CHAPTER 8

SOME ISSUES OF THE 1990S

1. General Development Trends

The dynamic of the developments in the late 1970s requires an examination, however briefly, of some events in the 1980s, because the crisis which was believed by some to be short-lived, refused to go away and instead continued to depress the economy.

Despite the unavailability of a wide range of statistical data, and in some cases their provisional nature, the general trends of the information reveal the nose-dive into which the economy had set its course. According to Thomas (1989a), real Gross Domestic Product at factor cost was 22% below the level achieved in 1980 and some 28% lower than in 1976. The poor performances of sugar, rice and bauxite were the principal reasons for this decline. Alumina production had ceased by 1983. Merchandise exports were US$389 million in 1980 but fell to just over US$200 million by 1989, while imports were 47% lower in 1989 than they were in 1980. The country's net international reserves moved from a minus US$207 million in 1980 to minus US$664 million in 1989, while the current account deficit on the balance of payments rose sharply to 60% of the Gross Domestic Product in 1989 as against 22% in 1980. Further, the internal public debt which stood at 123% of the Gross Domestic Product in 1980 raced to 219% by the end of the 1980s.

Efforts to improve production and productivity in the main sectors (sugar, rice, bauxite) were unsuccessful and export earnings were far below the levels required to finance imports as well as service the rising external debt of US$1.7 billion of which US$1.2 billion represented arrears. In 1989, the debt service ratio was projected at 60% of exports.

Physical plant in the three major sectors deteriorated drastically, while economic and social infrastructure continued to decay. The breakdown of sea defences and drainage and irrigation was never as widespread and as dramatic as during the late 1970s and 1980s. Physical assets in electricity generation, education, health, roads, public transportation, telecommunications were all run-down and in a state of such disrepair as to be incapable of serving the needs of the people; they were, in fact, impediments to the productive process. The outward migration of skilled personnel to the Caribbean and North America continued apace. Indeed, in the words of the Commonwealth Advisory Group, Guyana now ranks "below Haiti as the poorest country in the Western Hemisphere" (Commonwealth Advisory Group, 1989).

2. The Parallel Economy and the Resource Allocation Problem

As the economy plunged to its nadir, the Government's adjustment measures — trade restrictions, input prohibitions, cuts in government expenditure, and retrenchment and redeployment of the public employees — together with acute foreign exchange shortages, supported activities in the parallel economy which began to emerge in the late 1970s. During the 1980s, this *soi-disant* parallel market provided many of the basic requirements of consumers as well as commodities normally supplied through activities in the formal economy but which were now not forthcoming because of severe foreign exchange constraints. As noted earlier, this parallel economy emerged as one of the inevitable directional effects of the Government's partial equilibrium approach to the structural imbalances in the economy. As it developed and became more vibrant and entrenched in the economic system, the less successful were Government's efforts to stimulate the economy. The parallel economy is a sector built and which continues to rest on the illusion of development. Although it provided many of the goods needed, these have been at high cost with inflationary repercussions. In turn, this inflationary tendency encouraged speculative activity, distorted price relations, induced capital flight, and undermined the value of the Guyana dollar. Since activities in the parallel economy go unreported, the Government was denied taxes on imports and exports and other revenues. Further, directing the flow of foreign exchange out of the formal economy for purchasing, in the main, goods of a consumptive nature, it effectively reduced the productive capacity of the country. In short, the parallel economy soon became the quintessence of the misallocation of scarce national resources (Thomas, 1989b).

In the early days of the parallel economy, official policy was directed at its suppression. However, as explained earlier, this was a period of economic drift and stagnation so that the formal economy was unable to supply any of the goods and services to supplant the parallel economy. In these circumstances enforcement mechanisms were certain to fail.

With a change in administration in late 1985 and a subsequent move towards the resuscitation of the private sector, aggressiveness towards the parallel economy ceased; it was slowly being legitimised. The upshot was that by the close of 1989 there was a type of development that was representative of anarchy in the economic system. The economy was perched on the horns of a dilemma — caught between the Scylla of high cost, inflationary and speculative activity of the parallel economy, of spiralling food and other commodity prices, and the Charybdis of a stagnant and depressed formal economy of no commodities at all.

The solution to this problem lies in increased production and exports which alone will expand foreign exchange availability, eliminate the deficit on the balance of payments and increase access to goods in the formal economy. Other measures will be no more than attempts to manipulate prices which will exacerbate the already volatile conditions in the economy.

3. Relations with the IMF and the Economic Recovery Programme

In the early 1980s, the Government of Guyana achieved an accommodation with the International Monetary Fund in respect of a credit package to finance its programmes because it perceived that the Fund's conditionalities exact too high a cost in terms of social and political repercussions. As a result, the Government was forced to pursue its structural adjustment objectives with inadequate resources. The continuing decline of the economy at this time highlighted the incapability of the Government to service the debt as payments became due. This worsened the accumulation of arrears to such an extent that by May 1983, Guyana was in arrears with respect to its repayments to the IMF, and exactly one year later, in May 1984, became ineligible for further financing from the Fund. Guyana also became highly indebted to the World Bank and the Caribbean Development Bank. Relations with her major trading partners in Europe and North America became strained while her partners in CARICOM recoiled in succession before her continued incapability to meet her financial obligations. For Guyana, this was her moment of inglorious isolation. Without external financing the Government was unable to address the imbalances and macro-economic dislocations in the economy as these became intractable.

The economy continued to deteriorate and the new administration in 1985 failed to raise new funds from external creditors. Multilateral and bilateral lenders refused to countenance suggestions for re-financing until an IMF agreement was signed. In response to this situation, the new administration undertook a number of initiatives which effectively changed past policy and which were intended to mend its fences with the Fund and move the country out of its position of isolation. Between 1985 and 1988 there were a number of changes in the official Central Bank exchange rates for the Guyana dollar against the US dollar, with a substantial one occurring in January 1987. This steep devaluation in 1987 was accompanied by the establishment of a Free Foreign Exchange Window at commercial banks with an initial exchange rate of G$18.00 to US$1.00. The intention was to provide for the purchase of foreign currency from transactors other than the Central Government and the public entities. These initiatives were followed by measures to restrict credit, liberalise the trade licensing regime, eliminate the need for import licences for 'no currency transactions', and shorten the list of prohibited imports.

In 1988, the Government granted an additional concession for the importation of mini-buses to alleviate transportation problems by waiving the consumption tax. It also granted fiscal and price incentives to the mining industry as well as export allowances and a land development allowance.

These measures constituted a clear signal to the international community that the new administration was resolved to accept the burden of the process of economic adjustment. By mid-1988, discussions were in train with the IMF and agreement was reached on a Policy Framework Paper which outlined "...the nature of an economic programme on the basis of which the government could seek financial assistance and other support from the international Financial Community" (National Budget, 1989). Indeed the Minister of Finance in his 1989 Budget Speech was constrained to remark

> ... a government can only exercise control of its economy if the latter is in a reasonable state of balance. The Guyana economy

> cannot by any stretch of the imagination be characterised as being in balance. What that means is that far from controlling the economy the Government is in danger of imitating Pavlov's dog and its tail. The current situation cannot be sustained economically and is politically untenable even in the medium -term. It would be fanciful and a clear flight from reality to assume that any group of donors would be prepared to finance this flight from reality.

By June 1989, a financing programme for the economic recovery of the country was agreed on with the IMF. It estimated Guyana's needs at around US$1.7 billion. Shortly thereafter, an agreement was signed with the Fund.

This so-called Economic Recovery Programme (ERP) agreed with the Fund was expected to be completed in three phases; the first phase, the Stabilisation period, was to run from March 1989 to November 1989; the second phase, the Rehabilitation phase, from 1990 to 1991 and, the third phase, Recovery and Growth, from 1992 and onwards. This programme which had as its centrepiece a massive devaluation of the Guyana dollar from G$10.00 to G$33.00 to US$1.00, required the Government to implement measures to reduce price distortions, improve the competitiveness of exports and contract fiscal and balance of payments deficits, ensure the full incidence of the increase on retail prices, increase wages by 20%, increase the bank rate to 35%, and reduce export retention margins to 10%, save in the case of bauxite (Commonwealth Advisory Group, 1989).

The Economic Recovery Programme also set a number of targets to limit credit expansion, maintain the real rate of exchange of G$33:US$1 by making periodic adjustments to allow for inflation, and to increase production for export. Other specific targets for 1989 -1991 were to (i) achieve real growth of the Gross Domestic Product of 4% per annum; (ii) reduce the rate of inflation from 50% to 10%; (iii) reduce public sector deficit from 40% to 20% of the Gross Domestic Product by 1992; (iv) reduce the external account deficit to 26% of exports by 1991: (v) eliminate payments arrears; and (iv) increase the net international reserves by US$15 million per year.

The main objectives of the Economic Recovery Programme were to: (i) reverse the decline in economic growth and secure increases in Gross Domestic Product and real per capita incomes; (ii) improve the public sector fiscal deficit and strengthen the efficiency of the public entities; (iii) restore productive capacity especially in the export sector; (iv) diversify the economic base, and (v) improve the physical infrastructure (Guyana National Budget, 1989).

This comprehensive programme rested on the three pillars, namely, production, finance and social impact. Of these, the most crucial lay with realising the production targets, failure to do which would make the achievement of the financial target more difficult and would worsen the social impact of adjustment (Commonwealth Advisory Group, 1989).

4. Divestment

Prior to the developments described in the previous section, in his 1987 Budget statement, the Minister of Finance outlined the Government's intention to close those public entities which were incurring heavy losses. This intention was reiterated in the 1988 Budget. The divestment of the public enterprises was to range from the removal of 100% state ownership to joint venture arrangements, partial sale and leasing, outright sale to the private sector or mere closure and abandonment. A number of enterprises were caught in this exercise. They included the Guyana Glassworks Limited, Guyana Transport Services Limited, Guyana Fisheries Limited, Guyana Nichimo Limited, Demerara Woods Limited, Demerara Timbers Limited, Quality Foods (Guyana) Limited, the Guyana Rice Milling and Marketing Authority, Guyana Stockfeeds Limited, the National Paint Company and a restaurant. By the close of 1989, discussions with expatriates on management contracts for the sugar and bauxite corporations were in train. With the divestment of these entities, the Government was effectively distancing itself from the major economic policies of the mid-1970s and early 1980s, reassessing its role, which was discussed earlier, with respect to the competing claims of the public and private sectors to the available resources, and making a judgement as to whether public or privately managed enterprises were better able to make efficient use of those resources. In this regard, a policy statement on investment in Guyana made it clear that the "era of nationalisation" could be considered to be at an end (Guyana Investment Policy,1988).

All of those corporations mentioned above had incurred heavy losses which constituted a drain on the public purse with the consequential need to expand domestic credit, which contributed to inflation and produced strains in the balance of payments. If the reasons for the nationalisations in the 1970s were *inter alia* to own, control and manage the resources of the country, the benefits from which would redound to the economic and social advance of the nation, then the divestments of the 1980s constituted a return to the status quo ante. Divestment represents the failure to manage those resources, to broaden and diversify the economic base, to develop the manufacturing sector as a substantial growth point in the economy, and is instead, a reversion to and continued dependence upon, the unstable tripod of sugar, bauxite and rice. The galling aspect of divestment is that it envisages the re-take of much of the economy by the multinational corporate entities in which domicile, ownership, control, management, financing and decision-making will be outside the purview of the local administration. One may well ask whether the end result was worth the effort and sacrifice of so many for so long.

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