making farming more productive and profitable. As might be expected, industrial development and trade received special attention too, in recognition of the importance of that category of expenditures for the development process. Although these emphases could be detected

1

It is recognised, of course, that even in those days the figures may have included some capital outlays, but these were relatively small over the period taken as a whole.

in the pattern of outlays, the relatively small sums devoted to each sector give the impression that the resources may have been spread somewhat thinly.

The diffusion of capital outlays was influenced by two main considerations. In deference to social conditions and political pressures, an attempt was made to spend money over a wide cross section of the economy. Many of the agricultural schemes, for instance, became intelligible when viewed in that light. The other important factor was the desire to avoid a build-up of too much excess capacity in any one sector, in view of the continuing need in other sectors. Due weight had to be given to the interdependence of investments; expenditure in one or more sectors was necessary to complement investments in another. For example, the provision of roads, water supplies, and clothing for needy children, was necessary to support the school building programme; the construction of two modern airports, and improvements in main roads, facilitated private investments in tourism. In many instances, resources had to be deployed over a wide range in order to remove "bottlenecks" in the supply of factors of production, and to enhance the economy's capacity to expand.

Another way of looking at the pattern of capital expenditures is shown in Table XII. Less than 30 per cent of the total was related to short-term productive capital disbursements (for example, to investments in communications and industry) which increased production rather quickly in activities like tourism and light industry. The rest, over 70 per cent, was in respect of social overhead investments (i.e. education, social welfare, and public health) which increased production only in the long run. Thus, most of the capital outlays had to be made many years in advance of the private investments which such outlays were intended to attract. Capital expenditures (both short-term and long-term) provided the external economies of economic

TABLE XI

FUNCTIONAL CLASSIFICATION OF CAPITAL EXPENDITURES OF THE GOVERNMENT OF JAMAICA 1956 - 1960

(\$ million)

| Classification of Capital Expenditure | Financial Year Ending March 31 | | | | |
|--|--------------------------------|-------------|-------------|-------------|-------------|
| | 1956 | 1957 | 1958 | 1959 | 1960 |
| 1. Agriculture | 0.65 | 1.26 | 1.12 | 1.32 | 1.83 |
| 2. Education | 0.21 | 0.28 | 0.53 | 0.68 | 1.03 |
| 3. Public Health | 0.42 | 0.52 | 0.57 | 0.82 | 1.06 |
| 4. Social Welfare | 0.32 | 0.46 | 0.13 | 0.27 | 0.03 |
| 5. Communications | 1.61 | 1.03 | 2.01 | 2.57 | 1.90 |
| 6. Industrial Development and Trade | 0.21 | 0.28 | 0.91 | 1.25 | 0.84 |
| 7. Miscellaneous | 0.37 | 0.40 | 0.87 | 0.65 | 1.76 |
| TOTAL | 3.79 | 4.23 | 6.14 | 7.56 | 8.45 |
| Adjusted to year ending Dec. 31 | 4.12 | 5.66 | 7.21 | 8.23 | 9.21 |

SOURCE: Auditor General's Report together with the Finance and Appropriation Accounts (Kingston: Government Printer), financial years 1956/57 to 1959/60.

2

growth, and were an essential part of the development process.

Outlays in agriculture were intended to raise the efficiency of small farmers by way of improvements in crop culture and soil management. Many schemes were introduced to provide assistance and incentives in various forms, including loans and technical advice. The most important of these was the Farm Development Scheme.³ The schemes were doomed to failure from the beginning. Limited farm land of good quality set early limits to productivity increases. Small farms occupying rugged terrain were not particularly suited to an agricultural system from which significant improvements in yields might be expected. Small size and unsuitable location precluded their owners from availing themselves of the full benefits of loans and farm machinery that were available under some of the schemes. What is more, the important (and probably the key) incentive of a guaranteed market at reasonable prices was lacking. It happened that peasant farming put up a poor performance. Production of root crops (the main output of peasant agriculture) as well as the production of corn and ginger, fell; pineapple farming was abandoned after a few harvests; coffee and leaf tobacco output showed only slight increases.⁴ Notable improvements in output were registered in the areas assigned to the various Land Authorities, but on the whole, agricultural production did not show the increases that had been expected.

2

External economies were provided, not in the Marshallian sense of decreasing costs under conditions of competitive equilibrium, but in the more modern sense of the outlays being complementary to private investment decisions. In this concept of the term, external economies are outside the price system, and do not attract a market value. In the Marshallian version, they affect prices through the influence of technological factors which reduce costs of supply as the market grows.

3

See p. 86.

4

Department of Statistics National Accounts 1958, 1959, p. 76, Table 23.

TABLE XII

INVESTMENT IN SOCIAL OVERHEAD CAPITAL BY THE GOVERNMENT OF JAMAICA 1956 - 1960

(£million)

| Type of Capital Expenditure | Year Ending March 31 | | | | |
|--|----------------------|------|------|------|------|
| | 1956 | 1957 | 1958 | 1959 | 1960 |
| Total Capital Expenditure (Table XI) | 3.79 | 4.23 | 6.14 | 7.56 | 8.45 |
| Less Short-run Productive Capital Expenditure for: | | | | | |
| (a) Agricultural Improvement | 0.27 | 0.69 | 0.80 | 1.08 | 0.50 |
| (b) Industrial Development | 0.21 | 0.28 | 0.91 | 0.76 | 0.72 |
| Total Social Overhead Capital | 3.31 | 3.26 | 4.43 | 5.72 | 7.23 |
| Social Overheads as % of Total Government Capital Expenditure | 87.3 | 77.1 | 72.1 | 75.7 | 85.6 |

SOURCE: Auditor General's Report together with the Finance and Appropriation Accounts (Kingston: Government Printer), financial years 1956/57 to 1959/60.

Expenditures were applied, also, to satisfying an urgent need in the private sector for loan capital and technical advice. In traditional lines of business activity - in farming and trading - large, well-established firms had little difficulty in meeting their capital needs from profits, bank borrowings, and debenture issues. In the newer lines of business, however, especially in industry, potentially profitable firms had little or no access to funds for financing expansion and, sometimes, for working capital purposes. Being newly established, these firms had little opportunity to demonstrate their potential worth. They experienced difficulty in attracting funds away from land dealings and trading operations, because local investment in industry was new to the Jamaican scene. Basically, there was a shortage of risk capital seeking profitable outlets. It was to alleviate this condition of scarce capital that government decided to provide loans to industry. The supply of loans and technical advice was provided through three main institutions: the Jamaica Industrial Development Corporation (hereafter referred to as the IDC), the Agricultural Development Corporation, (hereafter referred to as the ADC), and the Development Finance Corporation, (hereafter referred to as the DFC).

The IDC was created by the Industrial Development Corporation Law, Law 13 of 1952. Initially, it received a capital grant of ~~£~~⁵235,240 in lieu of a paid-up share capital. From time to time, its financial resources were augmented by way of further grants, by bank loans, government loans, and by receipts from the sale of lands it acquired on the Industrial Estate, which was an area set apart for locating factories. Its purpose was to stimulate, facilitate, and undertake industrial activities as it saw fit. In practice the IDC distributed market and technical data to prospective investors, and

rendered other services of a promotional nature.

At first the Corporation confined its attention to a stimulation of the expansion of existing industries. On that account, its resources were available only to those firms which showed competitive promise, and which had a record of profitability. The latter criterion was somewhat harsh in relation to the Corporation's aims and purposes, and to the circumstances leading to its establishment. The reason is, that firms which qualified as "safe" generally had little difficulty in getting commercial bank accommodation. Eventually, however, new firms which satisfied the commercial test of profitability and viability in new as well as old industries, qualified for, and received assistance.

The DFC was established by the Development Finance Corporation Law, Law 42 of 1959. Its authorised capital was set at £1.0 million. When it began operations in November 1959, only £100,000 of this authorised capital was issued and fully paid; but during 1960, the remaining £900,000 was fully paid.⁶ All shares were held by the government.

The DFC's function was to provide financial assistance for the expansion and operation of development enterprises. The intention was that the DFC should relieve the IDC of responsibility to make industrial loans; but failure to incorporate the necessary amending provision in the IDC law, resulted in an overlap of functions and, regrettably, in some friction over jurisdiction. The DFC was entrusted, also, with the administration of the Mortgage Insurance Law which came into operation in 1960, and which provided for the insurance of mortgages on newly-built houses.

The ADC was set up under the Agricultural Development Corporation Law,

Law 50 of 1951. It received an initial capital grant of £100,000. By March 1961 its capital resources stood at £1.7 million, comprising capital grants of £0.2 million, long-term loans of £0.9 million, and short-term loans of £0.6 million. Its purpose was to stimulate, facilitate, and undertake agricultural development.

Some Effects of Expenditures The country's budgeted expenditure was, in a sense, the obverse side of the tax coin, representing the return flow of taxes withdrawn from the private sector. It fulfilled both the traditional role of securing collective consumption, and the modern function of inducing economic growth. Like its counterpart, the spending operation exerted both good and bad influences on the economy. Some of the effects of spending are discussed in what follows.

On Income Distribution and Welfare Expenditures affected both income distribution and welfare. They increased welfare by providing basic services such as justice, protection, and roads, which were consumed freely by all citizens, and by providing welfare assistance such as poor relief to low income groups. The grant of subsidies to firms, the purchase of the business product, and the payment of interest on the public debt, redistributed incomes upwards, while the payment of pensions, poor relief, and the like, redistributed incomes downwards. To some extent, these redistributive and welfare effects modified similar effects of the tax.

On Savings and Capital Formation The quantum of savings generated by the government was the annual difference between current revenues and current payments. This difference or surplus, almost tripled from £2.9 million or 2.7 per cent of gross domestic product in 1953 to £7.8 million or 3.4 per cent in

1960 (Table XIII). The surplus represented the purely negative act of not spending on consumption; and its percentage growth indicated a decline in the public sector's marginal propensity to consume. Government savings were available for creating additions to the stock of capital.

Annual increments of fixed capital in the public sector financed directly from the budget, moved from £2.0 million in 1953 to £5.3 million in 1960 (Table XIV). As a proportion of total domestic capital formation, these increments fell sharply from 14.1 per cent in 1953 to 7.2 per cent in 1956. They rose to 10.7 per cent in 1957, however, and remained fairly stable until 1960, when they were 10.4 per cent of the total. The fact that public sector capital formation was not an increasing proportion of the total was not necessarily a bad sign. The main significance of capital formation expenditures in the public sector, was that they made possible (and apparently induced) a flow of private investments.

Public outlays on resource acquisition increased opportunities for private capital formation in many ways. Outlays on capital works such as roads, bridges, airports, and drainage schemes, constituted pre-conditions for private investment decisions; the provision of training for technicians and managers, and of additional facilities for housing, improved the efficiency of the people; the application of easy credit terms to loans made through the development corporations reduced the effective rate of interest on loans to the private sector; and attention given to the means necessary to maintain political and economic stability promoted a general feeling of confidence in the country. Furthermore, the rate of resource discovery and of technological progress was raised through research and geological surveys which indicated, among other things, the location and extent of bauxite deposits and of water resources. By creating opportunities for capital formation, public sector expenditures stimulated autonomous investments in the private sector.

TABLE XIII
 SURPLUSES OF THE CENTRAL AND LOCAL GOVERNMENTS OF JAMAICA
 1953 - 1960

| Year | Amount (£million) | | | Surplus as % of GDP at Cur- rent Factor Cost |
|------|-------------------|-------------------------------|---------|--|
| | Revenue | Consumption plus Transfers | Surplus | |
| 1953 | 14.1 | 11.2 | 2.9 | 2.7 |
| 1954 | 16.1 | 11.9 | 5.2 | 4.3 |
| 1955 | 18.5 | 13.7 | 4.8 | 3.5 |
| 1956 | 21.1 | 16.9 | 4.2 | 2.6 |
| 1957 | 27.1 | 18.8 | 8.3 | 4.3 |
| 1958 | 28.5 | 20.7 | 7.8 | 3.9 |
| 1959 | 30.9 | 22.8 | 8.1 | 3.8 |
| 1960 | 33.4 | 25.6 | 7.8 | 3.4 |

SOURCE: Tables I and IX

TABLE XIV
GROSS FIXED CAPITAL FORMATION OF THE
GOVERNMENT⁺ OF JAMAICA, 1953 - 1960

| Year | GFCF (Current Values, £'000) | | % of Total |
|------|---------------------------------|---------------|------------|
| | Central and Local Government | Total GFCF | |
| 1953 | 1,992 | 14,150 | 14.1 |
| 1954 | 1,728 | 17,300 | 9.9 |
| 1955 | 1,913 | 21,470 | 8.9 |
| 1956 | 2,776 | 38,783 | 7.2 |
| 1957 | 5,608 | 52,104 | 10.7 |
| 1958 | 4,891 | 47,397 | 10.1 |
| 1959 | 5,654 | 46,072 | 12.3 |
| 1960 | 5,294 | 50,668 | 10.4 |

⁺The figure for Local Government is included as from 1958. Prior to 1958 the figure was quite small, probably amounting to £0.5 million or less, and was subsumed in the Construction sector.

SOURCE: Department of Statistics, Jamaica, National Accounts, 1958, 1959, p. 32, Account 3; p. 68, Table 18; 1961, p. 30, Account 3; p. 68, Table 19; p. 72, Table 21.

In addition to stimulating private capital flows, public expenditures directly increased private investments. Between 1953 and 1960, the IDC's loans and other assistance to industry for capital purposes totalled £1.7 million; a further £0.8 million was added in 1961.⁸ The ADC, which was not really a lending institution, loaned out £0.2 million in the period to March 1961.⁹ Between 1959 and 1961, the DFC disbursed £0.4 million in loans and in the acquisition of equity shares, and made commitments for paying out a further £0.5 million.¹⁰ In respect of the Mortgage Insurance Scheme, it issued policies for a total face value of £3.0 million and undertook to insure houses for an additional face value of £1.4 million. The shunting of public funds directly into private investment channels, raised the rate of private capital formation.

On Stability, Employment, and Dualism Government expenditures affected internal and external stability. Where they paid for wages, salaries, and income transfers, they helped to foster the demand for local goods through the marginal propensity to consume domestic goods, and to raise the level of imports through the marginal propensity to import. The magnitude of government imports is not known, but in some years they have been substantial, especially in respect of capital goods. Although the increase in direct purchases of local business product was three-fold, it represented only a small rise from 2.7 per cent of the total in 1954 to 3.2 per cent in 1960 (Table XV). Hence, the de-stabilising influence of local purchases by the public sector was not significant. On balance, since the volume of public expenditures was greater than the volume of tax revenues, the net effect of those expenditures was

⁸ Jamaica Industrial Development Corporation, Annual Report 1958, p. 6; 1960, p. 12; 1961, p. 10.

⁹ Agricultural Development Corporation, Ninth Annual Report and Statement of Accounts 1961, pp. 5 - 7.

¹⁰ Development Finance Corporation, Third Annual Report Financial Year 1961, p. 2.

expansionary.

Another aspect of the effect on stability, was the impact on labour costs. Being the largest single employer of labour, the government exerted a powerful influence in the labour market. As expenditures rose and the demand for labour grew, competition with the private sector for available skills became very keen. Although wage levels were lower in the public sector, the government was able to compete by offering job security, pensions, longer vacations with pay, and other perquisites of office which, by and large, were not matched by the private sector. Competition for skilled labour operated to raise labour costs. Rising labour costs tended to raise prices and to increase the deficit in the balance of payments.

New jobs were created through the expenditure budget. Additional administrators, clerks, engineers, teachers, maintenance workers - practically all categories of workers - had to be employed in the public sector to facilitate the effectiveness of development expenditures. In the private sector, firms receiving assistance from the development corporations frequently had to employ additional workers to achieve their planned expansion of production. For instance, up to 1958, programmes of assistance administered¹¹ by the IDC resulted in the creation of 4,125 jobs. Account must be taken, also, of the employment created by investments induced as a result of the multiplier effects of increased expenditures. Directly in the public sector, and indirectly in the private sector, expenditures assisted in expanding the number of new job opportunities.

Public funds were spent with a view to changing the relative size of the modern and the rural sectors. Outlays on education and public health to improve the fitness of the people for skilled employment, and sums spent for

11

Jamaica Industrial Development Corporation, Annual Report 1958, p. 14.

TABLE XV
DIRECT PURCHASES FROM BUSINESSES BY THE GOVERNMENT OF JAMAICA,
1954 - 1960

| Year | Direct Purchases (£ million) | Total Business Product (£ million) | Direct Purchases as % of Total Business Product |
|------|------------------------------------|---|---|
| 1954 | 4.1 | 154.5 | 2.7 |
| 1955 | 4.5 | 179.1 | 2.5 |
| 1956 | 6.3 | 215.9 | 2.9 |
| 1957 | 10.0 | 258.0 | 3.9 |
| 1958 | 8.5 | 262.4 | 3.2 |
| 1959 | 10.0 | 276.5 | 3.6 |
| 1960 | 10.4 | 313.1 | 3.2 |

SOURCE: Department of Statistics, Jamaica, National Accounts 1958, 1959, p. 54, Table 9; 1961, p. 54, Table 10.

the purpose of facilitating the growth of industrialisation and for diversifying production, expanded the modern sector. Similarly, amounts devoted to raising standards of farming practice, enhanced the efficiency of the peasant agricultural sector. Expansion of the modern sector and improvement of the rural sector, assisted towards a solution of the problem of economic dualism.

On the National Product Purchases of local goods and services financed from taxes, increased the net national product by the amount of such purchases. The increase was independent of the size of the marginal propensity to consume; it was related to a multiplier equal to unity.¹² Similar purchases financed from non-tax sources (e.g. from foreign loans) increased output by an amount that depended on the numerical value of the marginal propensity to consume. Hence, purchases of local goods and services increased the national product whether they were financed from taxation or from other sources. In fact, increases in government spending on local goods had the same favourable effect on the net product as increases of a similar amount in private investment.

A very high marginal propensity to consume is associated with individual incomes which are as low as they were in Jamaica between 1953 and 1960. Consequently, the multiplier was likely to have been large in that period. With little or no excess capacity in plant and machinery, and with supply elasticities in general being low, any short-run increase in the national income arising from government purchases of local goods and services would be largely in money terms. Over the seven-year period, however, increases in real terms must have appeared.

12

This is in accordance with the "Balanced Budget" Theorem which has been expounded by many writers. Among them are Trygve Haavelmo "Multiplier effects of a 'Balanced Budget'", Readings in Fiscal Policy (American Economic Association Series) (London: George Allen and Unwin Ltd., 1955) pp. 335 - 343; Paul A. Samuelson "The Simple Mathematics of Income Determination" Income, Employment and Public Policy (Essays in Honour of Alvin Hansen) (New York: W.W. Norton & Co. Inc. 1948) pp. 140-143.

Summary

The pattern and rate of expenditures had to be carefully selected in order to obtain the best results with available resources. An attempt at too fast a rate of spending could be de-stabilising; too slow a rate would deny the country the benefits of the "big push", to the extent that the big push was possible. Financing was provided from tax revenues, from borrowing, and from the repatriation of savings held abroad. The programme that was put into effect was probably neither too daring nor yet too cautious.

Between 1953 and 1960, annual expenditures almost trebled, and reflected a growth rate in excess of that at which tax funds were being taken from the private sector. The emphasis was on administration, education, and public health reflecting, in part, greater concern for the development of population resources. Capital expenditures were incurred largely as complements to private investment decisions in tourism, agriculture, and manufacturing. The increase in the total volume of spending and the change in its direction was in accordance with the goal of pushing the economy on to a higher growth path.

Expenditures exerted various influences on the economy. They modified the redistributive and welfare effects of taxation. They created new jobs and raised labour costs and commodity prices. They increased public capital formation; and by complementing private investment decisions, they diversified production, increased the national output, enlarged the modern sector, and improved the rural sector. The sum total of these effects, is that public expenditures assisted in accelerating the pace of economic development.

CHAPTER IV

GROWTH OF THE JAMAICAN ECONOMY 1953 - 1960

During the 1950's, the Jamaican economy entered a phase of very rapid growth. Real income rose quickly from £117.2 million in 1953 to £207.2 million in 1960 (Table XVI and Figure 1). After a steep climb from the 1953 position, the income path levelled somewhat after 1957; but it soon recovered and continued rising into the 1960's. The performance was, indeed, impressive.

Comparison with the previous period, statistics for which are shown in Table XVII and Figure 2, reveals a striking difference in growth rates. If Table XVII is correct, then real output grew at slightly over 1 per cent per annum up to 1930. In the decade of the 1930's, there was no improvement on this performance; and output fell between 1938 and 1942. After 1942, real output grew at slightly over 4 per cent per annum to 1952. By contrast, real output grew at over 11 per cent per annum between 1953 and 1957, and at nearly 5 per cent per annum thereafter to 1960. If the figures are to be believed, the average growth rate between 1953 and 1960 was about 8 per cent per annum.¹ Figure 4 brings the two periods together, and shows the rapid strides which the economy made in the 1950's.

In per capita terms, real income rose significantly too. It grew from £78.0 in 1953 to £127.5 in 1960 (Table XVIIID).² This represents an annual

1

The output figures for the 1950's are suspect. They were compiled mainly from tax records rather than from statistics of production. They probably contain an upward bias; it is possible that the real growth was as low as 6 per cent per annum. But even this lower rate would be a remarkable achievement.

2

The Jamaican pound has the same American dollar value as sterling.

TABLE XVI

GROSS DOMESTIC PRODUCT OF JAMAICA 1953 - 1960 AT CONSTANT FACTOR COST (1956 PRICES)

(£million)

| Economic Sector | Amount | | | | | | | |
|---|--------|-------|-------|-------|-------|-------|-------|-------|
| | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 |
| Agriculture, Forestry, Fishing | 23.6 | 25.3 | 26.5 | 25.7 | 26.4 | 26.8 | 29.4 | 28.9 |
| Mining, Quarrying, Refining | 2.9 | 5.9 | 7.0 | 8.7 | 14.3 | 14.7 | 14.3 | 17.7 |
| Manufacturing | 15.4 | 16.9 | 19.0 | 20.7 | 23.7 | 23.8 | 26.6 | 28.3 |
| Construction and Installation | 10.6 | 11.1 | 14.3 | 20.2 | 23.1 | 21.9 | 22.2 | 23.4 |
| Transportation, Communication and Storage | 8.2 | 8.7 | 9.8 | 10.5 | 12.4 | 12.3 | 12.7 | 13.9 |
| Distribution (Wholesale and Retail) | 20.2 | 22.3 | 24.3 | 25.7 | 30.7 | 31.8 | 33.9 | 36.7 |
| Ownership of Dwellings | 5.4 | 5.7 | 6.0 | 6.2 | 6.3 | 6.0 | 5.8 | 5.6 |
| Utilities | 0.9 | 1.0 | 1.0 | 1.2 | 1.4 | 1.5 | 1.8 | 1.8 |
| Banking, Insurance, Real Estate | 5.6 | 6.4 | 7.2 | 7.4 | 8.3 | 9.3 | 9.8 | 9.3 |
| Services | 15.4 | 17.4 | 19.2 | 20.9 | 22.5 | 23.5 | 24.8 | 26.2 |
| General Government | 9.0 | 9.7 | 9.2 | 11.2 | 12.4 | 12.4 | 13.7 | 15.4 |
| TOTAL GDP | 117.2 | 130.4 | 143.5 | 158.5 | 181.5 | 184.0 | 195.0 | 207.2 |

SOURCE: Department of Statistics National Accounts 1958, 1959, p. 46, Table 5A; 1961, p. 45, Table 6a.

(£million.) Y

220

200

190

180

170

160

150

140

130

120

110

X

1953

1954

1955

1956

1957

1958

1959

1960

X

FIGURE 1

GROSS DOMESTIC PRODUCT OF JAMAICA AT
CONSTANT-FACTOR COST (1956 PRICES)
1953 - 1960

SOURCE: TABLE XVI

TABLE XVII
GROSS DOMESTIC PRODUCT OF JAMAICA 1832 - 1953

AT CONSTANT (1956) PRICES

(£ Million Sterling)

| Selected Years | At Constant (1910) Prices | At Constant (1938) Prices | At Constant (1950) Prices | At Constant (1956) Prices ⁺ |
|----------------|---------------------------|---------------------------|---------------------------|--|
| 1832 | 5.8 | | | 25.2 |
| 1850 | 4.9 | | | 21.3 |
| 1870 | 6.0 | | | 26.1 |
| 1890 | 7.9 | | | 34.4 |
| 1910 | 11.3 | | | 49.2 |
| 1930 | 16.0 | 19.1 | | 69.5 |
| 1938 | | 20.3 | 59.7 | 73.9 |
| 1942 | | | 57.4 | 71.1 |
| 1950 | | | 70.2 | 86.9 |
| 1952 | | | 87.8 | 108.7 |
| 1953 | | | 94.7 (Prov) | 117.2 |

SOURCE: Eisner, *op. cit.*, p. 119; Phyllis Deane "The Measurement of Colonial National Incomes: An Experiment," National Institute of Economic and Social Research, Occasional Papers No. 12 (Cambridge at the University Press, 1948) p. 138, Table 101; A.P. Thorne, "Size, Structure and Growth of the Jamaican Economy," Social and Economic Studies, Vol. 4 (Supplement) (University of the West Indies, 1955) p. 88; A National Plan for Jamaica 1957 - 1967 (Kingston: Government Printer 1957) p. 6, Table 1; Department of Statistics National Accounts 1958, 1959, p. 46, Table 5A.

⁺ Linkage between the series at 1910 prices and that at 1956 prices was effected by the usual technique of simple proportion. This was made possible by the existence of a certain overlap in the four series shown in the Table. Thus, the 1956 value of the 1870 product was calculated at

$$6 \times \frac{19.1}{16} \times \frac{59.7}{20.3} \times \frac{117.2}{94.7} = £26.1 \text{ million}$$

The other aggregates in the 1910 series were adjusted proportionally. Each series was given similar treatment to complete the linkage. It seems that a final estimate of the 1953 aggregate at 1950 prices was not made anywhere. Consequently, the provisional figure of £94.7 million has been used.

The output figures are subject to the standard technical objections concerning the linkage of such a long series. In addition, the source material on which they are based, is deficient. Nevertheless the estimates are useful as indicators of the likely magnitudes of domestic output; and the analysis based on them must be construed in that light.

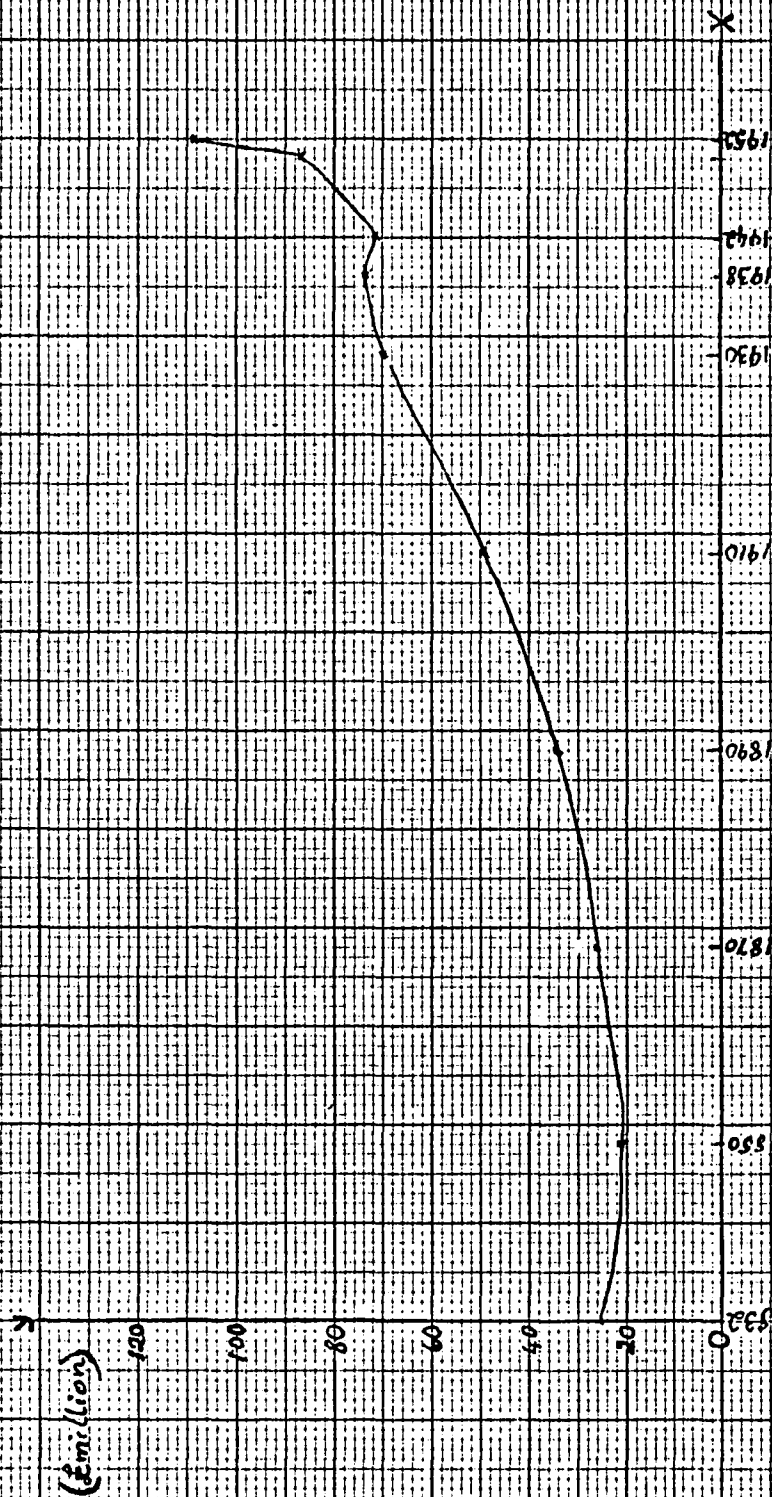


FIGURE 2
GROSS DOMESTIC PRODUCT OF JAMAICA AT CONSTANT FACTOR COST
IN 1954 PRICES - 1832-1952.
SOURCE: TABLE XVII

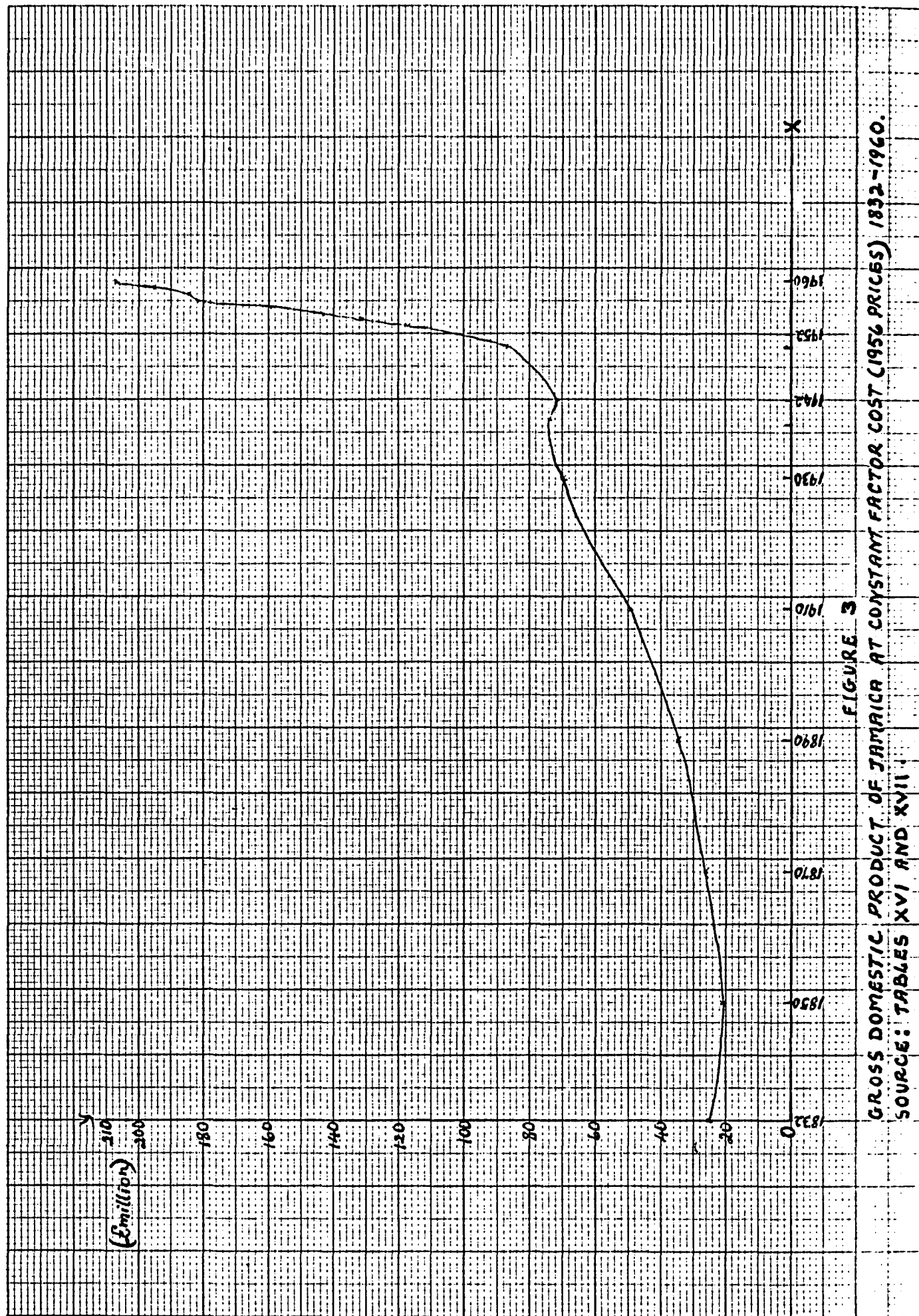


TABLE XVIII
PER CAPITA REAL INCOMES OF JAMAICA 1953 - 1960

| Year | Population at Dec. 31 ('000) | Income Per Head (£) |
|------|-------------------------------------|---------------------------|
| 1953 | 1503.0 | 78.0 |
| 1954 | 1531.9 | 85.1 |
| 1955 | 1553.7 | 92.4 |
| 1956 | 1580.0 | 100.3 |
| 1957 | 1611.0 | 112.7 |
| 1958 | 1565.0 | 117.6 |
| 1959 | 1600.0 | 121.9 |
| 1960 | 1625.0 | 127.5 |

SOURCE: Table XVI; A National Plan for Jamaica 1957 - 1967
(Kingston: Government Printer 1957) p. 6; Economic
Survey, Jamaica, 1959, p. 11; 1963, p. 20.

TABLE XIX

PER CAPITA REAL INCOMES OF JAMAICA 1832 - 1952

| Year | At 1956 Prices (£) |
|------|-----------------------|
| 1832 | 67.8 |
| 1850 | 53.1 |
| 1870 | 51.8 |
| 1890 | 54.0 |
| 1910 | 59.6 |
| 1930 | 68.2 |
| 1938 | 64.3 |
| 1942 | 58.2 |
| 1950 | 61.9 |
| 1952 | 74.2 |

SOURCE: Eisner, op. cit., p. 289; Thorne, op. cit., p. 92. Figures from these sources have been adjusted to the 1956 base.

increase of approximately 7 per cent. The increase was continuous but for a small decline between 1957 and 1958. By contrast, the previous period was characterised by unsteady movements, and produced an overall rise of a fraction of 1 per cent per annum, from a per capita income of £67.8 in 1832 to £74.2 in 1952 (Table XIX). Figure 4 brings together the movements over the entire period. Growth of per capita incomes on the scale registered between 1953 and 1960 was evidence of real economic advance.

As might be expected, the vigorous growth in incomes was associated with a like movement in savings and capital formation. Savings increased almost fourfold from £10.5 million in 1953 to £37.1 million in 1960, (Table XX), representing a movement from 9.8 per cent of gross domestic product to 16.1 per cent. Business savings accounted for more than half the total, but personal net savings and the government surplus together increased absolutely and proportionally. Net investments rose from £8.6 million in 1953 to £36.3 million in 1960 - from about 8.1 per cent of gross domestic product in 1953 to about 15.7 per cent in 1960 (Table XXI). Local investments were spread over a wide range of activities, but were concentrated mainly in distribution and construction; foreign investments flowed substantially into bauxite, tourism, construction, agriculture, and finance. Because of the fast rate at which savings and investment were being generated (with the assistance of the public sector), the national output rose quickly, outstripped the rate of population growth, and significantly enlarged per capita incomes.

Sectoral growth patterns pointed to some interesting changes. Although agricultural production increased, its relative importance declined and it lost its traditional position of primacy. Distribution, manufacturing, and construction assumed greater significance. The bauxite industry exerted a new and dynamic influence upon the economy. Altogether the trend was, decidedly, towards diversification of production.

G8-11

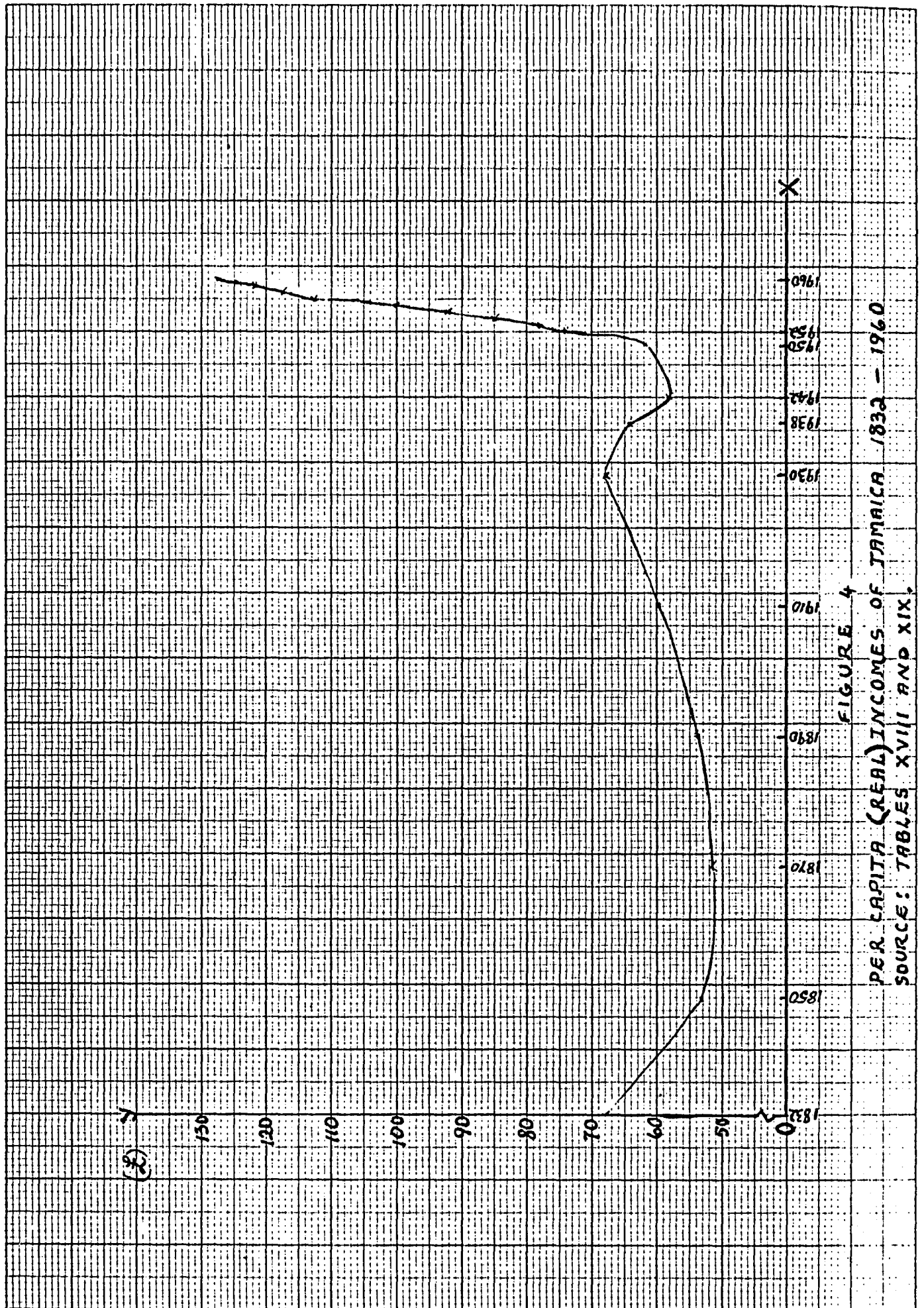
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TABLE XX

SAVINGS⁺ IN THE JAMAICAN ECONOMY 1953 - 1960

| Year | Amount (£million) | % of GDP |
|------|----------------------|-------------|
| 1953 | 10.5 | 9.8 |
| 1954 | 14.0 | 11.7 |
| 1955 | 15.3 | 11.2 |
| 1956 | 24.7 | 15.6 |
| 1957 | 40.9 | 21.3 |
| 1958 | 36.0 | 18.1 |
| 1959 | 34.5 | 16.3 |
| 1960 | 37.1 | 16.1 |

⁺ Excludes the deficit on Current Account

SOURCE: Table XII; Department of Statistics, National Accounts 1958, 1959, p. 78, Appendix I; 1961, p. 43, Table 5.

TABLE XXI

DOMESTIC CAPITAL FORMATION IN JAMAICA 1953 - 1960

| Year | Amount (£million) | | | Net Investment as % of GDP |
|------|-------------------|--------------|-------------------|-------------------------------|
| | GDCF | Depreciation | Net Investment | |
| 1953 | 15.2 | 6.8 | 8.6 | 8.1 |
| 1954 | 18.8 | 8.5 | 10.3 | 8.6 |
| 1955 | 24.6 | 9.3 | 15.3 | 11.2 |
| 1956 | 41.6 | 10.6 | 31.0 | 19.6 |
| 1957 | 57.3 | 14.1 | 43.2 | 22.5 |
| 1958 | 50.9 | 15.0 | 35.9 | 18.1 |
| 1959 | 51.1 | 15.8 | 35.3 | 16.6 |
| 1960 | 53.7 | 17.4 | 36.3 | 15.7 |

SOURCE: Department of Statistics National Accounts 1958, 1959, p. 32, Account 3; p. 44, Table 4; 1961, pp. 30 - 31, Account 3.

Agricultural production declined from 20.1 per cent of gross domestic product in 1953 to 14.0 per cent in 1960 (Table XXII). In absolute terms, there was an increase from £23.6 million to £28.9 million; this was equal to a growth rate slightly in excess of 3 per cent per annum. Government assistance to agriculture was given mainly through the Farm Development Scheme which provided the small farmer with a balanced packet by way of agricultural improvements, water supplies, and housing.³ Loans and subsidies were available under the scheme. It was estimated that by 1960, assistance would be given to 24,300 holdings covering 295,000 acres.⁴ The result was that livestock production showed large absolute increases; however, traditional exports (banana, citrus, cocoa, coffee) and sugar cane, fluctuated severely.⁵ But the relative weakness of the agricultural performance was, in part, a reflection of the growing strength of other sectors, and it indicated a measure of diversification of the economy.

The contribution of manufacturing to gross domestic product almost doubled from £15.4 million or 13.1 per cent in 1953, to £28.3 million or 13.7 per cent in 1960. Before the 1950's, manufacturing was relatively unimportant in Jamaica; it was concerned chiefly with the processing of agricultural raw materials, the most important of which was the sugar cane. But during the 1950's, tax concessions and other incentives already discussed, led to the establishment of several new manufacturing enterprises. However, fiscal policy encouraged expansion of the older industries as well. These older industries dominated the manufacturing sector between 1953 and 1960, and dwarfed the output of the new industries. The upshot was the manufacturing production grew

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See p. 61.

4

A National Plan for Jamaica 1957 - 1967 (Kingston: Government Printer, 1957) p. 16.

5

Carleen O'Loughlin, "Long Term Growth of the Economy of Jamaica," Social and Economic Studies Vol. 12, No. 3, Sept. 1963, pp. 246 - 7.

TABLE XXII

PERCENTAGE CONTRIBUTION OF ECONOMIC SECTORS TO GROSS DOMESTIC PRODUCT OF JAMAICA 1953 - 1960

| Sector | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 |
|---|-------|-------|-------|-------|-------|-------|-------|-------|
| Agriculture, Forestry, Fishing | 20.1 | 19.4 | 18.5 | 16.2 | 14.5 | 14.6 | 15.1 | 14.0 |
| Mining, Quarrying, Refining | 2.5 | 4.5 | 4.9 | 5.5 | 7.8 | 8.0 | 7.4 | 8.5 |
| Manufacturing | 13.1 | 13.0 | 13.2 | 13.1 | 13.1 | 12.9 | 13.6 | 13.7 |
| Construction and Installation | 9.1 | 8.5 | 10.0 | 12.7 | 12.1 | 11.9 | 11.4 | 11.3 |
| Transportation, Communication and Storage | 7.0 | 6.7 | 6.8 | 6.6 | 6.8 | 6.7 | 6.5 | 6.7 |
| Distribution (Wholesale and Retail) | 17.2 | 17.1 | 16.9 | 16.2 | 16.9 | 17.3 | 17.4 | 17.7 |
| Ownership of Dwellings | 4.6 | 4.4 | 4.2 | 3.9 | 3.5 | 3.3 | 3.0 | 2.7 |
| Utilities | 0.8 | 0.8 | 0.7 | 0.8 | 0.9 | 0.8 | 0.9 | 0.9 |
| Banking, Insurance, Real Estate | 4.8 | 4.9 | 5.0 | 4.7 | 4.6 | 5.0 | 5.0 | 4.5 |
| Services | 13.1 | 13.3 | 13.4 | 13.2 | 12.4 | 12.8 | 12.7 | 12.6 |
| General Government | 7.7 | 7.4 | 6.4 | 7.1 | 6.8 | 6.7 | 7.0 | 7.4 |
| TOTAL (%) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

SOURCE: Table XVI

at more than 8 per cent per annum, or at a rate somewhat greater than the average for the economy as a whole.

The mining sector rose to a position of strength within the brief span of seven years. Its contribution increased six-fold from £2.9 million or 2.5 per cent of gross domestic product in 1953 to £17.7 million or 8.5 per cent in 1960. Activities comprised the extraction of gypsum, phosphates, and bauxite; but the value of the first two was very small. Bauxite mining was the pre-dominant activity.

The significant increases in the contribution of the mining sector occurred after 1956. From a value of £8.7 million or 5.5 per cent of gross domestic product in 1956, the mining output rose to £14.3 million or 7.8 per cent in 1957 (Tables XVI and XXII). Another large rise was registered between 1959 and 1960, from £14.3 million or 7.4 per cent of gross domestic product to £17.7 million or 8.5 per cent. The higher level of contribution after 1956 was partly the result of increased bauxite production, and partly a consequence of the revised agreement with the bauxite firms for a higher valuation of each ton of bauxite exported. A concomitant of these developments was that the value of exports and of foreign exchange earnings rose. Another was that the public treasury benefited by way of larger royalties and income tax receipts; in the 1956/57 financial year, public revenues from bauxite and alumina amounted to only £352,000 or 1.7 per cent of total revenues, but were expected to reach £7 million in 1960/61.⁶ Besides contributing to domestic output, to tax revenues, and to foreign exchange earnings, the bauxite industry provided employment in its construction and agricultural activities, and was responsible for a large proportion of capital inflows. It is hardly surprising that the industry has been estimated to contribute at least 20 per cent of the total.

growth of gross real domestic product during the 1950's.

Service industries almost doubled their output from £15.4 million in 1953 to £26.2 million in 1960. The share of the sector in total gross domestic product, however, remained relatively stable, changing from 13.1 per cent to 12.6 per cent over the period. Activities included tourism, entertainment and meal services, among others. Chief among them was tourism.

The stimulation given to hotel building through tax concessions under the Hotels Aid Law, resulted in a considerable expansion of the tourist trade. The Tourist Board, which government established in 1954 to encourage and promote the tourist trade, did a good job of promotion in the United States of America and Canada. In addition, government prepared a special area in the north-west of the island at Negril, for future hotel development by private capital; and it built a recreation centre along the Palisadoes near the Kingston international airport. As already stated in Chapter II, tourist receipts increased from £5.6 million in 1956 to £14.4 million in 1960.

Construction activities were stimulated by private as well as public capital flows. The bauxite, tourist, manufacturing, and the public sectors, combined to set off a construction boom in the 1950's. Within four years, output doubled from £10.6 million or 9.1 per cent of gross domestic product in 1953, to £23.1 million or 12.1 per cent in 1957. The pace slackened after 1957. Then output slowly increased until in 1960, it reached £23.4 million. The overall growth rate was slightly more than 11 per cent per annum, or faster than the average for the economy. Construction activity accounted for 11.3 per cent of gross domestic product in 1960.

The public sector contribution to gross domestic product increased

from £9.0 million in 1953 to £15.4 million in 1960. Its growth rate of 8 per cent per annum compares favourably with that for the economy as a whole. On the face of it, the sector was quite small, at 7.7 per cent of gross domestic product in 1953 and 7.4 per cent in 1960. However this does not tell the whole story. It says nothing about public sector efforts to stimulate production in the bauxite, manufacturing, tourist, construction, and agricultural sectors; nothing about efforts directed towards accelerating the pace of economic development; and nothing about improvements in the quality of services rendered to the public. The contribution of the public sector to the country's economic growth could not be adequately measured in money terms; such contribution was, in fact, qualitative as well as quantitative.

Summary

Jamaica's economy grew rapidly and at an unprecedented rate during the 1950's. There was rapid growth in aggregate as well as per capita output. The main growth sectors were bauxite mining, tourism, manufacturing and construction. Agriculture grew more slowly than at the average rate for the economy. The public sector's contribution was quantitative as well as qualitative. The performance of the economy in the 1950's was impressive, indeed.

CHAPTER V

CONCLUSION

The main points of this essay are as follows:

1. By the early 1950's, Jamaica's fiscal policy was stressing the importance of capital formation and stability, for economic development.
2. As a result, capital flows increased significantly, especially into bauxite mining, tourism, and construction. This led to increases in real domestic product at an annual rate of about 8 per cent. Since there was no equivalent growth in population, per capita incomes, also, increased.
3. Structural change was the most interesting and, perhaps, the most significant aspect of growth. Agriculture was no longer the main productive sector in 1960, nor the only important source of foreign exchange earnings. Distribution contributed more than agriculture did to the national output in 1960, while the bauxite and tourist industries became important sources of foreign currency. The trend of production was towards diversification.

These points illustrate the fact, that, if the government of an underdeveloped country secures a rate of capital formation in excess of population growth, then that country may experience a fast rate of economic development even with the given limitations of its factor endowments.

Many important problems remained in 1960, and are still evident. Among

them are those related to the development and use of factor supplies, and to unemployment. These two problems are the most important, apart from the problems of the continuing inadequacy of savings and capital formation.

Jamaica's main resource is the land; but the terrain is predominantly mountainous; and land - especially agricultural land - is scarce. The country has an abundant supply of labour, but skilled labour, even for agricultural purposes, is in short supply. This means that Jamaica may not be really well suited to agricultural pursuits, and that a pattern of production in which agriculture plays the dominant role may not be truly consistent with the country's present factor endowments. Perhaps fiscal policy should be directed towards effecting substantial improvements in the supply and quality of land and of skills, the aim being to secure supplies of these factors in the amounts in which they will be required for efficient agricultural and mineral production.

A measure of land reform appears to be necessary. The large size of the peasant agricultural sector, and the large number of small farms of uneconomic size, suggest that the fragmentation of land ownership has proceeded too far. A more economic use of the land would involve the division of agricultural land into farms of economic size, capable of yielding a return sufficient to encourage a movement of skilled and intelligent management into farming on a commercial basis. Simultaneously, all idle land should be forced into production. Swamp reclamation schemes, and the provision of water in dry (otherwise cultivable) areas, would increase the acreage available for agriculture. Another useful measure would be to halt the encroachment of housing estates upon agricultural land. Reform along these lines is not easy to implement; but it is the direction in which fiscal policy could most usefully move the economy in the future.

Skills are necessary for efficient production in all sectors. Rapid expansion of the economy will depend, in large measure, on the availability of

skills. Importation of trained labour is costly, and reduces the capacity of local industry to compete in foreign markets. A broadening of the basis of education (to provide, for example, more accountants and more tradesmen), and provision of the necessary training facilities, are prime requisites for ensuring Jamaica's long run chances of economic success.

Most important, and intractable perhaps, is the problem of unemployment. Despite the high rates of capital accumulation and economic growth in the 1950's, the solution of the unemployment problem did not appear any closer in 1960. The difficulty was not an increase in numbers, because accretions to the labour force were being offset or at least considerably reduced by emigration. There was a net emigration of 107,000 persons aged sixteen years and over (including 7,000 workers to farms in the United States of America), between 1953 and 1960.¹ This figure represented between 13 per cent and 16 per cent of the labour force (assuming a work force of 650,000 - 800,000). It is a remarkable phenomenon, indeed, that the combination of substantial economic advance and such large-scale emigration in the 1950's did not completely solve the unemployment problem.

In referring to the period 1950 to 1960, Sir Arthur Lewis posed the question "How does a country double its output, lose 11 per cent of its labour force by migration, and still have 12 per cent unemployed?"² The question is a pertinent one. With a given technology and a constant wage rate, one expects employment of labour to rise as capital accumulates. This follows from the fact that factors of production are not perfectly substitutable, so that even

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Department of Statistics, Annual Abstract of Statistics 1962, No. 22, pp. 16 - 17, Tables 23 - 26.

²

W. Arthur Lewis, Jamaica's Economic Problems (Reprint of a series of seven articles written exclusively for the Daily Gleaner) (Kingston: Daily Gleaner, Sept. 1964) p. ii.

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if the technology is flexible, it must pay the business man to employ additional units of labour to complement the extra amount of capital used; otherwise, diminishing returns to capital will prevail. No doubt, new jobs were created in the process of capital accumulation. However, the condition that wages must be constant did not materialise. In so far as wages were not constant, but were rising, the tendency for total employment to rise would have been discouraged.

Wages rose sharply under the impetus of trade union rivalry, and because of continuing increases in the cost of living.⁴ Higher wages in the modern sector forced up wages in the rural sector beyond what the latter sector could pay. People refused to work for less than what their counterparts earned in the advanced sector. Simultaneous with the increasing unemployment which ensued, there were constant and widespread complaints about a shortage of labour, particularly on the farms.

More fundamentally, higher wages changed the relationship between factor prices. In particular, they affected the relative prices of labour and capital. As labour became more expensive, capital became relatively cheaper. Rising wages tended, therefore, to bring about an increasing rate of substitution of capital for labour.

Marshall Hall takes a different view. He says that

high wages are not the villains in the continued high rate of unemployment as wage changes do not appear to have kept pace with

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On the characteristics of the production functions relevant to the modern and traditional sectors in an underdeveloped economy, see, for instance, Benjamin Higgins, Economic Development (New York: W.W. Norton & Co. Inc., 1959) pp. 326 - 328.

4

The two large trade unions, each affiliated to a different political party, vied with each other for increases in membership, by procuring higher wages for the workers they represented. The ultimate aim of the rivalry was to secure support at the polls for the political party with which each union was associated.

productivity gains.

While not blaming automation for unemployment, he notes that tax incentives encouraged capital-using methods of production, and that a goal of full employment might change investment priorities and the policies designed to encourage investment.⁶ On this view, factors other than high wages were responsible for capital substitution.

It is quite true that tax incentives have the same effect, as high wages have, on the choice of factor proportions in production: they lower the price of capital relative to the price of labour. For that reason they did encourage the high degree of mechanisation in the bauxite industry and in the new factories. However, tax incentives could hardly have influenced the increasing use of machinery in households, in offices, and in the new segments of the older industries such as road making and construction, where they did not apply. The trend towards mechanisation pervaded the entire modern sector, in fact, regardless of the influence of tax incentives. Even if high wages were not the main factor in the high level of unemployment, the conclusion seems inescapable that, with the given rate of tax incentives in force, the rising level of wage rates tended to lower the rate of increase in the employment level.

Although mechanisation reduced the need for workers, it was not the core of the problem of the continued high rates of unemployment. As may be seen from the impressive gains registered in per capita real incomes (Table XVIII), mechanisation raised average productivity, and so permitted payment of the higher wages which labour demanded. Furthermore, by raising productivity, it increased profits, and improved the competitive position of exporters

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Marshall Hall, "An Analysis of the Determinants of Money-Wage Changes in Jamaica, 1958 - 1964," Social and Economic Studies, Vol. 17, No. 2, June 1968. p. 143.

6

Ibid., pp. 143 - 144.

- a fact which was vitally important for the export sector. Without mechanisation, the unemployment level would have been higher at the given level of wages.

A significant factor in this issue, is the imbalance which obtained between average productivity, prices, and average money wages. Brewster finds that between 1957 and 1962, money wages for the economy taken as a whole, rose about 9-1/2 per cent per annum, and average productivity rose only about 6 per cent per annum.⁷ Now, these wage increases would obviously have been tolerable if they were reactions to increases in price. In the home market, wage increases could be countenanced to a certain extent, because they were counter-balanced, wholly or partially, by higher prices as a result of tariff protection, import licences, and monopolistic influences in the distributive trades. In the world market, however, Jamaican entrepreneurs are powerless to raise prices, because of Jamaica's small share of that market. Jamaica's costs rose⁸ much faster, in fact, than the world prices of the country's exports. It is not surprising, therefore, that in spite of the increased productivity in the export sector consequent upon the increase in mechanisation therein, employment in this sector did not rise as markedly as one would have expected.

Keeping money wages from rising too fast, is of fundamental importance⁹ to the problem of reducing unemployment. One possible method of accomplishing

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Havelock Brewster, "Wage, Price and Productivity Relations in Jamaica, 1957 to 1962," Social and Economic Studies, Vol. 17 No. 2, June 1968, p. 119.

There were three notable exceptions. In the mining sector and at most of the sugar factories, productivity was far ahead of money wages; in agriculture, productivity moved at about the same pace as money wages, because a voluntary exodus of workers from the rural areas reduced employment in agriculture.

8

W. Arthur Lewis, Jamaica's Economic Problems (Kingston: Daily Gleaner, Sept. 1964) p. iv.

The evidence for the disequilibrium between costs and prices is the fact that Jamaica's main agricultural exports (sugar, bananas, and citrus, for example), needed special marketing arrangements for survival.

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The emphasis is on money wages, because wages are such a large proportion of total costs. But the argument holds good, as well, for other costs which can be controlled within the country.

this is a voluntary restraint by both labour and management on wage and price increases. Another is a wages policy imposed by the government.

There is a clear choice between two alternatives for future fiscal policy. On the one hand, fiscal policy may choose to promote a high rate of income growth with its accompanying high unemployment and risk of social instability. On the other hand, it may try to secure a slower rate of income growth consistent with more employment and a lower risk of social instability. There is no doubt that the latter choice is to be preferred.

The period 1953 to 1960 is one in which the tools of fiscal policy were brought to bear on Jamaica's economic problems. In 1960, the country was still underdeveloped, and a remedy was not in sight. This was not unexpected. Decades of neglect could not be remedied in seven years. The significant fact is, that Jamaica had applied fiscal tools to the problem of its basic underdevelopment, with encouraging results.

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