The Value of Your Money is a Measure of Successful Economic Management

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Last month I was in Jamaica for a few days, and I was told that the value of the Jamaican dollar had depreciated to the point where one needed to pay $126 Jamaican to purchase a single US dollar. Anyone who cares to Google it will discover that fifty years ago the Jamaican dollar was more valuable than the US dollar; in the late1960s you needed to have as much as US $1.13 to buy a Jamaican dollar.

At that time the Cayman Islands did not have a currency of their own; their currency of circulation was the Jamaican dollar. When Jamaica set up their central bank in the 1960s to replace the monetary authority which issued the old currency, the Caymans, which remained a British dependency, were obliged to set up their own monetary authority, which continued to issue the old dollar, at the old rate. To this day, you will need to have US$1.13 to purchase a Cayman dollar.

The difference in the fates of their currencies is mirrored in the countries' contrasting economic performance. The value of local currency was not the only, or even the most important reason, but the difference in performance is remarkable: Cayman has been transformed from a backwater community of seamen and poor fishermen, to a prosperous international financial centre, while Jamaica's economic progress has been modest and hard won.

Jamaica, like every other small economy I know that has committed to exchange rate flexibility, did so reluctantly, and only because the Jamaican authorities could not find a way to protect the value of their dollar. From 1975 to 1991 the Jamaican authorities tried every device in their arsenal of monetary and exchange rate policy in fruitless attempts to avoid the erosion of the value of the dollar, with and without IMF assistance. The 1991 decision to allow traders to determine the rate was an admission that nothing they had tried had worked.

Meanwhile, in Barbados we had figured out that the solution to protecting the value of your currency lay with the use of fiscal policy. If there is insufficient foreign currency inflow to meet the demand for imports and other foreign payments, Government is obliged to increase taxes and cut its own spending, so that fewer imports can be afforded. That is what the Barbados Government did in 1991, and again in 2013.

Invariably, it becomes necessary to impose these austerity measures at precisely the wrong time, when a slowdown in tourism has put a brake on economic activity. However, if we compare the fortunes of small economies who have protected the value of domestic currency with the progress of similar countries who have failed to do so, it is clear that the short run sacrifice pays very large dividends eventually, and those dividends are permanent.

The 2013 fiscal adjustment measures taken by the Barbadian Government were in a very good cause, to protect the value of Barbadians' savings and our accumulated wealth. However, the task of adjusting expenditures to restore a healthy balance of payments remains incomplete. Although 2013's precipitate foreign reserve loss was arrested, the foreign exchange requirements were still in excess of earnings in the two following years, albeit by modest amounts. Foreign reserves are adequate, but in order to return to a comfort zone, further fiscal restraint is needed to arrest the drain, and to restore the foreign reserves of Central Bank which have been lost in the last three years.

> **The message of continuing fiscal austerity is unwelcome, but the contrast of the economic fortunes of Barbados and Jamaica over the past fifty years reminds us that it is a very worthwhile cause. Just as we are now grateful for the sacrifices that were made to defend our currency in 1991, we owe it to future generations of Barbadians to do all that is necessary to ensure their sacrifice was not in vain.**