



## JAMAICA'S ECONOMIC CRISIS

Economically, Jamaica has been in crisis for many years. We have one of the highest levels of Debt/GDP in the world and as a result the economy has suffered from consistently large fiscal deficits, which restrict what the Government can spend on essential public services such as education, the social safety net and healthcare. Large deficits lead to an ever increasing appetite for debt, which crowds out the private sector by restricting private sector investment and depressing private sector earnings.

When you add the impact of the global financial crisis to this already difficult economic crisis in Jamaica, it is clear that Jamaica's economic situation is at unsustainable levels! But this crisis has led to a unique opportunity to generate the 'breathing room' necessary for the Government to address its longstanding fiscal imbalance. This breathing room is created by significant multi-lateral financial support and a considerable reduction in domestic debt service requirements by way of the Jamaica Debt Exchange (JDX). Because this transaction is so topical and I am getting so many questions regarding the JDX, let me take a few minutes to explain what is really happening.

*[PowerPoint Presentation on JDX]*

It is important to recognize that the JDX and the US\$2.4 Bn of multi-lateral financing support are not a solution to our problems; they are only an opportunity for the Government to make the fiscal changes necessary to put Jamaica on a path to economic growth. The JDX is not the end of the road, but the beginning of a long and hard journey.

I would like to highlight three of these today: tax reform, fiscal discipline and fiscal transparency.

### Tax Reform

Too many Jamaicans do not bear their fair share of the tax burden. We've all heard the 'horror stories' and know of many examples of

how people find ways to avoid this civil obligation. These include failing to file tax returns, to properly declare goods at the port, thus avoiding import duties and insisting on payments in cash to avoid the need to report income. It is therefore clear that we need to broaden the tax base through General Consumption Tax (GCT) while improving the tax assessment and collection infrastructure to reduce 'leakage' through income and other taxes.

### Fiscal Discipline :

On the other hand, while the government needs to collect taxes more effectively, we also must reduce the size of government and reduce expenses hitting the fiscal accounts, so that we can direct more funding to long-term capacity building investments; infrastructure, education, healthcare and security. There are some low-hanging fruit which can achieve significant results quite quickly. These include disposing of non-essential Government assets and businesses to provide increased funding for essential services and looking at efficiencies across the Government so that we can 'right size' the civil service to efficiently provide good customer service in essential services. It is also important to eliminate duplication across ministries, state agencies and publicly owned companies and to increase user fees as needed to eliminate subsidies to more public companies.

### Fiscal Transparency

I recognise that many of these measures will bring some amount of pain, and therefore it is crucial that we avoid surprises and unexpected expenses by increasing transparency. We must bring all public sector agencies, companies, joint ventures to Parliament so that all can see the finances. The regular Parliamentary review of all Government and public sector accounts must continue, and indeed, be strengthened and we must pass Fiscal Responsibility Legislation to entrench these behaviours in the public sector and make them sanctionable.

The challenge over the next 3 – 5 years will be for the Government and the people of Jamaica to stick to the Economic Plan ... the path to economic growth and to avoid the temptation to spend now and pay later as we have done in the past.

## CRISIS IN EMPLOYER/EMPLOYEE RELATIONS

While the country is facing an economic crisis, it is my opinion that across the economy there is a growing crisis in Employer/Employee Relations. We at Scotiabank Group have one of the most productive and capable teams of employees in Jamaica, however at too many companies the employees are not truly 'engaged' with their employer. These employers relate to their staff as simply suppliers of labour, and the employees simply see their job as a way to make money. In too many companies there is a lack of trust between employers and employees. Employers do not ask their employees how they can improve the business, and employees often do not appreciate the economics of the business and how they can impact profitability.

Salary increases are based simply upon inflation or time in a job, and not upon productivity. Moreover, legislation and market practice often results in a lack of flexibility in work arrangements and impedes necessary improvements such as the introduction of flexi time, changes to payroll design and other changes.

However, I believe that today we have an opportunity to change the nature of employer/employee relationships. As the Government stops demanding all of the credit in the system and interest rates reduce, and as the fiscal deficit reduces and Government can invest in more productive infrastructure, the private sector will be encouraged to increase competitiveness so as to increase exports or reduce imports. Labour productivity and employee engagement will be forced to meet global standards.

This will result in some important changes in how we do business internally. For example, the value of a job must be determined by its productivity and contribution to the business, not by seniority or an arbitrary annual percentage increase. Employers must offer employees challenging and rewarding work, with advancement opportunities for high performers. And employers and employees must see themselves as a team, focused on increasing the

productivity of the business and improving efficiencies to improve the business's competitive position. This is an opportunity that all of us in this room today, have to make a difference.

## CRISIS OF LEADERSHIP

Notwithstanding the significance of the Economic Crisis and the Crisis in Employer/Employee Relations, I have left to the end what I believe is the most important crisis that we have to tackle as a country; a Crisis of Leadership! If we are to have any success seizing the opportunities coming out of today's economic crisis; if we are to succeed in achieving the medium term Economic Plan; if we are to truly transform employer/employee relations, we must firstly look inward and ask whether we have what it takes to lead Jamaica where we know we have to go.

Jamaica is truly an amazing country and Jamaicans are a blessed people. 'Pound for Pound' Jamaicans have contributed more to the world than any other country. In sports we dominate track and field. Jamaica, a country of only 3 million people can place 3<sup>rd</sup> amongst the entire world in the number of medals won at the World Track & Field Games in Germany last year. In music, Jamaican entertainers and Jamaican rhythms are recognized around the world and have influenced everything from 'hip hop' in North America to 'Regaeton' in Latin America. Other countries in the Caribbean are jealous of Jamaica. One reason may be that if you travel to Asia or the Middle East and tell someone you are from Trinidad or Barbados, they will ask you where in Jamaica that is.

Yet, notwithstanding all this world class skill and passion, when we talk amongst ourselves what do we say? We complain about our politicians and how they hold us back from our potential. We complain about crime and how it increases our cost of doing business and reduces our quality of life. We complain about the fact that the Government is not efficient and taxes are too high, yet at the same time we often do not pay our fair share. We blame unions and the quality of our employees for our lack of international competitiveness.

I remember once, early in my career when I was facing a serious challenge in meeting the targets the organization had set. When a senior executive of the company was visiting I took the opportunity to point out the challenges and 'lay the groundwork' in case I did not meet my targets. After listening to me for some time, he asked; "If I were to search across North America for the very best people in this industry, do you think I could find someone that could meet these targets in spite of the challenges? Well, if you honestly believe that you are as good as you tell me you are, then you will find a way to achieve your targets. If, on the other hand you do not believe that you are amongst the best people in the industry you should let me know now, and I will find someone who is."

Those of us in this room; you and I, we are the leaders of Jamaica. I honestly believe that there is a path for Jamaica to achieve its potential, to be a truly competitive nation in the global market and a leader in sports and culture internationally. If there truly is a path, then I refuse to believe that we; you and I in this room, are not good enough leaders to get us there.

However, leadership is not standing up and pointing fingers at others about what they are not doing. Leadership is about recognizing Jamaica's potential in the world, recognizing what we can do to impact that vision and believing in our ability to do so, inspiring others to see their own strengths and do what they can to achieve the vision, and most importantly, to hold ourselves accountable for doing what is within our control to achieve the vision.

There is no question that Jamaica is today facing a serious crisis; economically and socially. You and I, as leaders in Jamaica, have it within us to seize the opportunities now facing us and lead Jamaica to a better place. It will not be easy; nothing truly worthwhile is, but if we believe in ourselves and are prepared to hold ourselves accountable as leaders, I know that we can together see Jamaica truly realize her potential.

Thank you and God bless you all.