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Economic Reforms and Poverty in Jamaica*

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I. Introduction

Low income countries, particularly in Africa, Latin America and the Caribbean, have undertaken major changes of their economic systems in the past two decades. A substantial part of these reforms have been endorsed or sponsored by international financial institutions (IFIs), particularly the IMF, the World Bank, and the regional development banks. Given the wide variety in country characteristics it is perhaps somewhat surprising to find that most reforms are quite similar. The cure recommended by the IFIs is more or less the same in Nigeria as in Nicaragua; the cause of stagnation in Trinidad is thought to be similar to the one in Tanzania.

A somewhat heated discussion continues as to the outcome of this policy change. While some claim that the results are encouraging and that reforming countries fare better than comparable (typically representatives of those responsible for policy design), non-reforming countries, others claim that the reforms by and large have failed.[1] Critics, however, are by no means a homogenous mass: they range from Cornia *et al.* (1986) that call for a more human face to adjustment to Taylor (1993) according to whom parts of IFI-designed reforms may be irrelevant at best and disastrous at worst.

Controversies have aroused partly because different analysts see different objectives with reforms and partly because different counter-factuals are being applied. Thus, for instance, if the objective of reforms is to provide a stable macroeconomic environment (meaning low inflation) several countries have experienced reform success (if only for limited periods of time), when reform success is formulated in terms of poverty alleviation, increased gender equality, or sustained growth of per capita incomes, the results are grim. A more difficult problem however is that of

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the counter-factual: what would have happened in the absence of economic reforms? Surely, status quo could not have been preserved as countries typically commence IFI-sponsored programs only in crisis or near-crisis situations. The problem, then, is to find out what alternatives the governments had as they embarked on reforms. Several critics of reform programs fall into this trap by criticizing policy changes on the implicit assumption that a viable alternative would have been status quo.

The typical reform program may be divided into two phases: stabilization and, as it is euphemistically known, adjustment. In theory, these should follow each other sequentially with adjustment policies being implemented only as stabilization has been concluded. In reality, this is not the case: adjustment policies are frequently being promoted when inflation is still high and in the face of untenable external fiscal situation. Even though adjustment should be easier in a stable economic environment, the distinction between the two is more analytical rather than practical – after all, both phases use the same instruments to achieve different objectives. A case in point here is the exchange rate manipulations that are used during the stabilization phase in order to reduce the external gap, as well as in the adjustment phase to transfer resources between sectors.

While the objectives of a reform program may be debated – and that debate concerns essentially the time span over which to evaluate results – it is quite clear that improvement in the individuals' well-being is always one of the objectives. As a caricature, one could perhaps say that in a typical reform program the IMF – in theory responsible for design of the stabilization phase – evaluates progress in terms of standard macroeconomic indicators such as the rate of inflation, the fiscal balance and the current account position. While the World Bank – supposedly responsible for designing the adjustment phase – is concerned with growth and, thus, welfare of the population.

Even if one accepts this portrayal of the IFIs' division of labor (and one should not do that without a number of qualifications), it is quite clear that the well-being of the population is of some concern to the IMF as well. Indeed, the first Article of Agreement in the Fund's statutes clearly states that the purpose of the IMF:

> [t]o give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with the opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.[2]

Given that the Fund has a mandate to help stabilize economies in dire straits, only insofar as it can do so without jeopardizing the well-being of the population, it seems relevant to ask: how economic reforms affect poverty. To assess that question, we do not need a counter-factual (i.e. there is no need to assess the success of the reform program per se); we simply ask if it is possible to trace the effects of those policies associated to reform to changes in the extent of poverty.

However, the purpose of this paper is quite modest. I seek to identify (in Section 2) some salient features of economic reforms in Jamaica. In Section 3, I discuss to what extent these reform components have had an effect on poverty (in a broad sense, including access to schooling and health facilities). Section 4 offers some concluding remarks.

II. Economic Reforms in Jamaica

From independence in 1962 and until early 1970s, the Jamaican economy grew at an average rate of almost 5 percent per annum. The economy became increasingly diversified during this period with a rapidly growing mining sector and a budding manufacturing sector behind relatively high tariff walls.

The 1972 elections saw a shift in power from the conservative Jamaica Labour Party (JLP) to the social democratic People's National Party (PNP), headed by Michael Manley. Economic policies changed markedly, the major aim of the PNP was to gain control of the commanding heights of the economy and to extend social services. However, planned policy changes did not fit into Jamaica's budget – particularly not when oil prices tripled and the world economy went into a deep recession. The macroeconomic situation rapidly moved towards crisis conditions: inflation soared, the fiscal gap grew virtually out of control and the external balance – fuelled by increasing international interest rates – became unsustainable.

Structural indicators showed rapid deterioration as well. Danielson (1993:63-4) calculates that "average labor productivity in 1980 was only 18 per cent higher than in 1960 and almost 25 percent lower than in 1972"[3]. Stagnation induced structural changes in the 1970s. Manufacturing output fell, agricultural production also showed a decline (particularly of export crops), and an increasing share of the population was forced to eke out a living on ridiculously small farms on the infertile slopes of the island. The only sector that showed rapid and consistent expansion was the public sector. Public expenditure increased from 34 percent of GDP in 1972/74 to 46 percent in 1977/81, and employment in the public sector – as percent of total employment – increased from about 10 percent at the time when the PNP assumed power to almost 18 percent in 1980 (Danielson 1993:152, 173).

When the JLP assumed power after the 1980 elections, the economy was in disarray and Edward Seaga – the new leader of the JLP – approached the IMF for assistance. Negotiations between the government and the IMF had already begun under Manley but without success – the PNP entered the 1980 election campaign with the slogan "with or without the IMF"[4]. So it was not until 1980 that the Jamaican government committed itself (or, perhaps, surrendered) to the reform package designed by the Fund. The first Extended Fund Facility was negotiated in 1981. This was followed by two Structural Adjustment Loans in 1982/82; and during the 1980s, Jamaica received not less than six World Bank loans and eight loans from the IMF (Stewart 1995:172).

The 1980 election, then, is a watershed in Jamaica's economic history because from then onwards the strategy was to stabilize, to return as much control as possible to the market and to change the role of the state. These policies worked reasonably well during the 1980s: inflation fell, the external position improved (although mainly because of falling imports), the exchange rate was devalued several times, and the growth of government expenditures was curbed. However, even though reforms seem to have been successful they had little impact on growth – the per capita incomes grew at a modest one per cent per annum in the 1980s.

Structural reforms were introduced: the exchange rates were unified, financial liberalization rapidly expanded the number of private (foreign) banks, trade controls were dismantled, and the distribution system for agricultural produce was demonopolized. In the 1990s, the room for success appears to have been exhausted. The reforms that were introduced in the 1980s, which carried with them so much hope for sustained growth, appear not to have lived up to the expectations. Table 1 provides some basic macroeconomic data to illustrate this.

Per capita incomes have stagnated or even declined; inflation is on its way down, but still quite high (particularly in comparison to the European Union and the U.S., the major trading partners); exports show wide fluctuations and so do imports[5]. While devaluations have been major components since the reform programs started in 1980, it does appear that the failure to contain inflation hinders the improvement of competitiveness – barring the months immediately following a nominal devaluation the real exchange rate has been appreciating throughout the 1990s. Capital formation is quite high, but the associated low rate of growth of GDP suggests that the rate of capacity utilization falls as the capital stock is expanded, and over half of the value of investment is financed by "foreign savings". Production of the major export products – sugar, bauxite and alumina – show virtually no trend and the other major source of foreign exchange – tourism – appears to have stagnated too.[6] This obviously is a major problem, because something between one-fifth and one-quarter of export earnings disappear in debt servicing.

Table 1 - Jamaica, 1992-97: Basic Data

	1992	1993	1994	1995	1996
Real GDP per capita[a]	0.5	0.4	-0.1	-1.2	-2.4
Real GDP[a]	1.5	1.3	1.0	0.0	-1.4
CPI[a]	55.9	24.3	32.0	22.8	21.5
Merchandise exports (US$)[a]	-2.9	4.9	16.0	12.3	-5.9
Merchandise imports (US$)[a]	5.2	21.8	1.8	25.7	0.0
Terms of Trade[a] (- deterioration)	-1.0	-1.6	3.4	1.0	-12.4
Real exchange rate[a] (- depreciation)	33.3	-10.0	12.0	7.7	25.0
Gross capital formation[b]	31.4	32.8	31.4	32.5	32.2
o/w: building[b]	*13.5*	*14.7*	*13.4*	*14.6*	*12.5*
Gross national savings[b]	21.6	18.6	22.0	17.9	17.6
Sugar production ('000 metric tons)	2 556	2 715	2 513	2 340	2 659
Bauxite production ('000 metric tons)	11 367	11 184	11 787	10 871	11 757
Alumina production ('000 metric tons)	2 917	3 009	3 224	3 059	3 365
Debt service[c]	25.4	23.6	21.5	18.5	17.6
Number of tourists ('000)	1 601	1 649	1 541	1 667	1 751

Source: IMF (1997)

a Annual growth
b Percent of GDP
c In percent of GNFS exports, after rescheduling

Hence, Jamaica is one of the many examples where adjustment goes hand in hand with stabilization. The situation in 1998 did appear to be a worsening in the trend as shown in Table 1. Inflation appears to have gained ground again, so monetary policies have become tighter (with interest rates approaching 40 percent). The government has severe problems in trying to get the fiscal gap under control and trade prospects do not look bright in view of the European Union's post-Lomé policies. There are there are few signs (see below) that poverty is successfully combated.

In any case, it will be useful for the purposes of this paper to single out four major components of the reforms. These have been frequent instruments, both for stabilizing the economy and for changing sectoral allocation of resources. This latter aspect of reform is intended to produce – eventually – higher growth with a view to alleviate poverty, and from the point of view of this paper, such policies are of particular interest.

In the next section I focus on the relations between poverty and the following reform components: exchange rate manipulation, fiscal policies and civil service reform. The reason for selecting these particular reform components is partly because of data availability and partly because they are standard components in BWI-supported reform programs and conclusions may thus be expected to have a general bearing.

III. THE IMPACT OF REFORMS ON POVERTY

Some Data on Poverty

How unequal is income distribution in Jamaica? A number of studies calculate Gini coefficients from expenditure data making it is possible to state clearly that inequality, as measures by the Gini coefficient, has diminished since the early 1970s. Table 2 provides the basic information. All data in the table have been derived from expenditure data collected on a national level. Furthermore, these data are characterized by Deininger and Squire (1996) as "high quality".

Table 2 Expenditure Inequality in Jamaica, 1975-93

Year	Gini	Quartile 1	Quartile 2	Quartile3	Quartile4
1975	44.52	0.0410	0.1310	0.2730	0.4970
1988	43.16	0.0541	0.1519	0.2968	0.5097
1990	41.79	0.0598	0.1586	0.3031	0.5163
1991	41.11	0.0583	0.1604	0.3096	0.5254
1992	38.48	0.0649	0.1716	0.3262	0.5488
1993	37.92	0.0682	0.1787	0.3329	0.5480

Source: Deininger and Squire (1996)

Table 3 Expenditure Distribution in Selected Caribbean Countries

	Gini	Q1	Q2	Q3	Q4	Q5
Dominican Republic[a]	.490	4.2	7.9	12.5	19.7	55.6
Guyana[b]	.423	4.1	8.2	13.3	19.3	55.1
Jamaica[c]	.430	6.5	10.8	15.2	22.3	45.2
Trinidad and Tobago[c]	.420	4.7	8.6	12.8	21.2	52.7

Source: World Bank (1996a), Appendix.

a 1990
b 1993
c 1992

In addition, it is interesting to note that Jamaican incomes also seems to be less unequally distributed than those in her neighboring countries. Using survey data from 1992, Table 3 compares the quintile distribution for some Caribbean countries. Again, all data are from household surveys and the distribution has been calculated using expenditure data. However, it deserves mention that even though Jamaica ranks fairly well in comparison to some of her neighbors, poverty is still a serious problem. Over a third of the population is poor (i.e. earning less than the equivalent of USD 1.76 a day), and almost nine percent of the children are malnourished.[7] Given these facts, the question how economic reforms affect the poor is indeed a relevant one.

Exchange Rate Manipulations

Even though the distinction is often made between stabilization and structural adjustment – where the former works on the demand side in the short-term, and the latter in the longer-term on the supply side – the instruments used are sometimes the same. This goes in particular for exchange rate manipulations that are a prominent component of short- as well as longer-term policy changes. The short-run objective of a devaluation is to avoid a balance of payment crisis; the longer-run objective to induce resource reallocations towards the sectors producing tradable goods. Even though devaluation may produce effects that are counter to those intended,[8] the effects of devaluation are the following. First, the local-currency price of imports increases which (i) increases the profitability of local import-competing industries, and (ii) decreases the demand for imports. Second, export profitability increases since it is assumed that the dollar price of exports remains constant and more units of local currency can now be exchanged for each unit of foreign currency. Third, the relative price of non-tradable goods falls providing additional incentives for consumer to consume less tradables and producers to produce less non-tradables. The adjustment triggered by the relative price change may show up either as a resource movement from non-tradables to tradables or as a relative increase in the price of non-tradables (in which case the intended effects of devaluation will be smaller or even non-existing). Which of the two that comes about essentially depends on the ease with which producers are able to switch resources between sectors.

The other essential reform policy aimed at the country's commercial relations with the rest of the world concerns trade barriers. The objective is often to scrap non-tariff barriers, convert quotas into tariffs, and to lower the average level of tariffs. The objective is to expose domestic firms to non-discriminatory competition with firms in the rest of the world and, by so doing, encourage a resource allocation in the country that corresponds to comparative advantages. The major problem is that governments in low-income countries often depend on tariff incomes for revenue. So, ideally (although seldom in practice), tariff reform should be an integral part of fiscal reform. Another problem associated with trade liberalization is deindustrialization – tariff reforms are often implemented rapidly and without much warning. The effect is sometimes that domestic firms, particularly in consumer goods industries, are wiped out and replaced by imports. Apart from the obvious problem of creating unemployed resources, this may also, in the short run, increase the current account deficit.

How do these policies affect the poor? The short answer is that it depends on who the poor are and what they do for a living. A devaluation favors producers of tradables at the expense of producers of non-tradables and it favors consumers of non-tradables at the expense of consumers of tradables. Consequently, the poor who are net producers of tradables and net consumers of non-tradables are likely to gain from devaluation – provided the intended effects are realized. But since devaluation also produces inflation, the value of nominal assets will fall so the net effect is likely to differ from case to case. As a general proposition, however, a devaluation will cause a redistribution of income from the non-tradable sector to the tradable sector; and insofar as the poor are net producers of tradables they are likely to gain, in relative terms if not absolutely.

As for trade liberalization, it seems quite clear that two effects will result. First, since domestic producers of import competing commodities will experience falling profitability, they are likely to lose (at least to the extent that they remain in that sector). Second, consumers of imports will gain as the prices of such goods are likely to fall. In sum, then, if devaluation and import liberalization occur simultaneously producers of exports unambiguously gain while producers of non-tradables unambiguously lose. Producers of imports may gain or lose depending on the relative impact of the two effects. Consumers of imports gain. Table 4 provides some data based on the 1989 household budget survey.

Table 4 Per Capita Income and Expenditure for Tradeables and Nontradeables

	Q1	Q2	Q3	Q4	Q5
	Tradables				
(1) Expenditure	5.4	10.3	15.7	22.8	45.7
(2) Income	10.5	15.8	20.5	22.0	31.3
(1)/(2) (percent)	51.0	65.0	76.6	103.6	146.0
	Non-tradables				
(3) Expenditure	3.7	7.1	12.0	20.1	57.1
(4) Income	5.3	10.3	16.7	22.7	45.2
(3)/(4) (percent)	69.8	68.9	71.8	88.5	126.0

Source: Calculated from World Bank (1996a), Table 22

It seems clear that the poorer quintiles of the population depend more on tradeables for the generation of incomes. For the poorest quintile, only about 50 cents of every dollar earned in tradables activities is spent on purchasing other tradables. In addition, for the two poorest quintiles the expenditure/income ratio is higher for tradables than for non-tradables, indicating that a devaluation of the real exchange rate tends to benefit those groups. Consequently, to the extent that devaluations work as intended (i.e., increasing the relative price of tradables), the poorer segments of the population are better off. However, a moot point here is to what extent the higher inflation, that is the result of devaluations, is detrimental to the welfare of the poor. The available data is not sufficient for analysis of this issue.

Fiscal Policies

While fiscal policies have two components – taxation and public expenditures – I focus here on the latter. The reason is that to be able to study the extent of progressiveness of the tax system, I would need detailed data on the quintiles' consumption basket (particularly with regard to imported items) and on the tariff structure. Such data has not been available to me. As for expenditures, the data available provides us with enough information for an assessment of (a) to what extent public services, and in particular social services such as public utilities, education and health are targeted to the poor; and (b) how different groups are affected when such services are cut down.

The general perception seems to be that the Caribbean countries in general, and perhaps Jamaica in particular, have consciously favored the development of the social sectors (cf. World Bank 1996b). In the early 1980s, Caribbean countries had indicators for primary education and health facilities which were better than those for low middle-income countries in general (WDI 1998). Jamaica, in particular, led those developments under the democratic-socialist leadership of Michael Manley. However, in the same way as Jamaica lead the expansion of a pro-poor bias of the public sector, the country also lead the contraction of those social services as the fight against the budget deficit began in earnest in the early 1980s (Danielson 2000). From having some of the highest indicators for schooling and health facilities in the Caribbean in the early 1980s, Jamaica fell to below the Caribbean average in the late 1980s (World Bank 1996a:81). The survey data presented in Table 5 is from 1989 which was collected after some of the major cuts. Therefore, the data should indicate not only who did suffer during these cuts, but also in what areas expansions should be most cost-efficient in terms of poverty alleviation.

A few things deserve to be noted in connection to Table 5. First, primary education and public health centers appear well targeted for the poor and hospital services seem quite evenly distributed over the population. However, some studies suggest that the quality of schools and health facilities varies considerably with rural facilities often being of lower quality.

Table 5 Distribution of Public Service Benefits

	Q1	Q2	Q3	Q4	Q5
	Education				
Primary	31.0	26.8	20.6	15.4	6.2
Secondary	10.2	14.8	24.8	29.9	20.4
Technical/Vocational	6.2	31.0	22.1	28.9	11.7
	Health				
Hospital	19.1	17.5	23.0	22.6	17.7
Health Center	25.2	30.4	15.6	17.7	11.1
	Public Utilities				
Sew Connection	10.6	8.4	20.3	23.6	37.1
Water connection[a]	5.8	9.1	20.7	25.3	39.1
Water connection[b]	5.8	27.9	17.0	17.5	8.9
Electricity connection	11.6	15.7	21.6	24.1	27.0
Per capita expenditure	**4.8**	**9.4**	**14.6**	**22.1**	**49.1**

Source: World Bank (1996a), Table 34

a In house

b Public standpipe

Second, even though some of the public services appear unevenly distributed among quintiles, to measure the distributional impact one should compare the coefficients in Table 5 with those for general expenditures in Table 3. Since the distribution of public service benefits is less unequal than that for income and expenditures in general, it means that if public services are financed by a neutral or progressive tax system, the poorer segments of the population will gain. Consequently – and this is the major conclusion from this analysis – the reduction of public services following the restrictive fiscal policies introduced in the reform program in the early 1980s has fallen disproportionately on the poor.

Third, even though these effects are known and some measures have been taken to counter them, the results are less than satisfying. Thus, for instance, the food stamps program introduced as a measure specifically to address the poorest people has not been sufficient: less than half of the households in the poorest two quintiles receive food stamps.

Finally, the data in Table 5 also suggest that some public services mostly benefit the richer segments and that an effort could be made for complete or partial privatization. This is true particularly for technical/vocational training and indoor water connection.

Civil service reform

As noted above, one of the distinguishing features of Manley's attempt to create a democratic socialist economy in the Caribbean was the rapid expansion of public sector employment. Consequently, a major component of the BWI-supported reform program was to retrench a large part of the civil service. As in most other low-income countries, such retrenchment has a dual purpose. First, it is an attempt to fit the size of the civil service to the redefined role of the public sector (which is that the public sector should do those things the private sector cannot, or will not, do and leave the rest). For many countries this means a substantial reorientation of the public sector. Second, the civil service is often perceived as overstaffed and showing low productivity. To come to terms with this, low-level civil servants are retrenched and the savings are used to beef up salaries of middle-level groups.[9]

This strategy would seem to turn the distribution of income against the poor in two ways. First, by retrenching low-paid staff (which per definition belong in the lower half of the income distribution); and secondly, by increasing incomes for remaining civil servants. However, the data available from the household budget survey suggests otherwise.

Note first, however, the severity of the retrenchment in Jamaica. Public employment in the early 1980s approached 18 percent of total employment (Danielson 1993); in 1992 it was 9.7 percent (World Bank 1996a). The public wage bill in 1985 was 27 percent of the total wage bill; in 1989 it was 21 per cent[10]. However, as Table 6 shows, any public sector retrenchment falls disproportionately on the richest quintiles. Consequently, insofar as the streamlining of the civil service has beneficial side effects – on the budget deficit and thereby on inflation, or on the government's room for expanding basic social services – public sector retrenchment is a pro-poor measure.

Table 6 Distribution of Public Sector Jobs and Income, 1989

	Q1	Q2	Q3	Q4	Q5
Share of public sector jobs	4.4	6.4	16.3	24.6	48.3
Share of income from public sector	2.0	4.9	15.0	25.2	52.9

Source: World Bank (1996a)

IV. Concluding Remarks

This paper has looked into the relationship between economic reforms and poverty. Reforms have here been defined as the generic model often applied by the Bretton Woods institutions and poverty has been studied in terms of distribution of costs and benefits in quintiles of the population. I single out a few reform components, the selection being made partly on the basis of data availability and partly because these components are part and parcel of virtually every BWI-sponsored reform program in low-income countries. More specifically, I have tried to trace the effects on the poor of frequent and major devaluations; a tightening of fiscal policies, particularly with respect to expenditures; and civil service reform.

The major findings with respect to Jamaica's experiences are these. First, devaluations tend to favor the poor as they typically earn most of their income from the production of tradable goods and services. Second, a tightening of fiscal policies tend to hurt the poor, both because they are the major consumers of such services and because tight fiscal policies often mean that expenditures on public investments and maintenance of such investments carry a large part of reductions. The poor, the vast majority of which live in rural areas, tend to lose from this because rural maintenance on infrastructure will decline. Finally, a civil service reform does not hurt the poor particularly. In fact, civil service reforms do not affect the poor very much as they are seldom employed in that sector and consequently derive only a small fraction of their income from it.

The major lesson from the analysis in this paper is not to the government but to donors. Given that stabilization of the macroeconomy is an important prerequisite for successful adjustment and given that there is an unambiguous link running from fiscal deficits to inflation, cuts in public expenditures are necessary to bring about stabilization. To avoid the serious consequences for the poor of such cuts – which inevitably hit social sectors – bilateral donors could (and should) intensify efforts to coordinate project aid. Possibly, donors should also learn from the experience of some countries in East Africa, notably Uganda and Tanzania, where aid money has been ear-marked for social sectors and put into funds to be used for investments and maintenance.

Notes

1 Supporters of reforms include World Bank (1994), Schadler et al. (1995), and Mackenzie et al. (1997). See also Williamson (1994) and Mosley et al. (1995). As I note below, much of the debate on the outcome of reforms is based on different choices of counterfactuals.

2 *Articles of Agreement of the International Monetary Fund*, Article 1, § v. Danielson (1998b) discusses how the purpose and workings of the Fund have changed over time.

3 Cf. also Danielson (1996, 1998a) for a history of economic reforms in Jamaica.

4 See Girvan et al. (1980) for an account (albeit quite biased) of Jamaica-IMF relations in the 1970s.

5 Note that the large devaluation in 1994 – the price of U.S. dollar was changed from J$24.9 to J$33.2 – brought about substantial increase in export proceeds, but also in import expenditures. The latter phenomenon is probably due to the fact that a substantial part of Jamaica's imports does not have domestically produced substitutes. This, of course, makes devaluation a dubious instrument for improving the external position.

6 Note that total mining output is overestimated in the table: a large part of bauxite ore is refined into alumina before being exported.

7 Data from World Bank (1996) and WDI (1998).

8 A devaluation increases inflation by increasing the local currency price of imports. Furthermore, the balance of payments may deteriorate owing to price rigidities, and the changing relative price relations may be tempered by increasing real interest rates (operating through the capital account) resulting from the financial reforms that typically are pursued in tandem with exchange rate manipulations. Furthermore, since a devaluation changes the relative price of tradables, the effect may be temporary unless measures are taken to correct the resulting disequilibrium. Ideally, a devaluation is combined with restrictive demand policies to avoid a subsequent appreciation of the real exchange rate. Typically, however, the demand restrictions are not sufficient, so inflation usually increases which dampens the initial effects of devaluation. Cf. World Bank (1994) and Botchwey et al. (1998).

9 The argument used for increasing salaries for middle-level staff is sometimes to curb corruption, sometimes to enhance efficiency, and sometimes to attract efficient private sector staff.

10 And this should be compared to the Latin America average of 26 percent and the Caribbean average of 33 percent (World Bank 1996a; WDI 1998).

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