

Economic Growth and Transformation Conference

Training of Economists in the Region

Prepared by Dr. Adrian Stokes

First let me thank the organizers for inviting me here today to speak on the training of young economists in the region. It is indeed a pleasure to be able to address colleagues and share my thoughts on this very important topic.

My comments will be based on what I believe to be some of the more glaring deficiencies in the Jamaican economy and regional economies in general and how the Department of Economics (D.o.E) should be positioned to address these issues. My thoughts are organized as follows: in the next section I summarize what I believe to be important economic issues facing Jamaica. I conclude by examining the role the D.o.E has played in the past and how the department should be positioned in order to adequately address the issues raised.

While basic training for economists remain standard the world over, focus in different countries and regions will diverge depending on the particular needs of the society from time to time. It is my belief that the Caribbean and Latin America has problems that are not readily addressed by the conventional economic responses to these problems. For example, while it is generally accepted that the net benefit of free trade is pareto optimal, what is not so clear is the trade policy that should be adopted by small developing territories when there are obstacles to international trade.

Another question that needs to be addressed is why has growth and development in the Caribbean and Latin America been so anemic? GDP growth, which is one of the major drivers of increased living standards, has been particularly weak in our region when compared to other economies and regions. For example, from 1960 to the beginning of the 21st century East Asian economies have seen an eight fold increase in per capita income while per capita income in the region only *doubled* over the period.¹ The question arises therefore, what would have been the effect on the region and Jamaica in particular had we grown as quickly as the East Asian economies?

To be certain, the growth literature has advanced to show that economic growth translates into gains not just for the general population but for the poor as well (Dollar and Kray, 2000 World Bank working paper). Therefore, let us rubbish the excuse that weak economic growth in the past has been due largely to different governments concentrating on other “social policies” to alleviate poverty. It is now a stylized fact in the empirical and theoretical literature that growth is necessary and is indeed the foundation for poverty reduction. While distributional issues and income inequality are pervasive in the region, they should not be seen as mutually exclusive with the growth agenda.

The main point being made here is that economic growth should be the central focus of developing countries. The task of tackling poverty becomes that much easier if the economy is growing rapidly. For example, according to Dollar and Kray (2000) it would only take 7% of current income rather

¹ Danny Leipziger, “The Unfinished Poverty Agenda: Why Latin America and the Caribbean Lag behind,” IMF Finance and Development Volume 38, 2001.

than 17% for the poor to reach the poverty line if the region could grow as fast as the East Asian economies for 10 years. Having said this, there are many micro economic issues to be addressed in preparation for growth. For example, significant investment in education and training to improve the overall level of human capital available in the economy.

Low Saving Rate and the cost of capital

Another issue I want to address is the saving rates and the cost of capital in the region. The saving rates in the region are well below those of the East Asian economies. This reduces the pool of indigenous loanable funds for investment activities. This translates into a situation where regional companies face a huge challenge to compete in the international market place.

Regional entrepreneurs in a lot of cases have limited access to capital. Limited access is not the only problem since the cost of capital tends to be very high. This situation arises from the direct competition of entrepreneurs with the government for capital.

Corruption and Economic growth

Another major issue to be dealt with is corruption.

What is the link between corruption and economic growth? Empirical studies have long shown that there is a clear link between corruption and slow economic growth. Notwithstanding the stylized fact of adverse economic performance due to corruption, governments have been unable to break the vicious cycle. One possible explanation is that the incentive to fight corruption decreases as it becomes more widespread even if everybody

would benefit from fighting the corruption.² So the important question arises, how can a government reduce the incentive of public officials from entering into illegal rent seeking activities?

Conclusion:

The foregoing was not meant to be exhaustive or empirically rigorous, rather I attempted to highlight some of what I believe to be important issues in need of attention by the Department and young economists in particular. The country and the region face serious economic challenges that can only be illuminated and resolved through detailed theoretical and empirical research that will provide robust ideas. To this extent, the Department should be geared towards providing training that will equip young economists with the necessary skills to tackle the relevant problems the region faces. It is my belief that the Department is not adequately focused on these issues. For example, the department has not established something akin to a Center for Fiscal Policy and Economic Management that will guide the research agenda in fiscal policy and debt management. In addition, there is little or no theoretical and empirical work on the social cost of corruption.

Ladies and gentlemen, given where we are as a country and region, our young economists need to be equipped with the necessary skills in order to tackle the challenges the region faces.

² Palo Mauro “ - The Persistence of **Corruption** and Slow **Economic Growth** ,” IMF Staff Papers - Volume 51, Number 1, 2004