

# The Executive Memorandum

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## HOW THE U.S. SHOULD RESPOND TO JAMAICA'S NEW GOVERNMENT

In national elections last week, Jamaicans swept Prime Minister Edward Seaga from power and replaced him with Michael Manley of the National People's Party. Manley previously had served as the country's leader from 1972 until his defeat by Seaga in 1980. The years under Manley were marked by a sharp deterioration in Jamaica's relations with the U.S. and heavy influence in Jamaican political and economic affairs by Cuba's Marxist regime. In this year's election campaign, by contrast, Manley stressed that he plans to steer a far more moderate course as Prime Minister than he did before and that good relations with the U.S. will be a top priority.

**Strengthening the Private Sector.** Washington should respond warmly to Manley's apparent change of heart, while stressing to Kingston that it is deeds, not words, that will determine future U.S.-Jamaican relations. Congress should extend and improve the Caribbean Basin Initiative (CBI) of 1983, which suspends many U.S. trade barriers to goods from that region. This would help Manley in his stated goal of strengthening the Jamaican private sector. The Bush Administration and Congress also should encourage Manley to spur private enterprise in other ways, such as deregulating the economy and continuing the privatization program launched by Edward Seaga.

As Manley seeks ways to promote economic expansion in Jamaica, especially growth to benefit the island's poorest families, he should remember that the most effective economic reforms empower individuals with the freedom and opportunity to benefit from their own efforts, free from restrictions and arbitrary dictates of government. Manley's new government thus should review the experience of other less developed countries as it formulates a strategy for solving Jamaica's economic problems.

**Harnessing the "Informal" Sector.** In most less developed countries, for example, there exist vast black markets or "informal" sectors of workers and entrepreneurs, who find it impossible to earn a living legally because of high taxes or suffocating government red tape. Peruvian economist Hernando De Soto has documented this phenomenon in his own country. He found that illegal construction, manufacturing, public transportation carriers, and retailing comprise nearly 40 percent of his country's Gross Domestic Product. While the informal sector keeps many national economies afloat, governments invariably try to stamp it out with tighter rules, rather than harnessing its power as an economic asset.

Such a situation exists in Jamaica. To evade onerous government import restrictions, entrepreneurs known as "higglers" purchase goods in the U.S. and have passengers traveling from Miami to Jamaica take these products to the island registered as personal luggage. Many major Jamaican companies even contract with these entrepreneurs to supply them with key

items and foreign exchange. The success of the higglers demonstrates that Jamaicans are intelligent and entrepreneurial, while the higglers' illegal activities indicate that government red tape is holding back the economy. Manley should seek ways to channel the efforts of higglers into legal and more productive enterprises. The best place for him to begin is by easing or lifting the restrictions that drive them into the informal sector.

Removing extremely high tariffs on imported automotive products could be especially helpful for Jamaica. Public transportation in the island is in bad shape because of shortages of spare parts and vehicles. This harms the vital tourist industry and generally constricts the economy. Trade liberalization could create many new jobs by stimulating the transportation industry.

**Benefits of Privatization.** The privatization by Seaga of a Jamaican commercial bank, a cement company, and other enterprises was an important step. The stock sales of these firms significantly extended ownership of capital among Jamaicans, giving them a stronger stake in the country's economic future. In parts of Latin America and in Britain, too, privatization has spread ownership by giving individual workers strong incentives to purchase shares in their company, thereby encouraging them to make the enterprise profitable by meeting public demand as efficiently as possible. Manley might consider this populist strategy to improve the efficiency of currently state-owned enterprises by transferring ownership to the workers.

The Bush Administration can help Manley promote prosperity and economic freedom without interfering in the affairs of the island. Besides offering advice and technical assistance, it can open up U.S. markets to Jamaican goods. Congress currently is considering the renewal of the Caribbean Basin Initiative (CBI), which suspends or liberalizes U.S. import restrictions on goods from that region. The Administration should seek further liberalization as a step toward an eventual free trade area between the U.S. and the CBI countries, in which all trade barriers would be removed. Further, the Bush Administration should encourage Manley to promote trade liberalization among the CBI countries themselves.

**Deeds Not Words.** Prime Minister Manley has said he wishes to meet soon with George Bush. The White House should extend an early invitation. Like so many of the world's socialist politicians, Manley appears to have concluded that economic growth is best assured by encouraging free enterprise, not by restricting it. President Bush should applaud this approach to economic development and watch to see if Manley's rhetoric is translated into deeds.

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For further information:

Hernando De Soto, *The Other Path* (New York: Harper & Row, 1989).