

THE ECONOMIC PERFORMANCE OF THE CARIBBEAN AND ITS IMPACT ON THE LABOUR MARKET

*Professor Compton Bourne, Executive Director, Caribbean Centre for
Money and Finance.*

(Presentation to the Meet With The Court Symposium 2, 17 May 2014.)

Economic Performance:

There is hardly any good news, or even encouraging news, about Caribbean economic performance these days. Since the onset of the global economic and financial crisis in 2008, economic growth has faltered except in Guyana and Suriname where GDP growth rates averaged 4% between 2008 and 2013. Belize, St Lucia and Dominica managed to grow at 2.5%, 0.4% and 1.3% respectively. Everywhere else there was economic recession during that period. Fortunately, inflation was not a problem except in Jamaica, Suriname and Trinidad and Tobago, and to a lesser degree in Barbados.

Economic growth requires investment which itself requires financial resources obtained through domestic savings, foreign savings or some combination of the two. Several countries have domestic savings rates which are low in comparison with the savings rates achieved by Latin American countries which have recovered from the global recession. But some caution needs to be exercised in attributing the persistence of Caribbean economic recession to inadequate domestic savings. It is noticeable that some of the economies experiencing economic growth have low domestic savings rates and that some of the economies in recession have substantial or even high domestic savings rates. Two additional factors which must be considered are the success that a few countries have had in attracting direct foreign investment, i.e. foreign savings, and the poor efficiency of public sector investment in many Caribbean countries.

A critical aspect of Caribbean economic performance is the fiscal problem faced by many governments. They have experienced much difficulty in sustaining increases in current revenues because the tax base has been weakened by falling labour incomes, less than buoyant corporate incomes except in the financial sector and mineral producing sectors in Guyana and Suriname, and slow growth of international trade. In contrast, current expenditures have expanded continuously in most countries. This mismatch of current revenues and current expenditures has resulted in quite substantial fiscal deficits.

The fiscal problem is accompanied by a government debt problem. In 2013, despite a deceleration of debt occasioned in part by deteriorating international creditworthiness and debt restructuring, government debt to GDP ratios were elevated, i.e. greater than 60%, in Antigua and Barbuda, Barbados, Dominica, Grenada, Jamaica, St Kitts and Nevis, St Vincent and the Grenadines, St Lucia and Belize.

As a corollary, interest payments on government debt became a very substantial proportion of government current expenditures, reducing budgetary scope for expenditures on wages and salaries, goods and services, and transfers and subsidies.

In several countries, involuntary credit to government by private suppliers has become part of the economic landscape. On the private sector side, financial institutions having to contend with deterioration in the quality of their credit portfolios responded by increasing their provisions for loan losses and imposing more stringent criteria for lending to businesses and to the personal sector. Excess loanable funds and unsatisfied demands for credit co-exist in the Caribbean financial sector.

Labour Market Consequences:

The impact on the labour market of economic recession and stagnation combined with fiscal weakness and credit supply restraint is widespread. Labour market statistics in the Caribbean are woefully inadequate. Many countries rarely collect, organise and publish even the most basic data and in several countries which did so the coverage is discontinuous.

However, the most noticeable impact is rising levels of unemployment as labour is retrenched in both the private sector and the public sector. In four countries for which unemployment data are available, unemployment rates are higher post-2008 than they were in 2008. The most dramatic recent example of public sector retrenchment as a response to macroeconomic performance failure is the planned reduction of the Barbadian public sector employed labour force by a reported 3000 workers.

Fiscal effects on labour markets are not limited to direct employment reduction in the public sector. Budgetary cutbacks on transfer payments and subsidies diminish financial resources available to households and enterprises which then negatively affect their purchases of goods, services and labour.

Reference was made previously to the accumulation of government arrears to domestic suppliers of goods and services. This too has put pressure on the ability of enterprises to maintain their normal labour force and in some situations has led to sizeable retrenchment. The overall unemployment rate does not tell the whole story. There are several missing elements.

One is the discouraged worker phenomenon whereby both previously employed persons and those had not worked before withdraw from the labour market because of pessimistic perceptions about their

employment prospects. In such instances, the unemployment rate under-estimates the negative impact of poor economic performance on employment.

A second element is the differential impact on various categories within the labour force. Unemployment rates tend to be higher among persons under the age of 25 and among females. Youths because they are late entrants to the labour market are short on experience and are more readily rationed out of jobs when there is economic contraction. In respect of females, it is widely argued that because they are preponderantly in marginal service and clerical jobs, they too are more adversely affected in economic downturns.

There is reason for thinking that economic recession and stagnation have weakened the bargaining power of workers and depressed wages. In Barbados, annual percentage changes in the wage index decreased from an average of 4.4% in 2008-2009 to an average of 2.3% in 2010-2012. In Trinidad and Tobago, the annual average change was 10.3% between 2008 and 2010 then fell to 2.3% between 2011 and 2013. Data on median yearly wage increases published by the Industrial Court of Trinidad and Tobago show average annual increases of 5.8% for reference periods starting in 2008, 4.8% for those starting in 2009 and 5% for those starting in 2010.

Not only have wage increases been restrained, they have failed to keep up with inflation. For example, in Jamaica, average annual increase in earnings for 2008-2012 was 8.7% while the average annual increase in the consumer price index was 11.7%.

In the mineral exporting countries like Trinidad and Tobago, Guyana and Suriname whose exports are in high demand, improved economic performance at the sector level can distort the national labour market and create unemployment outside of the booming mineral export

sector. This is a version of the Dutch Disease phenomenon in which wage rates increase while narrowly justifiable in the booming sector have a demonstration effect on wage rates in other sectors where productivity changes do not warrant the same magnitude of wage rate increases. In such instances, success in the mineral export sector makes labour less affordable or product prices uncompetitive in the other sectors, thereby weakening the demand for labour with adverse consequences for the national labour market.

The last labour market aspect on which I touch is labour migration within the Caribbean and to the Caribbean. Random observations and news reports suggest that Caribbean labour has been moving from poorly performing economies to other where job prospects and economic opportunities seem better. These Caribbean workers tend to be in less well remunerated segments of the labour markets and tend to be less well protected in terms of worker rights and working conditions.

Another strand of labour migration correlated with the growing recourse to Chinese foreign investment and aid is the entry of large numbers of presumably temporary Chinese workers and small business enterprises into many Caribbean countries. This Chinese model of conjoint investment and labour migration certainly reduces and might even negate the domestic employment gains Caribbean countries would normally hope to derive from an inflow of foreign capital.

Future Prospects

The economic outlook for 2014 and 2015 is one of slow growth in most of the individual economies. The projections made by the International Monetary Fund show 8 countries growing faster in 2014 and 2015 than in 2013, with the highest growth rate in that group being for St Kitts and Nevis with projected growth rates of 2.7% in 2014 and 3% in 2015..

Four other countries are also projected to grow but more slowly than they did in 2013. This second group includes Guyana and Suriname whose growth rates remain in the region of 4%. No change in economic growth is projected for Trinidad and Tobago; Barbados is projected to experience a 1.2% decrease in real output in 2014 and a slight recovery to 0.9% in 2015.

Government finances are expected to remain problematic in 2014. In only 7 countries is the public sector primary balance projected to improve. In 5 countries, it is expected to deteriorate. Public sector debt is projected to rise relative to GDP in 12 countries, including the most highly indebted countries. In 2015, there should be clear improvement in both fiscal accounts and gross public sector debt. Primary balance surpluses are projected to be larger and deficits to be smaller. In many cases, debt ratios are projected to decrease slightly. The exceptions are Antigua and Barbuda, Bahamas, Barbados, Dominica, St Lucia and Suriname.

These projections of macroeconomic performance do not augur well for labour market conditions in 2014 and 2015. Much reliance will therefore have to be placed on the implementation of national plans and policies for achieving and sustaining faster rates of growth in the medium term. One of the hard lessons of structural adjustment policies pursued by many countries in the 1980s is that the more deferred is the economic recovery and the more delayed are improvements in labour market conditions, the more likely will be debilitating deterioration in social stability.

ECONOMIC PERFORMANCE OF THE CARIBBEAN AND ITS IMPACT ON LABOUR MARKETS

Presented by :

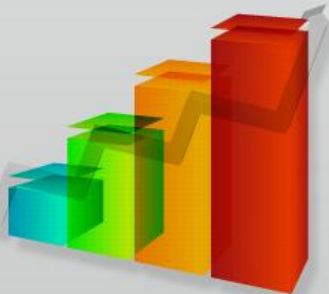
Professor Compton Bourne

Executive Director Caribbean Centre for Money and
Finance

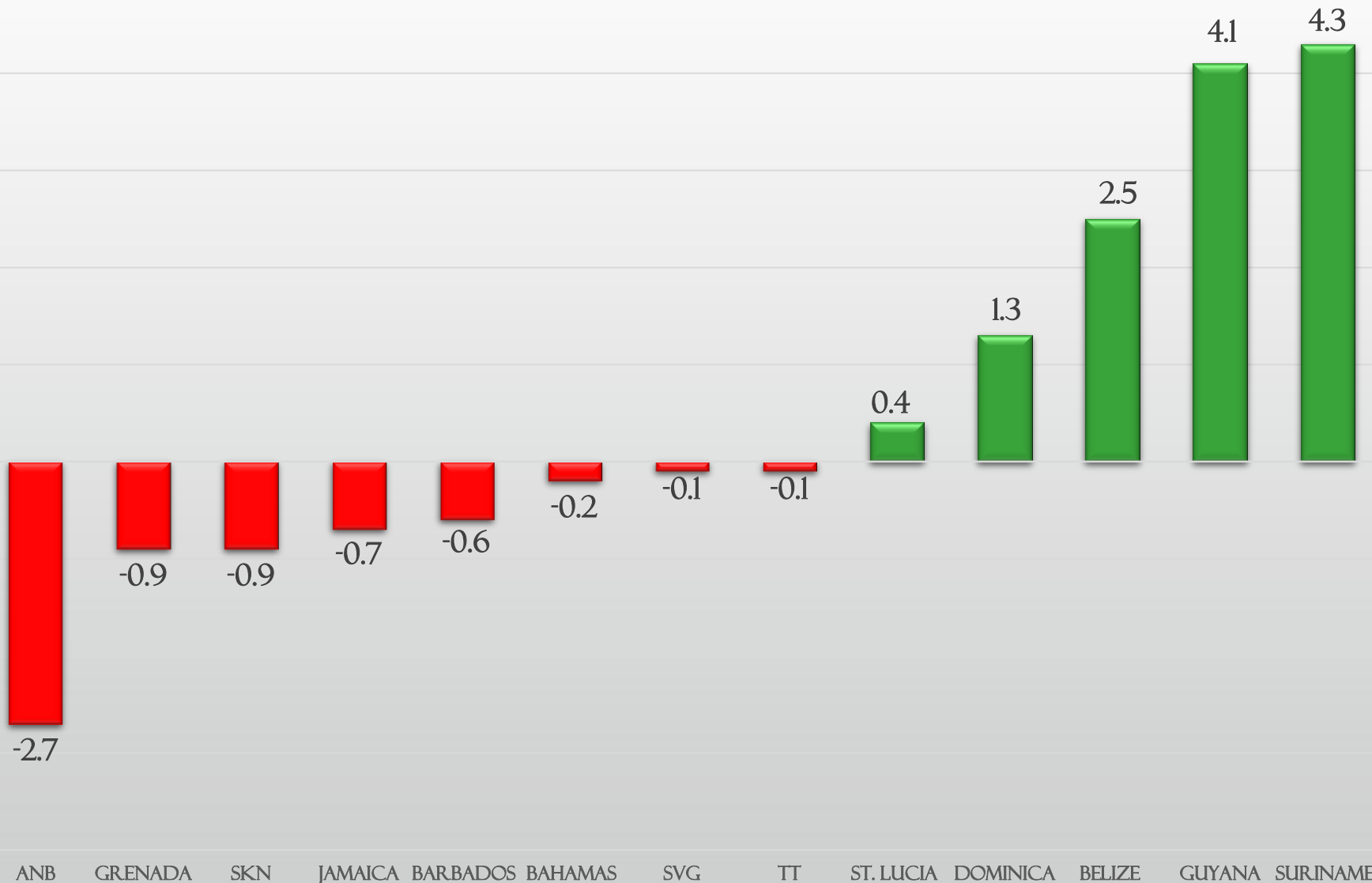


OVERVIEW

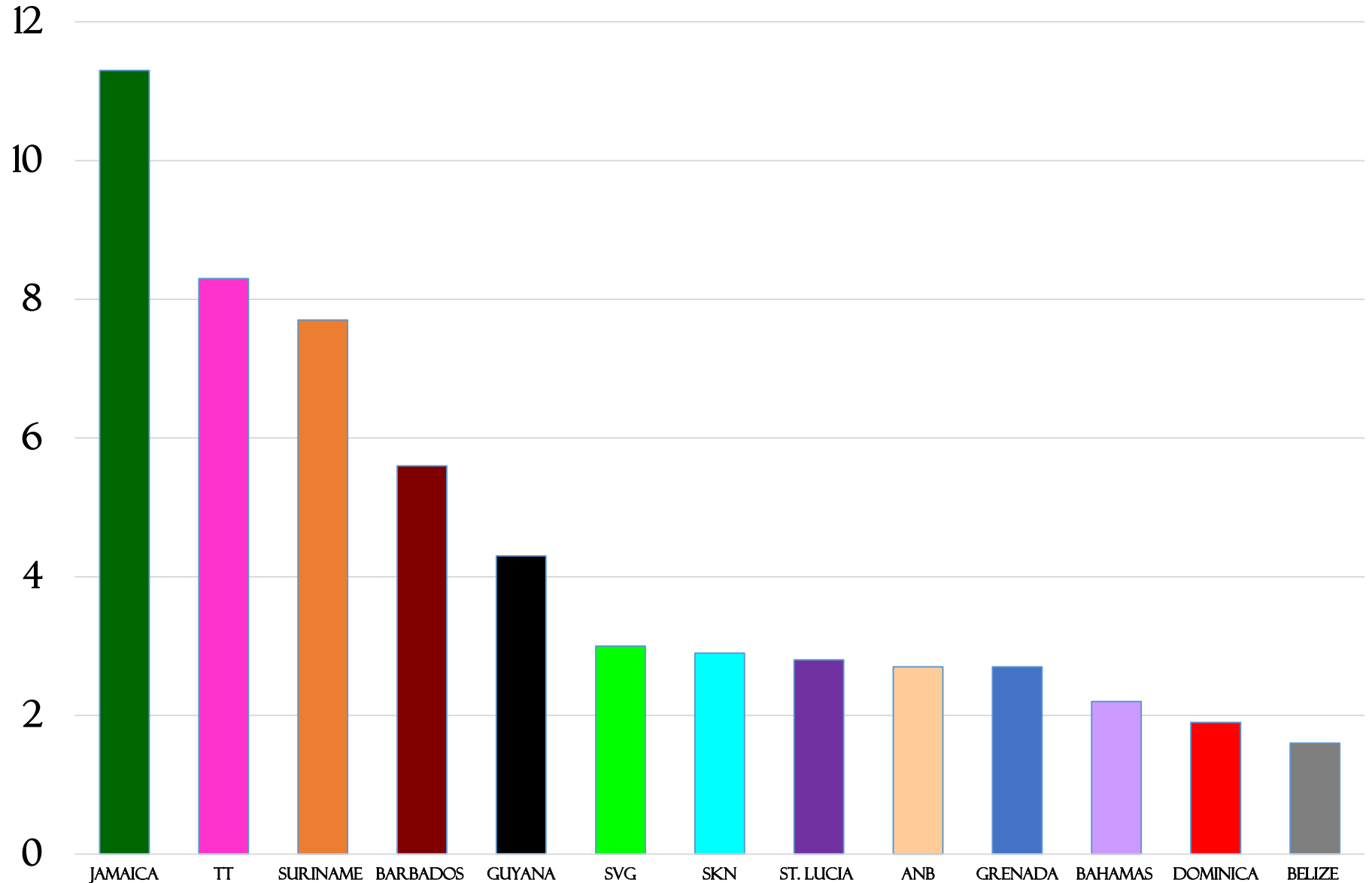
- In this presentation, I try to provide a summary overview of economic performance of Caribbean countries and to outline how that performance may have affected labour markets.



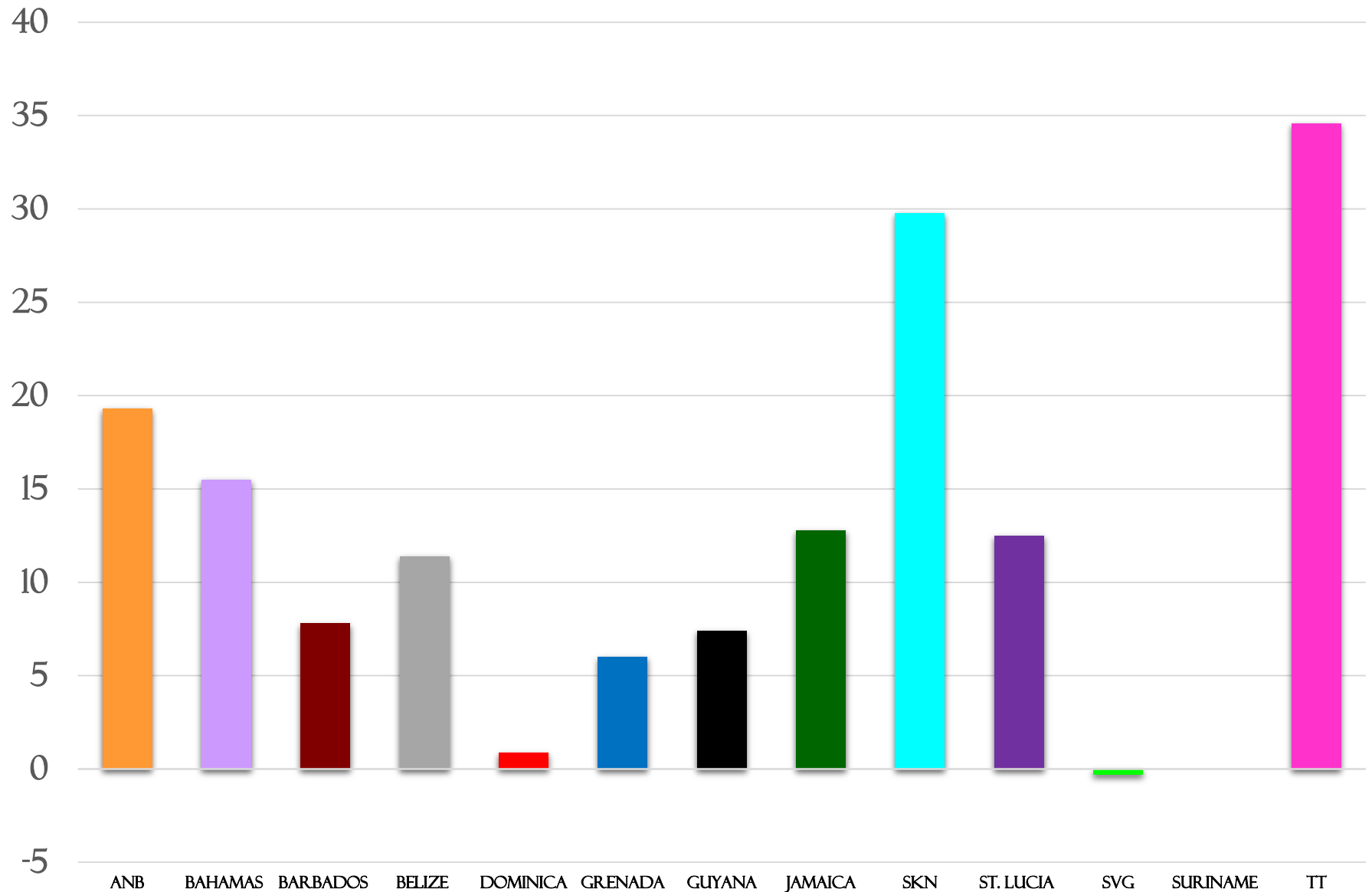
Average Growth Rate (%) : 2008-2013



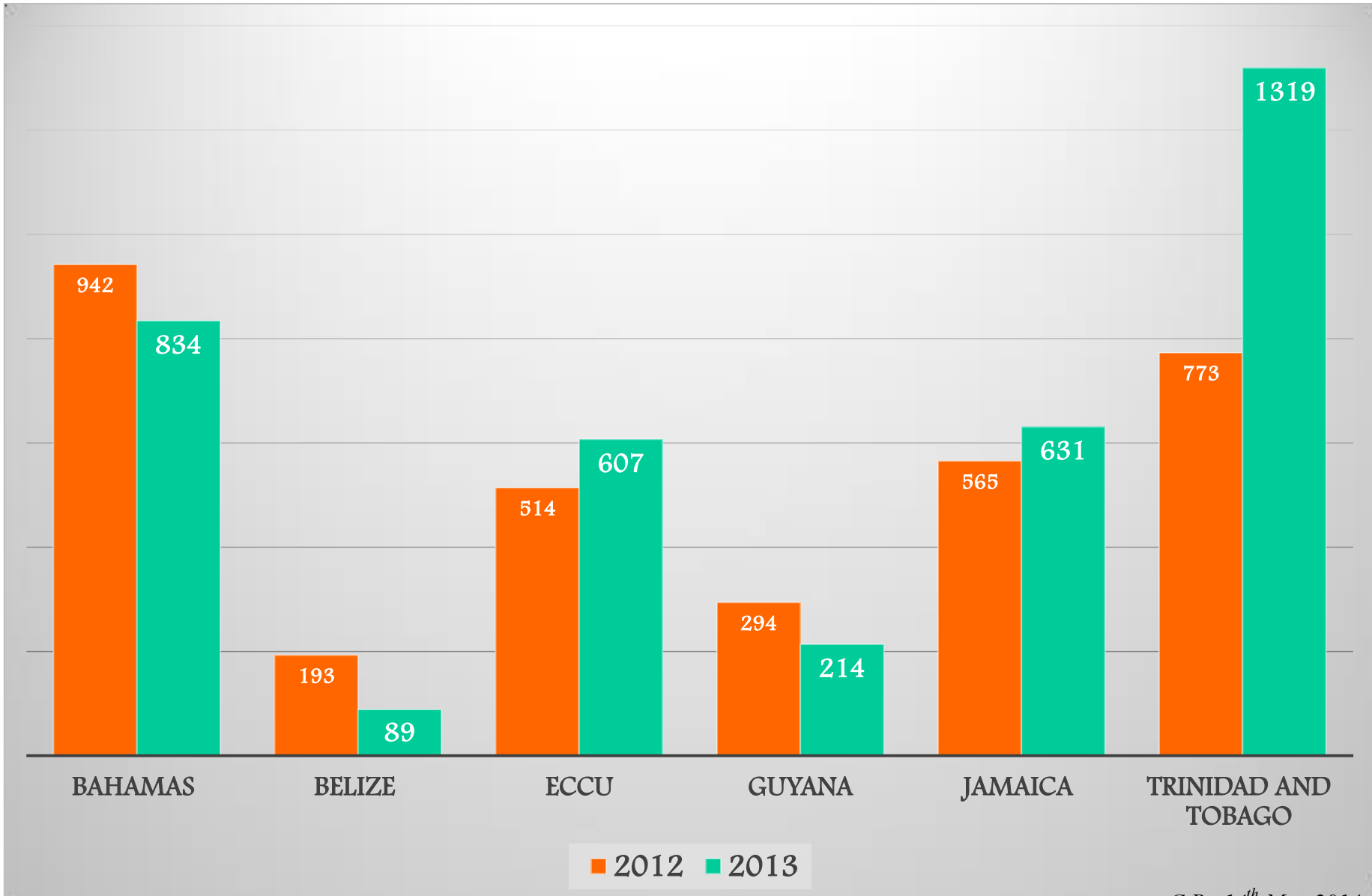
Average CPI Inflation (%) : 2008-2013



Average Domestic Savings Rate (%)

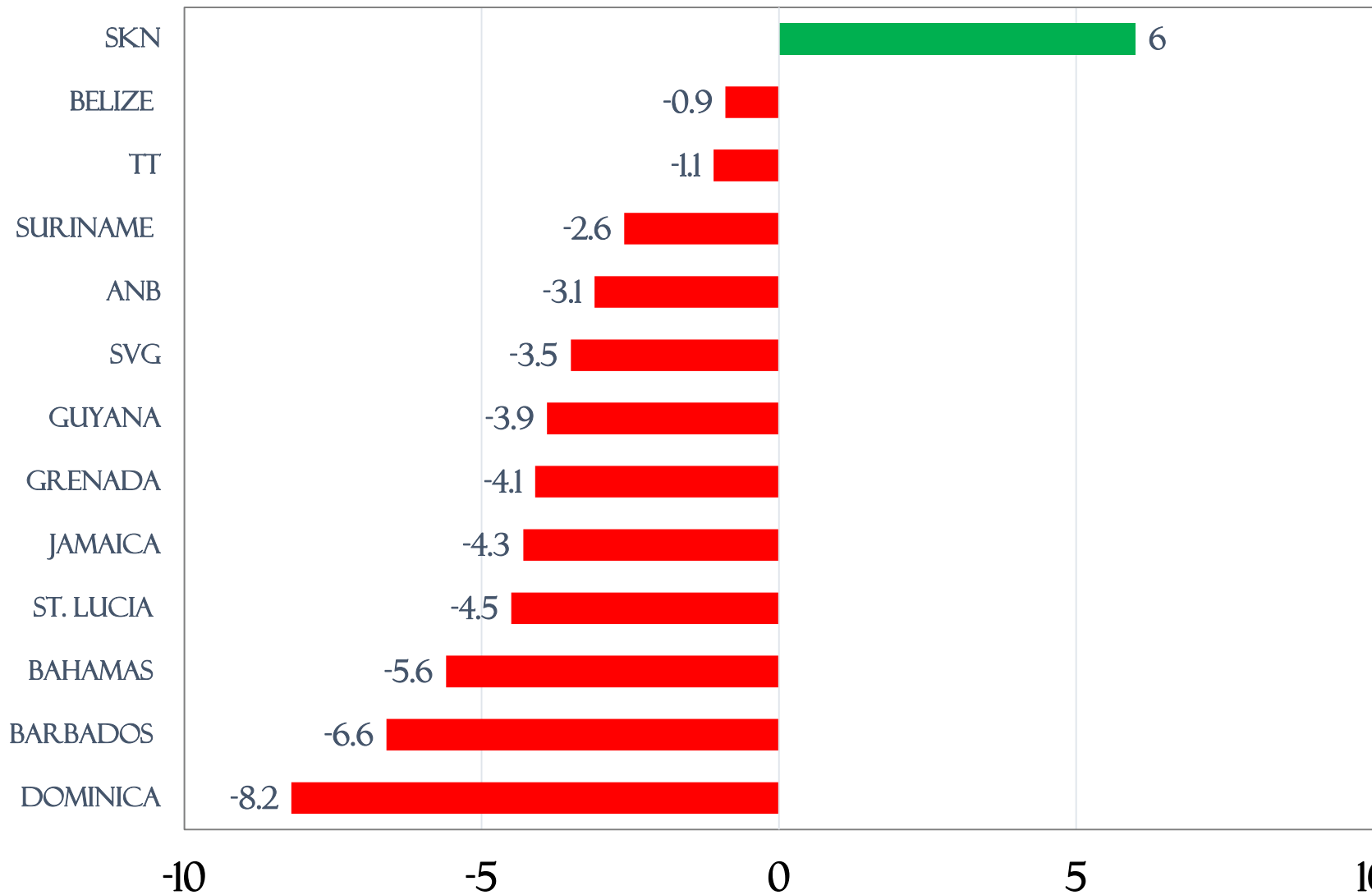


Foreign Direct Investment (US\$M)

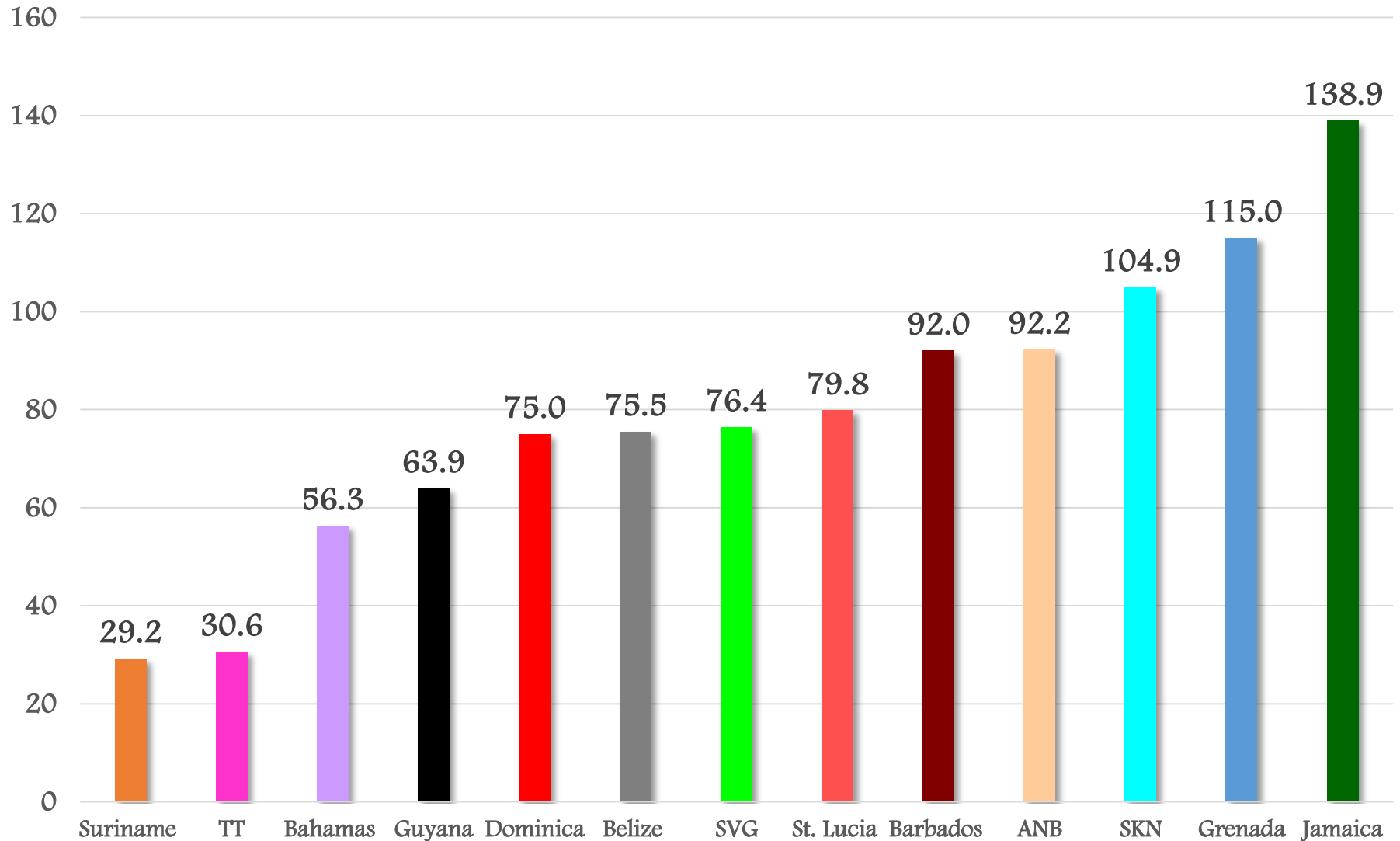


Fiscal Balance(%of GDP) :

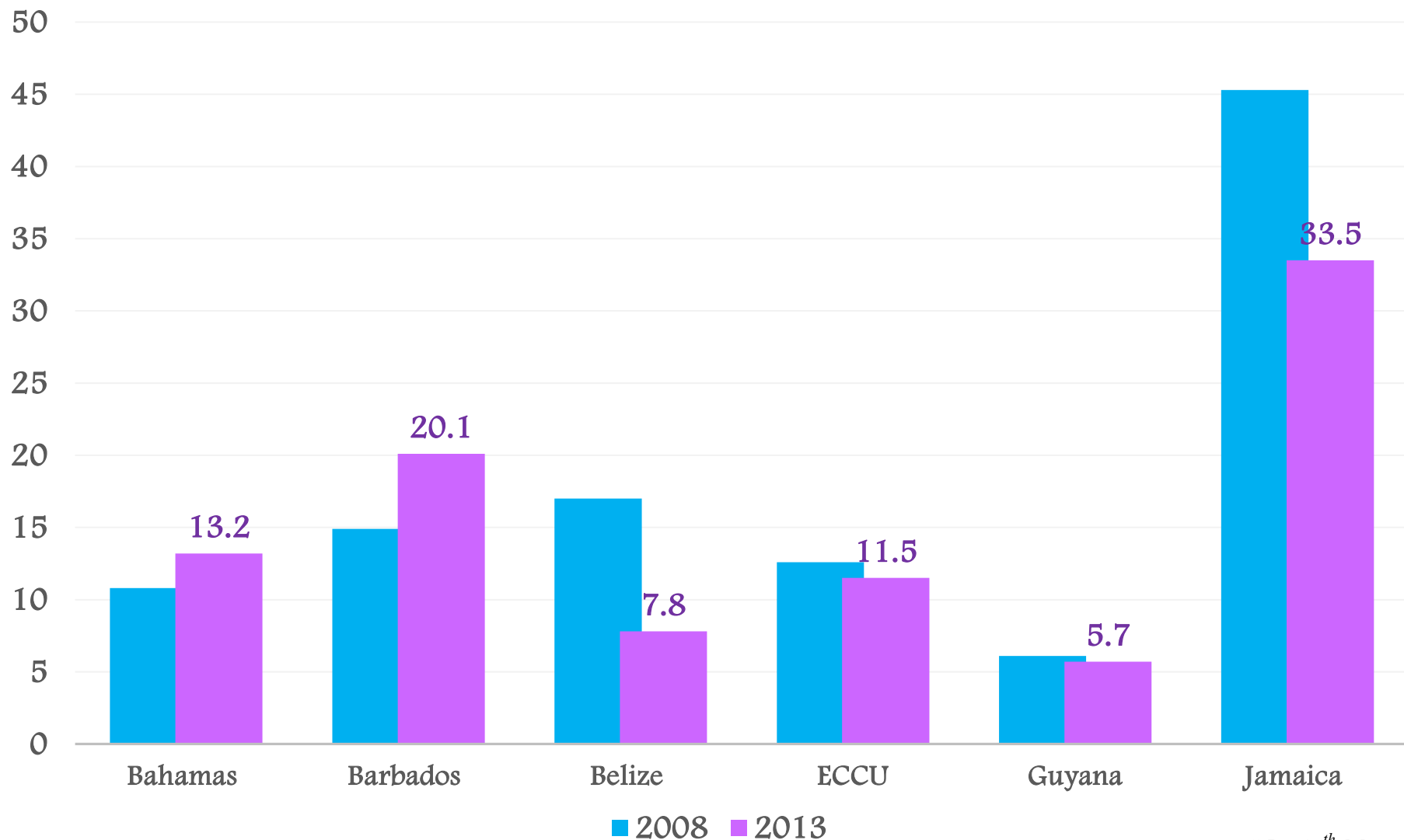
2004-2013



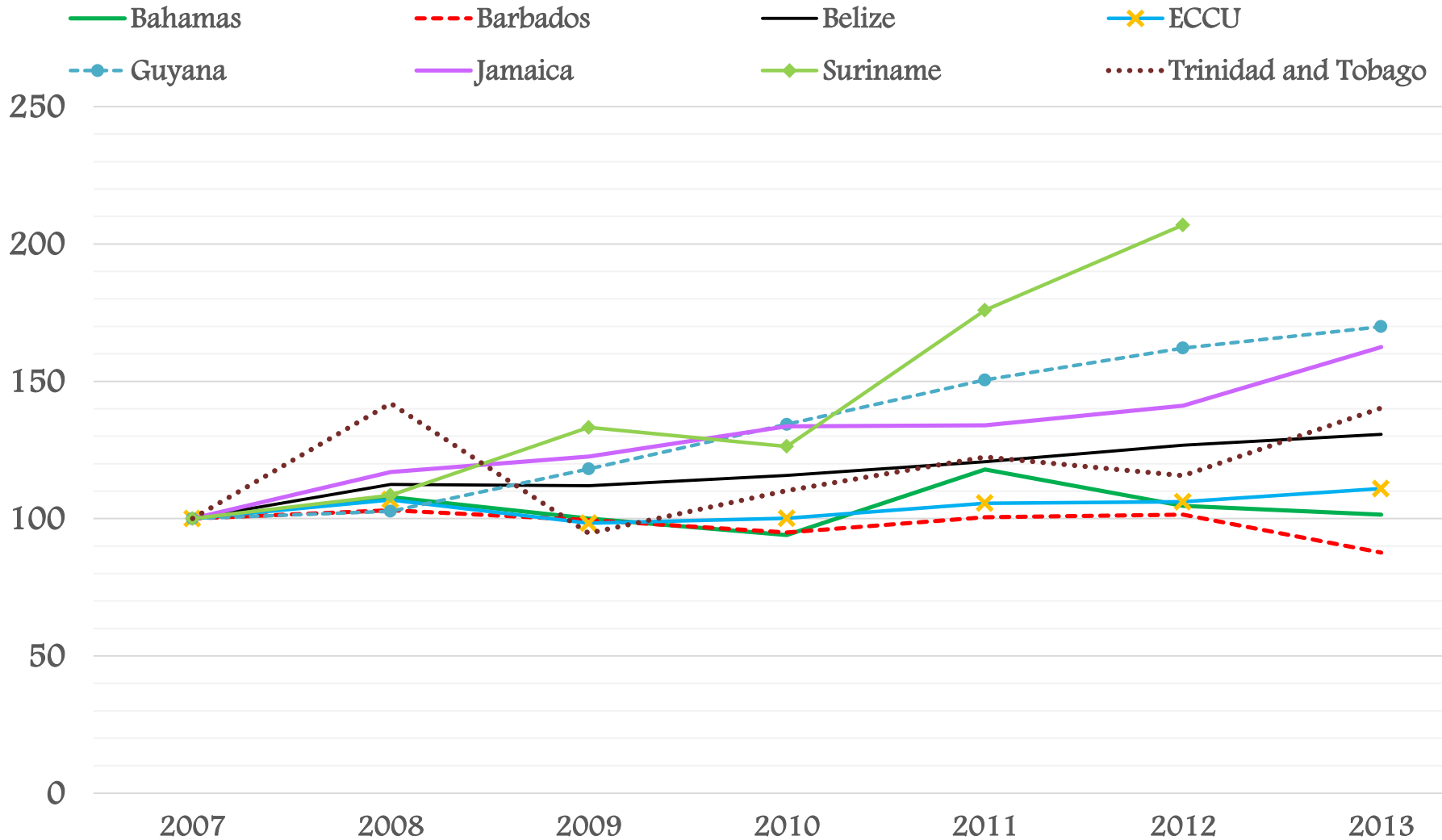
Public Sector Gross Debt (% of GDP) : 2013



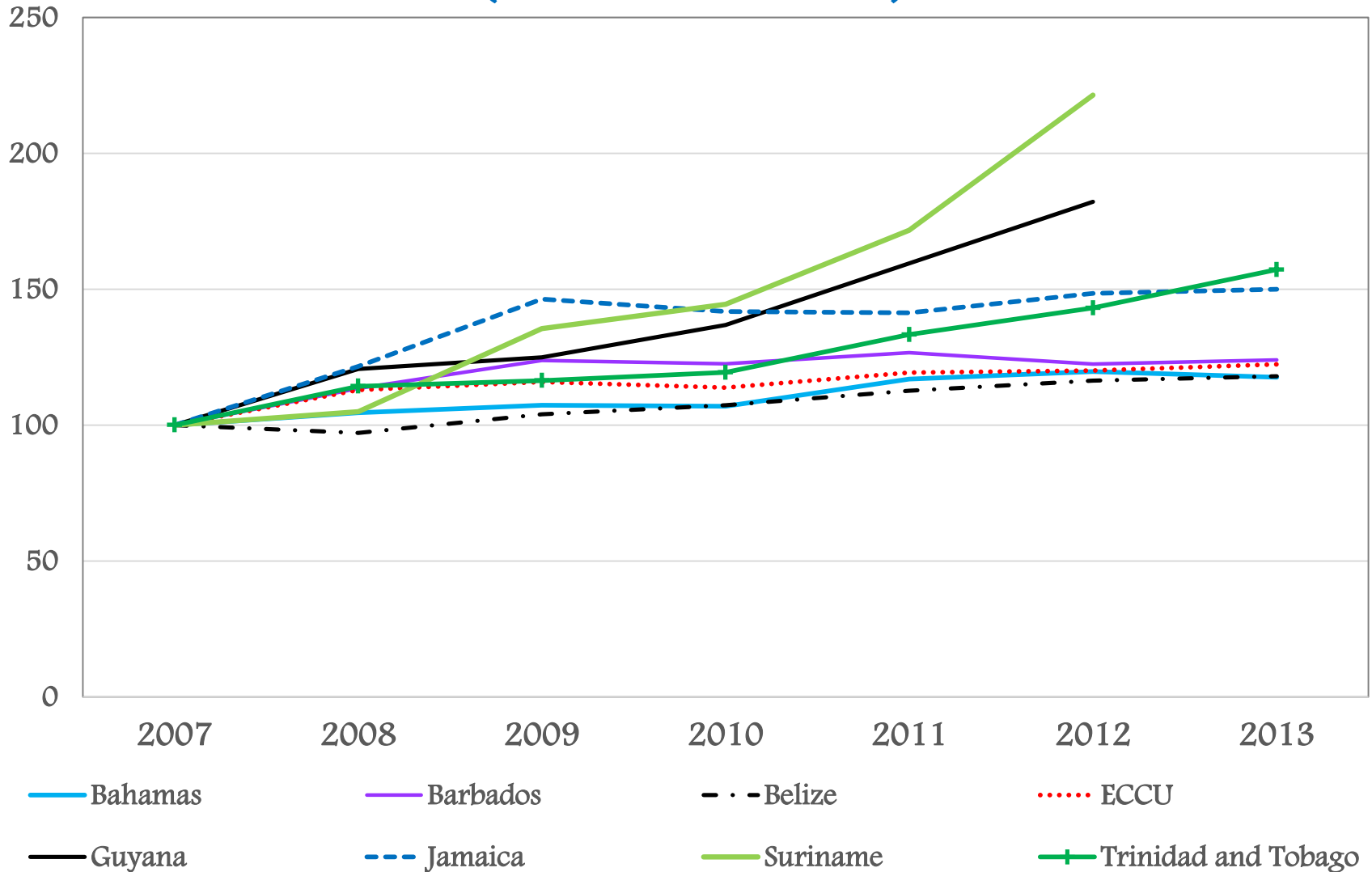
Interest Debt Payments as % of Gov't Current Expenditure



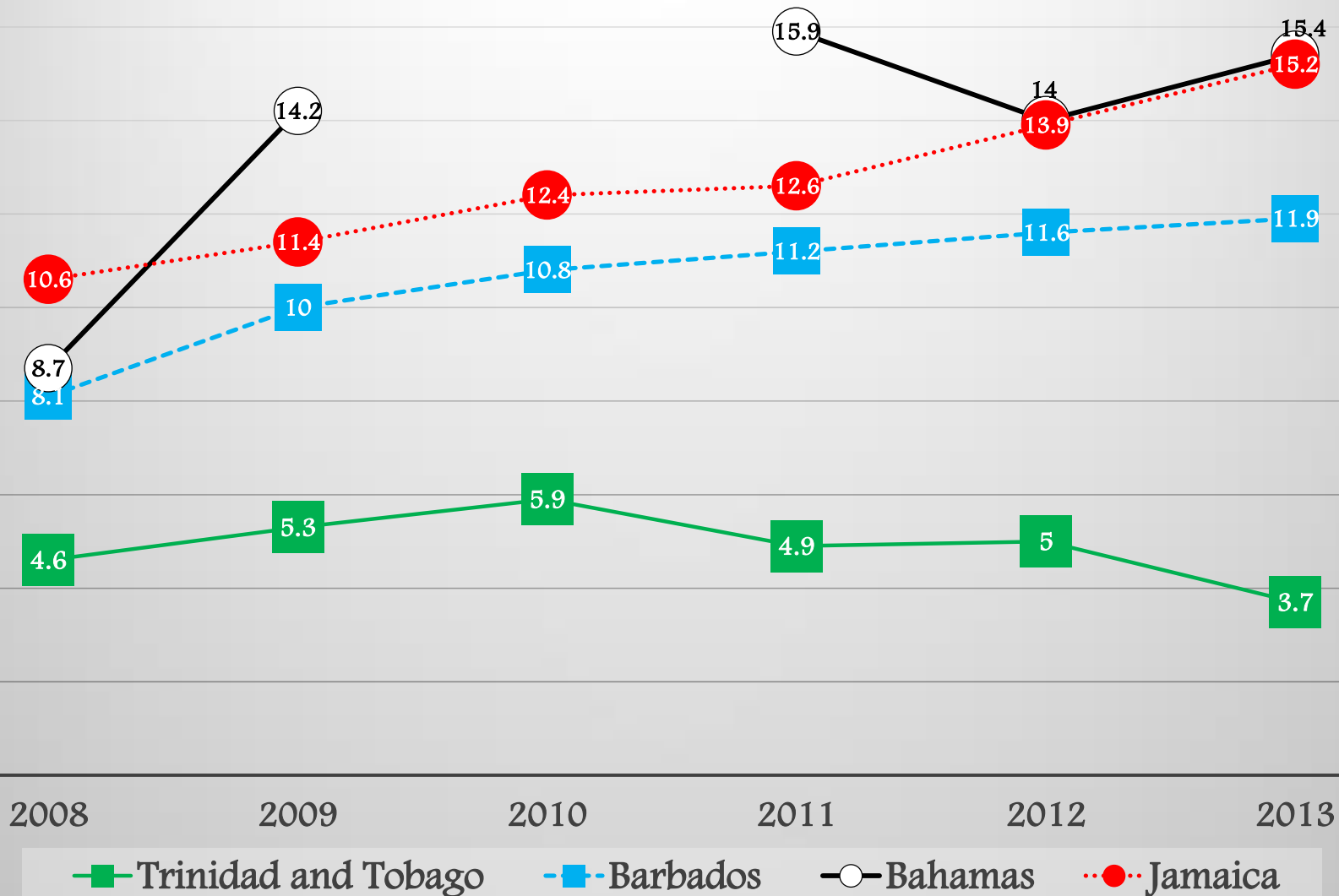
Index of Government Current Revenue (2007=100)



Index of Government Expenditures (2007=100)



Unemployment Rates (%)



Per cent Change in Wage Index



Economic Projections: 2014,2015

COUNTRY	GDP GROWTH RATE (%)		PUBLIC SECTOR GROSS DEBT AS % OF GDP	
	2014	2015	2014	2015
Antigua and Barbuda	1.6	1.9	100.7	102.4
Bahamas	2.3	2.8	59.3	59.6
Barbados	-1.2	0.9	94.7	95.0
Belize	2.5	2.5	80.4	92.6
Dominica	1.7	1.7	75.8	76.3
Grenada	1.1	1.2	117.0	115.6
Guyana	4.3	4.0	64.4	64.6
Jamaica	1.3	1.7	133.7	129.1
St. Kitts and Nevis	2.7	3.0	91.2	84.6
St. Lucia	0.3	1.0	83.7	87.0
St. Vincent & Grenadines	2.3	2.9	85.0	84.9
Suriname	4.0	4.0	37.0	42.0
Trinidad and Tobago	2.2	2.2	89.1	88.5
Tourism Dependent	1.4	1.9	93.5	92.7
Commodity Exporters	3.2	3.2	53.8	50.0
ECCU	1.4	1.8		

**Thank you
for your
attention.**

