Crisis, Adjustment and Recovery: The Lessons of Recent Experiences from the Guyana Economy for the Anglophone Caribbean

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Crises have been a prevalent feature of most economies of the Anglophone Caribbean since the late 1970s. No where is such crisis more evident than in the Guyana economy which from 1976 has almost continuously experienced disequilibria evidenced by a succession of negative or very low growth rates. Since 1989 the Guyana economy has been subject to the austere medicine of an IMF/World Bank Structural Adjustment Programme. The economy now stands on the brink of what appears to be sustainable recovery. In this paper I focus on Guyana's travail from crisis through adjustment and recovery. Its main thrust is on analyzing these experiences and determining the lessons they hold for the rest of the Anglophone Caribbean. Attention is also paid in some detail to the phenomenon of structural adjustment as crisis response and a tool of recovery. I have contended that since 1962 some countries in the region like Guyana have gone through three successive phases of adjustment.

Economic crisis refers to persisting and unstable occurrences in an economic system which induce disequilibria and concomitant economic pathologies. Economic crisis is not merely disequilibria but it is disequilibria that demands treatment or programmed responses. Not all instances of decline in economic growth can be regarded as economic crisis. Economic crises is a product of a build-up of imbalances which normal adjustment mechanisms cannot reverse and the conscious recognition by people and by government of their negative impact. Economic crisis demands and evokes corrective responses. The efficacy of such responses constitutes economic recovery.

Structural adjustment is crucial to the movement of an economy from a state of crisis to one of recovery. The essence of adjustment is to fundamentally transform or revitalize the economic system of a society. However, not only is adjustment a crisis response but it is the very key to development. UNDP (1989) aptly defines structural adjustment as "the process of adapting to circumstances involving sudden, large and often unexpected changes which may be favorable or unfavorable to preselected development objectives."

Economic recovery is the process whereby normalcy or equilibria and growth are restored to an economy. Crisis, adjustment and recovery then refer to those economic processes that lead to critical disequilibrium and marked equilibration in an economy.

The Three Phases of Structural Adjustment in the Caribbean

Structural Adjustment has emerged as an integral process to the development of Third World economies. The rapid decline of the economies in the region and the rest of the developing world during the decades of the 70s and 80s led to the patenting of a package of macro-economic measures by the World Bank and IMF which we have come to know as **Structural Adjustment.** These measures have come to be associated with economic austerity. When a structural adjustment package is implemented it is likely to substitute for or replace an existing or extinct development plan. In a very real way then, structural adjustment is fundamentally changing the direction and organization of economies in many countries. It has emerged as the contemporary paradigm for economic growth and development in Third World countries. Economies experiencing continuous decline which seek to escape this paradigm seemingly do so at their own peril.

Structural adjustment as an economic process and as a collection of procedures for economic change and transformation is neither new nor alien to the economies of this region. Countries of this region have gone through two or three broad successive phases of economic adjustment since independence. What is different however is the extent to which countries within this region have undertaken adjustment and the ideologies and development paradigms that attend such adjustment.

These phases can be labelled for convenience the **Transformation Phase**, the **Survival Phase and the IMF/World Bank SAP Phase.** The first two are **Home Grown Economic Adjustment** (HGEA) phases and the third externally determined.

The countries of the Anglophone Caribbean attained political independence from 1962 onwards. Among the leading priorities of sovereignty was to transform the economic organization of the society from foreign ownership and domination. Structural adjustment in the immediate post independence era was geared towards adjusting regional economies from the dysfunctions of the colonial past. This is the **transformation phase.** Colonialism was synonymous with poverty, economic deprivation, exploitation and generalized underdevelopment.

Economic Adjustment in the region at that time did not exist as an independent device. It was incorporated as part of broader national development plans. Societies were seen as total systems to be developed, to be transformed, to be structurally as well as culturally and ideologically adjusted. Economic adjustment though seen by planners and policy makers as crucial was not however, given priority over political adjustment towards greater sovereignty and national self determination, and social adjustment which involved improving the quality of life and liberty of the people. The economic, the political and the social dimensions of the society were simultaneously though imperfectly catered for in development plans. Some characteristics of Development Plans as they pertain to economies of countries in the region are:

1. They were long term plans with durations lasting five (5) years or more.

2. They were inspired by nationalist and/or socialist ideologies. Regional and Third World scholars who viewed themselves as political economists were influential in the making of such plans. Because ideology finds real expression in the organization of production and distribution many existing economic structures of the 1960s were in for major adjustment.

3. Economic adjustment was statist. The role of the public enterprise was given preeminence and in many countries nationalization or at least expanding state

ownership and control of the economy were actively encouraged. Regional economists and policy makers held the view that the private sector were neither concerned about development nor did they have the entrepreneurial skills to bring about such development.

4. There was greater commitment to distribution of wealth rather than to the creation of it.

5. Economic development was inward looking and was to be accomplished by strategies of self reliance. The question of whether development plans of countries in this region have failed or succeeded is matter for debate. Some countries have gone through several development plans . Some have argued that there are some successes and some failures. This debate need not detain us here. Suffice it to say that some economies in the particularly the MDCs now exist in conditions of fundamental crisis.

The onset of economic crises in the region occurred around the mid-1970s. Such crisis led to a second phase of economic adjustment. Having taken control of their economies Caribbean nations because of external shocks (e.g oil crisis)-and internal factors such as mismanagement found themselves having to stave off deepening economic recession for most of the decade of the 1980s. This led to the imposition of excessive restrictions and rigidities in an effort to stem decline. It is during this phase that development plans were abandoned in several countries and piecemeal and band aid measures were introduced to promote stabilization and growth. This second episode of Home Grown Economic Adjustment (HGEA) was focused on **economic survival.** Governments began on their own initiative to implement austerity measures.

Like the first phase of Economic Adjustment the second episode met with little success. I have identified seven probable reasons for the failure of Home Grown Adjustment:

1. Lack of accountability for and effective monitoring of such programs.

2. Adjustment measures were vague, experimental and lacked sound empirical bases for their application.

3. Many of the adjustment measures were largely unenforceable.

4. Countries lacked or were unable to attract adequate resources to support adjustment.

5. Development plans lacked the consensual support and involvement of powerful actors in the international economic system. Indeed some such plans were seen by the developed countries as adverse.

6. Economic adjustment programmes were imperfectly linked to broader development programmes.

7. Adjustment, however small was still being premised along statist lines.

The third and current episode of structural adjustment in the region has been influenced by the dictats of the IMF/World Bank regime. In contrast to HGEA contemporary economic adjustment:

1. Favors short term programmes lasting for three (3) years or less.

2. Is premised on largely reliable empirical bases.

3. Is characterized by a free market ideological policy orientation.

4. Is formulated with maximum assistance from technicians of Multilateral Financial Institutions who can draw on similar experiences and endeavors from other countries.

5. Focuses almost exclusively on economic stabilization, growth and transformation. In contrast to former National Development plans Structural Adjustment Programmes are now preoccupied more with things economic.

6. Is concerned with the generation of wealth rather than with its distribution. Attention to the social impact of economic adjustment, that is, to welfare, is given with only the aim of facilitating the success of economic programs by cushioning their negative policy effects.

7. Economic adjustment is carried out in response to economic crisis.

8. Programmes are executed with greater rationality. There is accountability and external monitoring and countries are rewarded for attaining structural adjustment programme targets.

9. Adjustment policies are immediately and uncompromisingly painful in the short term.

10. There is international support and consensus among powerful actors in the international economic system for a country undergoing structural adjustment programme.

Jamaica and Guyana are two Caricom countries that have experienced all three phases of adjustment.

Crisis and Adjustment in Guyana[1]

In the case of Guyana moderate adjustment to the economy started soon after colonization ended. In the early 1970s however when the government embraced the ideology of co-operative socialism major shifts in policy and developmental goals were evident. These in themselves engendered *major economic adjustment* such as an enlargement of the state's share in the economy, the adoption of inward looking measures and unfettered Government spending on so-called development ideals. When the economy began experiencing severe external and internal shocks in the mid 1970s the policy responses of government, shaped within a socialist mould, were unable to arrest declines and improve the balance of payments situation. Government held steadfast to failing policies that swung the economy into severe crisis.

The Nature of the Crisis

Between the period 1976 to 1990 the Guyana economy had experienced serious economic pathologies evidenced by decline in all major economic activities. During the late 1980s

1. The reader who is familiar with the Guyana crisis and its SAP may want to skip this part of the paper and go on to the section on Lessons from the Guyana Experience.

production levels had declined to levels almost 20% below that of the mid 1970s.

GNP per capita in Guyana for 1974 was estimated US$542.4 in 1974 and in 1975 continued its rise to US$594.9. It thereafter declined sharply and for 1977 was recorded as US$495. Some fluctuations were recorded during the period 1978 to 1985. By 1989 GNP per capita was estimated at US$380.7 in 1989 (IMF estimates). The per capita estimates for Guyana moves in accordance with the growth experiences during the period. Table 4 shows annual growth rates of real GDP for the period 1976 to 1991.

TABLE 1

ANNUAL OUTPUT GROWTH (REAL GDP)

YEAR	% GROWTH	YEAR	% GROWTH
1976	-4.5	1984	2.1
1977	-6.2	1985	1.0
1978	-2.8	1986	0.2
1979	-1.4	1987	0.6
1980	1.6	1988	-3.0
1981	-0.3	1989	-4.8
1982	-10.4	1990	-3.5
1983	-9.6	1991	6.1
		1992*	7.0

* Year on year growth rate up to June 1992

Source: Bank of Guyana & Statistical Bureau

A Commonwealth Advisory Group reporting in 1989 on Guyana's efforts at economic recovery ~~explained~~ the deterioration of the country's economy thus:

> For more than a decade the economy of Guyana has experienced steady deterioration. The volume of total output and exports are now estimated at 20 percent below this level in the mid 1970s. The country's infrastructure and productive assets are in a state of disrepair. Nutrition and health standards have fallen sharply. Since 1980 the pace of deterioration has accelerated with real GDP estimated to be declining by 6 percent per annum.
>
> The economy is also characterized by severe imbalances. The current account deficit in the balance of payments increased from 15 percent of GDP in 1981 to nearly 40 percent in 1986, the excess of imports has been mainly financed by the accumulation of arrears on debt service payments. The fiscal deficit rose from 43 percent of GDP in 1981 to 52 percent in 1986, and has been financed by an expansion in the money supply. These imbalances have led to an unmanageable debt burden and an acceleration of inflation." (August 1989, 3 -4).

Independence was granted to Guyana in 1966 and the country became a Republic in 1970.

Shortly after 1970 the Government embarked on a campaign of Nationalization. By 1976 state ownership was estimated to be about 80% of the total Guyana economy. The state was involved in every sphere of economic activity. Central Government activities and spending also expanded significantly. Social development schemes like free education from Nursery to University were implemented and impacted considerably on the budget of the central government. While these schemes were meant to benefit the entire population the declining level of income and output after 1976 could not have sustained these expansions in state expenditure. The state very shortly thereafter started recording persistent and increasing deficits on its accounts. Both the levels of the internal as well as the external debt increased in both absolute terms and as a percentage of GDP.

The nationalizations of the 1970s also contributed to a growing and unmanageable external debt. Government was required to repay foreign owners for the acquisition of their assets. In addition state enterprises were incurring losses on their operations and the replacement of machinery and other capital equipment was done through external borrowing and transfers from the central government.

At first the nationalization decisions seemed quite worthwhile as both Sugar and Bauxite were doing well on the world market during the mid 1970s. Shortly thereafter a series of economic pathologies faced Guyana swinging the country into a vortex of poverty and underdevelopment. The maintenance of inappropriate policies together with mismanagement of enterprises served to further exacerbate the economic problems.

Danns (1988) states that:

> "Economic growth during the 1970s reflected the sharp movements of the country's terms of trade. In 1974 and 1975 massive increases in the price of sugar internationally had almost tripled Guyana's sugar earnings from 1973. Growth in the total economy had reached levels of 7.3% percent and 10.8 percent in 1974 and 1975 respectively ... These earnings had served amply as a buffer for the rising prices of oil on the world market during the same period. However by 1976 the country experienced a precipitous decline in exports earnings after sugar prices in 1976 fell by 45.8 percent. This decline coupled with an increasing importation bill and a mounting external debt marked the beginning of an economic recession."

As an indicator of economic health the balance of payments was recording increasing deficits. The declining output in the major foreign exchange earning sectors severely restricted exportation. Foreign reserves in Guyana moved from a level of G$197.3 million in 1975 to a level of negative (-)G$4,895.6 millions in 1988 and continued to decline in the ensuing years up to 1990.

The second oil shock and the international economic happenings of the 1980s impacted negatively on the already suffering economy. Imports were severely restricted because of the lack of foreign exchange. All sectors suffered. The manufacturing sector depended to a large extent on foreign inputs. Policy makers responded to crisis in the foreign sector by the imposition of very restrictive trade and exchange measures. These measures were aimed at the contracting demand. These measures coupled with the maintenance of an administratively fixed exchange rate provided fertile ground for the development of a black market in foreign currencies which gleaned much foreign currency from the official banking system.

G. Danns (1992) points out that

> "trading in black market currencies was an integral part of the flourishing underground economy which developed as the economic crises deepened and people engaged in creative though oft times illicit survival techniques. The underground economy became prominent primarily through international trade as its operatives sought to provide prohibited and other items which the official economy was unable or unwilling to import."

The foreign currency scarcity and the black market prices for currencies had a significant pass through into prices of all goods. Even the imposition of price controls on fuel and other major items proved ineffective at stemming inflation. Government's fiscal and the Central Bank's monetary policies also imposed inflationary pressures and exacerbated the tenuous external balance.

The combination of these problems caused huge devaluations (both official and unofficial) of the Guyana dollar. The parity of the Guyana dollar vis-a-vis the US dollar in 1981 was

US$1 = G$2.55. That parity in 1992 now averages $US1 = G$125.5.

All economic indicators evidenced the decay of the Guyana economy between 1976 and 1990. The crisis in the Guyana economy can be attributed to many causes. The overriding causes however were the application and maintenance of inappropriate policies and the stubborn willingness to hang on to failing developmental premises dictated by broader political ideology. Only years of consistent growth can reverse the lost in real income and decline in standard of living suffered by the population.

Structural Adjustment: A Response to Crisis

From about 1978 to 1988 the government of Guyana experimented with a series of measures aimed at arresting the economic decline and inducing a turnaround in the Guyana economy. These measures have included exchange rate movements, policies aimed at reforming the public sector; monetary policy measures, reduction to price distortions, increased exchange controls, relaxation of exchange controls, trade restrictions relaxation of trade restrictions and supply side measures including incentives to producers and exporters. Adjustment efforts during that period however lacked the necessary support, both domestic and foreign, to bring about any economic recovery. Moreover the measures lacked coherence and consistency and were not informed by any comprehensive economic programme or development plan. Measures implemented between 1978 and 1988 basically lacked the holistic component necessary to reverse the decline in economy with such grave imbalances. In effect the measures appeared to be piecemeal in nature aimed at curing small ills while largely ignoring the root or fundamental causation of crisis. Measures undertaken were aimed at ills that were mere manifestations of the larger problems that faced the economy. Measures too were aimed at minute sections of the economy rather than the entire structure upon which production and distribution were based. In fact between 1978 and 1983 both structural adjustment and stand by agreements entered into with the IMF were unfortunately abandoned.

In 1988 the Government of Guyana devised its economic recovery programme which was later incorporated into a IMF/World Bank Structural Adjustment Programme. Guyana's economic recovery programme is essentially a series of collectively devised economic measures aimed at inducing stability and promoting structural adjustment and sustainable growth in the economy. The Government of Guyana, the IMF, The World Bank and other international agencies and bodies are the players involved in the creation, sanctioning and implementation of the ERP. The ERP is not only a device to turn around the Guyana economy but it is also geared to shift Guyana from a strategy of inward-looking development to one of outward-looking development. The ERP is a programme to modernize the Guyana economy by reconnecting or strengthening its linkages to the international economy. The overriding policy measures of the ERP are geared towards converting the country's statist economy to a market oriented economy.

The broad objectives of the Economic Recovery Programme were to reverse the decline in economic growth and to establish a rapid rate of increase in GDP and real per capita incomes, bring about improvement in public sector fiscal performance, restore the productive capacity particularly in the export sector, diversify the economic base, improve the state of physical capital stock and to provide the basis for a viable balance of payments situation in the medium term (Budget Speech, Minister of Finance 1989). These were to be achieved by the careful application of a series of policy measures implemented at various times throughout the duration of the programme.

The Policy Framework Paper of 1990 outlined a number of supply boosting measures including the establishment and maintenance of a competitive exchange rate and positive real interest rates, abandonment of exchange control and trade restrictions, the decontrolling and liberalization of the pricing system, rehabilitation of infrastructure and the restructuring of the entire public sector. These measures had to be supported by tight monetary and fiscal policies and by external financial assistance to supplement the shortages arising from the low level of domestic savings.

Since the introduction of the ERP a number of modifications especially with respect to the targets have been made with an aim of bringing the programme more in line with the availability of external financing and with the realities of the domestic political and industrial climate. However, the broad aims and policies of the programme remained the same throughout.

The Economic Recovery Programme of Guyana was conceived to be implemented in three phases. The first phase was termed the Stabilization Phase envisaged to run from March 1989 to November 1989. The second was the Rehabilitation Phase projected to run from 1990 to 1991 and the success of which was highly dependent on foreign inflows and technical assistance. The third phase was recovery and growth. It was estimated that this would not be achieved until 1992 and beyond. This initial phasing of the programme was somewhat optimistic and seemingly based on the economic principle of ceteris paribus. It assumed that external financial flows would have been readily available, the domestic economic, industrial and political climate would be immediately responsive and that the Guyana government would have the political will to implement the austere structural adjustment measures. The courageous conviction of the government in introducing the difficult policy requirements of the ERP and as scheduled was the only reliable response.

The main categories of economic policy identifiable under the Economic Recovery Programme are incentive/supply side, fiscal and public sector reform, public investment, monetary and credit income, sectoral, external debt and debt management.

The supply or incentive policies can be further subdivided into 3 categories of policies a. exchange and trade systems, b. Domestic pricing and c. competition stimulating. Under the exchange and trade systems the government was committed to the unification of the exchange rate systems (i.e. the official and parallel rate), the implementation of a flexible exchange rate policy and an abolition of all existing foreign exchange controls. In keeping with the exchange liberalization the ERP also promised the removal of the system of import licensing and almost all trade restrictions. The principal objectives of these trade and exchange policies were to promote export oriented economic growth, ensure external competitiveness, protect the balance of payments, and improve incentives and resource allocation.

The domestic pricing system was envisaged as an instrument for the maintenance of incentives, and for the improvement of resource allocation. The thinking was that a reliable pricing system would function to avoid subsidies and provide adequate return to capital. With these aims in mind the government committed itself to using the cost of production, cost of acquisition and related charges as a basis for the setting of controlled prices and also public sector prices. There was to be a constant review of controlled and public sector prices with the aim of removing as soon as possible pricing distortions or price subsidies. There was an expressed desire to quickly eliminate the sugar subsidy which has existed on that commodity for a very long time.

The objectives of the competition stimulating policies were to increase economic efficiency, enhance the contribution of the private sector to economic development and to promote growth. The government will sought to reduce the direct involvement of the public sector in economic activity and that the government transfer to public sector enterprises will only be limited to the Guyana Electricity Corporation.

The fiscal measure were aimed at reducing the overall public sector deficit, improving the tax administration, broadening the tax base, strengthening the budgetary process, restructuring the central government, improving the efficiency and financial performance of public enterprises and further rationalizing their operations. The strategies/measures proposed to achieve the stated objectives included a reduction of central government non-interest expenditure in relation to GDP and the elimination of certain exemptions from consumption tax and import duty. It has also been proposed that their should be a review and modification of the main taxes and duties together with a strengthening of the tax collection efforts, tax management, budgeting, monitoring and fiscal reporting procedures. To assist with efficient tax administration the complete computerization of the Inland

Revenue Service was proposed.

A closer review of the functions within the public sector revealed the need to streamline the overlapping functions of departments and agencies. There was also an expressed need to modify salary structures in order to retain and attract qualified and experienced staff.

With regard to the public enterprises reform the main strategy to be followed was the implementation of a divestment programme to remove from the control of government almost all economic entities. Further any remaining public enterprises were to set appropriate prices and tariffs for public sector goods and services. The execution of appropriate rehabilitation of the remaining public enterprises was another measure proposed.

The public sector investment programme was estimated to run from 1990 to 1992. The basic objective of the investment programme was to rehabilitate the basic infrastructure and productive capacity in the major sectors and to support export-oriented activities. The failure of the Guyana Electricity Corporation has for years significantly inhibited performance of industries in Guyana. As such it is not surprising that one of the main measures proposed for the achievement of rehabilitation of productive capacity was a restoration of existing generation capacity and improvements in the power distribution network. This extended to the preparation of a ten-year plan to formulate a longer-term solution to the power supply problem.

Besides the Guyana Electricity Corporation other areas of the public enterprises were to receive some attention. The Guyana Mining Enterprise was slated for rehabilitation. Broader strategies also included a strengthening of institutional arrangements to cater for better project execution. Further reviewing and restructuring of investment in the light of available financing was to be an important aspect of the public investment policy strategy.

Monetary and Credit policy has always been an integral part of any stabilization/structural adjustment attempted by Guyana. The ERP is no different in this regard. The main objective with regard to this group of policies was to pursue monetary and credit policies consistent with the ERP's growth, inflation and balance of payment targets. The strategies and measures adopted ranged from examining reserves to modification of the interest rates. In particular the Bank of Guyana was to abstain during the period 1990-1992 from establishing selective credit policies except in cases where programmes were to be financed with budgetary resources or through external loans.

The Central Bank was called on to improve the operational framework for the conduct of monetary policy. There was a commitment to continue to foster conditions that allow for a positive real interest rate and to rely increasingly on market forces to determine interest rates. Further the Bank was to be involved in the promotion of an interbank market and to set the stage for a move towards a more market-oriented approach to monetary control. The Bank of Guyana is coming under increasing pressure to be involved in the development of money and capital market of Guyana.

A manifest feature of the Guyana banking system for the last 7 years or so has been the presence of excess liquidity. The Bank has attempted since about 1988 to freeze such liquidity by increasing liquid asset limits. However the Economic Recovery Programme and the fund-monitored programme call for a conversion of frozen liquid assets in medium-term debentures with an aim of normalizing the functioning of the Banking System.

The main objectives of the income policies were to protect external competitiveness, help reduce inflation and attract qualified personnel to the public sector. With these as its objectives income strategies included general wage increases in the public sector in keeping with the projected rate of inflation. Increases were to be merit-based depending on the increases in productivity. Selective salary increases were to be pursued in the context of the overall financial ability of the public sector. With regards to the private sector, wages were to be more or less freely determined. General increases in wages and salaries were targeted for implementation during the 1990-1991 period.

The Agriculture, Mining and Manufacturing sectors are the key sectors for the development of the Guyana economy. As such they cannot escape attention in any elaboration of a recovery programme. Policies for sectoral development differ in these three sectors.

The Agricultural, forestry and fishery sector had very specific objectives for its recovery. Sugar production was to increase to 254,000 tons per year by the year 1995 and in that industry there was to be a constant reduction of cost. To achieve these objectives the ERP proposes a constant crop renewal, further cost reduction methods, greater rationalization of milling capacity and implementation of the divestment agreement.

Rice production was also targeted. The broad objectives for the industry are to maintain producer incentives, improve productivity and increase production and exports. With respect to this industry, strategies to be pursued include the implementation of a specific rice pricing mechanism, continuing rehabilitation of infrastructure and implementing the divestment of the Guyana Rice Milling and Marketing Authority (GRMMA).

As in the case of rice the main objective in the area of other crops was a continuation of improve incentives and support services and the rehabilitation of infrastructure with the aim of increasing production and exports. The specific strategies include the implementation of a Forestry Action Plan and completion of divestment plans in that sector. Proposed measures to stimulate output in the other crop sub-sector include the provision of essential services, the maintenance of supporting infrastructure and assistance in identifying market opportunities.

In the Mining sector a great importance has been attached to the Bauxite sub-sector. The Bauxite Industry, along with sugar has been one of the main pillars of the Guyana economy but has suffered from a number of production bottlenecks of which deteriorating infrastructure is the most impacting. Some of the proposed measures to be implemented in this industry under the ERP include the implementation of a divestment programme in that industry and a continuation of the establishment of joint ventures. The major aim in the bauxite industry is for the speedy rehabilitation of plant and equipment. Other aims included an improvement in the management structure, and in the marketing; increasing private investment and the productive capacity.

With regard minerals other than bauxite the major objective is to increase exports of gold and diamond. It is envisaged that this objective will be achieved through the invitation of both domestic and foreign private investment. Even prior to the implementation of the ERP the gold industry in Guyana has been attracting some investment and reported gold production has been on the increase.

Guyana's manufacturing sector has since the onset of the economic crises suffered from the unavailability and inadequacy of foreign exchange to purchase necessary spares and raw materials. In many ways this factor along with others such as an inadequate supply of electric power has served to stultify this sector. In the Economic Recovery Programme the main objective in this sector is to promote private investment, increase exports and enhance import substitution. With this as the key objective it is of little surprise that the main measure/strategy is to improve basic infrastructure. A streamlining of the administrative procedures for approving new investment and for concessions of fiscal incentives with an aim of making the procedure more efficient has been proposed.

Guyana's external debt has been the cause of much concern and any programme for recovery must of necessity address the impact of the debt and debt servicing on the performance of the general economy. This debt had grown to proportions where debt-servicing became unmanageable and the accumulation of debt arrears characterized the management of the debt. It has however been recognized in the ERP that the continuation of such arrears without the institution of proper measures for rescheduling will severely hamper the country from acquiring future financing for economic development. The ERP proposes to re-establish normal financial relations with external creditors and to maintain a viable external debt position. With these objectives in mind the strategies proposed include the elimination of all external arrears on public and public-guaranteed debt through external assistance. A further proposal for the improvement of debt management is for the government not to contract or guarantee any non-concessionary loans of less than 12 years maturity.

Another issue addressed under the external debt policies was that of a better system of overall external debt management. Prior to the implementation of the Economic Recovery Programme the Ministry of Finance had been engaged in special efforts aimed at better debt management.

Recovery

Three years after the implementation of Guyana's ERP and a stick-with-it approach adopted by policy makers the essential elements are seemingly falling into place for recovery and sustained growth within the Guyana economy. In 1991 the economy achieved a 6.1% growth and indications are that for 1992 a growth of over 5% will be achieved. This growth is indicative of the transformation Guyana is undergoing as is a direct result of liberalization and other structural policies adopted under the country's economic recovery programme. It symbolizes also the change from statist economic policies to a market-oriented system. Industries in Guyana between 1989 and 1992 benefitted from easier access to foreign exchange, removal of price distortions, elimination of trade restrictions and barriers, increased investment both foreign and local, a more effective exchange rate regime and a general movement towards a market-oriented system of production and distribution. These coupled with growing democratization of the political system and the restoration of public confidence have combined to bring about a remarkable change in Guyana's economic fortunes. The single most important conclusion that can be drawn from the economic performance in 1991 and 1992 is that Guyana's economic recession has ended.

The loci of growth in the economy in 1991 inhere in the revived performance of the traditional pillars - sugar, rice and bauxite as well as in the growth of non-traditional exports including some manufactures and a sterling performance in the area of gold mining. Historically the fortunes of the Guyana economy have been subject to the movements of sugar, its main export. Sugar production increased by 21% in 1991 over 1990 and up to July 1992 sugar production showed a year on year increase of 114%.

There year 1991 has witnessed a significant improvement in the overall balance of payments performance. There was a distinct relation between improvements in national income and that of the balance of payments. The overall balance of payments deficit in 1991 was US$ -72.5 million compared with US$ -193.7 million in 1990. A combination of two main factors was responsible for the strengthening of the balance of payments. Firstly, exports were much more buoyant in 1991 owing to extraordinary growth in major export sectors. Secondly, continued capital inflows from multilateral financial institutions as well as int he form of direct investment boosted substantially the capital account. Both these situations persist into 1992. The economy however is still plagued by a large external debt and an onerous debt servicing burden despite the achievement of much debt relief and debt rescheduling. Currently however, Guyana is the recipient of new debt, mainly from bilateral and multilateral sources on very concessionary terms.

Guyana now has a flexible exchange rate which is totally determined by market forces. From about April 1991 to September 1992 the Guyana dollar has enjoyed relative stability vis-a-vis the US$ after a period of rapid deterioration. This factor has served to induce confidence in investors and the public alike and has augured well for the economy.

Since the launching of the Economic Recovery Programs reforms in both the central government and other public sector have been undertaken. (See Danns 1991). The high point in the public sector have been a contraction of the central government operations and the divestment of many of previously state-run corporations. These factors have assisted in the overall improvement of government finances. There has been notable increased in government revenue as a consequence of increase private sector activity and profits. In 1991 and so far in 1992 the central government has been able to meet by wide margins the performance criteria on central government deficits and on the stock of public debt stipulated under the structural adjustment programme.

The public corporations remaining with government at the end of 1991 performed well financially during 1991. Corporations accounts were boosted by the performance of the Guyana Sugar Corporation which recorded very positive cash flows and profits. Many other smaller corporations, e.g the Guyana Airways Corporations are improving their management and the finances are in a healthy state.

On the monetary side resources through the monetary system is expanding significantly. The developments in this sector are being influenced primarily by the expansion of economic activity, an effective interest rate, a more representative exchange rate and increased activity in the export sector. In 1992 the Bank of Guyana established a system of market determined interest rates. Since that time interest rates in the Guyana economy are decreasing. The decreasing interest rates are representative of the inflationary happenings in the economy. An inflation rate of between 10 - 15% has been estimated for 1992 after a rate of approximately 85% in 1991. The decreased interest rate is further stimulating economic activity. Private sector demand for credit is increasing at a significant pace.

A key expression of confidence in the Guyanese economy is the upsurge of interest by private companies and individuals in establishing new banks, Insurance companies and other financial institutions in Guyana. Eight applications now await approval for the establishment of banking businesses. In general the Guyana economy is on the move. New businesses are being established in almost every sector of the economy and existing ones are expanding.

The IMF/World Bank structural adjustment policies that inform Guyana's Economic Recovery Programme have found fertile soil in the Guyana economy and are bearing fruit. The SAP's overall goal was transformation of the Guyana economy by halting economic recession and generating sustainable growth. The economic pathologies that have engendered recession have been largely remedied and the economic ills have been arrested. Further the prospects for sustaining and accelerating manifest growth are evidently good. This is not to suggest however that the economy is without its problems. There are still lingering problems which affect the existing recovery programme. The serious deterioration of social and economic infrastructure is the most severe problem affecting the economy and society as a whole. Electricity, road, water supply and sewerage, inadequate housing, the health and sanitation systems and a deteriorated educational system are some of the more pressing problems. Second there is need to keep a strict eye on the problems of debt and debt management. Third, the financial sector is in need of fundamental re-examination if its role is to be a dynamic one in the developmental process. This sector is largely complacent. Its current operation is at variance with the creative generation of wealth necessary for growth and development. On the topic of finance, there is urgent need in the economy for a stock exchange and secondary markets for financial assets.

While the question of individual income is constantly-reviewed by both the private and public sector and employment seems to be on the increase there still exists in Guyana large poor and unemployed sections of the population.

Lessons from the Guyana Economic Crisis

Lessons are manifest experiences which if learned or copied may function to prevent pitfalls or facilitate progress. Not because something is a lesson that it is a recipe or formula for success. Nor do I suggest that the lessons of which I speak are immutable economic laws or even have the semblance of these. Lessons are not scientific truths but empirical examples.

The first lesson from the Guyana crisis experience is that socialism as an ideology for transformation and development has failed in Guyana. The Guyana government's philosophy of co-operative socialism was ill conceived and poorly applied. It marked a top down approach to development. The imposition of a socialist ideology served more to create and crystalize authoritarian political rule than to foster development and progress. Further the pursuit of a socialist path functioned to alienate support for the country's economy by the western industrialized countries.

The second lesson that can be derived from the Guyana economic crisis is that statist economic policies have proven dysfunctional. Statism as manifest in the predominant role played by public enterprises and by the central government contributed in no small way to the creation and exacerbation of Guyana's economic crisis. Public enterprises in Guyana were poorly managed or mismanaged. They did not function purely as economic enterprises but were subject to strangling and oft times whimsical political controls. Public corporations were also victims of poorly conceptualized economic policies such as price controls and ineffective fixed exchange rates. Several of them were created without adherence to sound business principles. Others like the Guyana Glass Factory and the Bicycle Factory on which considerable public resources were invested were still births and never produced anything. Other public enterprises including the bauxite industry never fulfilled their promise and instead proved a drain on the public coffers. Most of the public enterprises with which the Guyanese state saddled itself would not in some cases have been started or in other cases sustained by private enterprise. In some cases many of these corporations may have proved viable under private enterprise management.

The third crisis lesson is that nationalization proved to be an unsuccessful and unrewarding public policy. There were two types of nationalized entities - those which the state actively sought to bring about, (e.g. sugar and bauxite industries) and the second ones were those which private companies voluntarily offered up to the state, e.g. the banking institutions. Not only did nationalization result in the proliferation of public enterprises which were not viable but also compensation paid to the owners of nationalized entities considerably increased the foreign debt. Compensation for nationalization is a major contributory factor to Guyana's debt crisis. Government's borrowing to sustain these enterprises further added to the public debt burden.

A f[illegible]h lesson from the economic crisis in Guyana was that there was an overemphasis on distributing economic wealth and not enough on generating it. Policies like free education, free health care, the creation of false employment, massive subsidies while functioning in the short run to augment the welfare of the Guyanese people in the long term became unsustainable. The productive capacity of the economy failed to sustain such liberal distributive policies. The government borrowed excessively both internally and externally to sustain its distributive schemes. This functioned to fuel the debt crisis and triggered inflation in the economy.

The fifth lesson is that inward looking economic development has proven less than effective. Influenced by prevailing Dependency Theories the Guyanese economy largely sought to isolate itself in a cocoon and pursue strategies of self-reliant development which stress the use of indigenous technology, indigenous raw materials, indigenous skills and ingenuity and the co-operative as an indigenous economic organization. This strategy of indigenisation proved a colossal failure and the Guyana economy spun into an orbit of regression and decline.

A sixth lesson is that reacting to imbalances by resorting to restrictions, rigidities and excessive controls, e.g restraint on trade, exchange controls and price controls, function to exacerbate the same problems they seek to resolve. Much economic activity went underground, a thriving street banking system emerged, capital flight and other ingenious and popular methods of beating the official system emerged. In carrying on their regular day to day economic activities much of the Guyanese population became continuously involved in illegal economic behavior. Danns in a study of the Guyana underground economy refers to the phenomenon as the "criminalization" of the populace.

A seventh lesson of the crisis is that holding on to unfruitful economic policies for political expediency does almost irreparable harm to a country's economy and leads to crisis. Economic crisis can sap the morale of a nation and weaken the resolve of its people. Guyana's economic crisis damaged the moral fibre of its people and lead to excessive levels of outward migration with concomitant negative population growth.

Economies in the region should seek to avoid a Guyana type crisis by recognizing early the danger signals and reacting positively to early warning signs.

Lessons from Adjustment in Guyana

The first lesson to be learned from adjustment in Guyana is that delaying adjustment in the short term increases its pain in the long term. Procrastination deepens and broadens the imbalances. The SAP measures and conditionalities then needed tend to be more austere in application.

A second lesson from adjustment is that a half-hearted or incomplete approach to adjustment can do more harm than good. Guyana is a classic case of an economy which in 1979 and 1982 embarked on Structural Adjustment programmes which were then abandoned. Former President Burnham saw SAP measures as "a recipe for riot". Adjustment requires a total systemic approach rather than a piecemeal and superficial application.

The third lesson is that homegrown adjustment and stabilization measures have failed and are likely to fail. Earlier I have identified 6 reasons for the probable failure of home-grown economic adjustment. Such measures tend to be vague, experimental and lack sound empirical bases for their application. Many of the measures often remained unenforced and are largely unenforceable.

A fourth lesson is that structural adjustment in order to be successful should be externally monitored. If even there is resistance to IMF/World Bank programmes because such programmes tend not to have a "human face" countries in the region requiring adjustment or stabilization can resort to the CDB for devising, implementing and monitoring their SAPs. The CDB as the region's MFI can begin to take a more assertive role in the regulation of regional economies and thus substitute for or replace the IMF and World Bank.

A fifth lesson is that adjustment must be based on accountability and such accountability must be founded on the bases of a broader system of democratization.

A sixth lesson is that the IMF/World Bank SAP forces an economy to adopt an outward looking approach to development and to reconnect with the international economic system and rely heavily upon the powerful actors of that system to bring about transformation and growth. The IMF/World Bank policies tends to compromise domestic sovereignty. A country's own development plans or programmes for development are side-lined or else ignored. SAPs substitute for national development plans and domestic economic policies is largely externally contrived and internally applied. SAPs emphasize the paramountcy of the economic over the political and social aspects of a society.

The IMF/World Bank regime by apply a basic formula is producing a world of sameness. That is, it emphasizes a world economy in which free enterprise systems prevail and in which MFIs dictate the economic policies of nations. In this way IMF/World Bank SAPs negate Home Grown Economic Adjustment and neutralizes Caribbean economics. Theories about Caribbean economies presage national self-determination. They assume the capacity of nation states to exercise independent judgement and to devise and execute their own development plans.

Regional economies that are not in crisis need not fear adjustment. They must however continuously adopt disciplined stabilization measures and as far as possible such measures must be applied and monitored by MFIs by invitation. Apart from using the CDB, pursuing a strategy of strong regional integration can be functional in correcting imbalances, excesses and inefficiency.

Lessons from Recovery

It is as yet too early to draw any definitive lessons from Guyana's economic recovery. Recovery is a direct product of crisis. Guyana's recovery has been the outcome of a quite painful process and residues of this process still persist. The lesson for the Caribbean is that the processes of adjustment and recovery are more painful than the crisis they seek to correct.

The first lesson of recovery is that the economy must be backed by the political will and courage to put in place measures that are necessary for recovery. Guyana under former President, Desmond Hoyte has displayed these qualities.

The second lesson is that recovery must be sustainable. For the past 15 years Guyana has displayed a marked ability to sustain recession. Now that the economy is displaying sure signs of recovery the need to sustain such recovery is sharply highlighted by the risks of non-sustainability.

At the time of writing this paper the dust from general elections in Guyana is beginning to settle. The PNC government which ruled Guyana for 28 years through crisis, adjustment and recovery has been voted out of office. The authoritarian disposition of the former government facilitated the enforcement of its SAP in Guyana. A concomitant of Guyana's IMF/WB programme was the insistence of the Guyana Support Group of countries that the country be democratized and free, fair and transparent elections be held. This insistence formed an added conditionality for Guyana to receive donor assistance. This insistence contributed to the lost of power by the Hoyte administration which spearheaded adjustment and recovery.

The new administration of socialist oriented President Jagan has inherited a governmental system and policy commitments which it will be constrained to largely maintain. Sustainable recovery in Guyana is largely contingent on staying on the present course charted by the Multilateral Financial Institutions.

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