



Marc Hollingsworth, Media Support International

Has National Independence Benefitted Caribbean Economies?

The Caribbean island of Puerto Rico, a US territory, is slightly smaller in area than Jamaica, an independent nation, with a somewhat larger population, and it is about 1,000 miles away from Miami, roughly twice as far away as Kingston, Jamaica. Puerto Rico has a population of 3.2 million, compared with Jamaica's 2.7 million, living on an area of 3,000 square miles, a thousand less than for Jamaica. Despite these similarities of size and proximity to the US, the average annual income of Puerto Ricans is more than five times the reported national income per head in independent Jamaica: US\$37,000 a year in Puerto Rico, and only US\$7,000 in Jamaica. Puerto Rico is at Number 28 in the world ranking of average income, and is classified as an advanced economy; Jamaica's rank is Number 101 of 233 independent countries and dependencies.

The average Puerto Rican has other advantages, in addition to the fact that they earn higher average salaries. The scope for them to deploy their abilities and talents, and to seek opportunities for work and study, is as wide as the entire United States. In Jamaica, Puerto Rico, and every other small economy, local employment opportunities are limited, especially for specialised and highly skilled jobs. The higher up the scale of expertise you go, the fewer the number of local institutions providing the skills and the scarcer the number of local companies that employ people with those skills. Puerto Ricans may overcome these limitations in much the same way as any other American, by moving to New York or Silicon Valley or wherever in the US their talents, interests and enterprise may lead

them. Not so the Jamaican, who must compete for one of the limited number of visas made available for work and study in the US.

Independent Jamaica has its own currency; the domestic currency in Puerto Rico is the US dollar. This is a great advantage for Puerto Ricans, because the US dollar is the universal standard against which the Jamaican currency and the currencies of all other countries are valued; the prices of oil, commodities and most international transactions are set in US dollars. Just like any other small modern economy, economic activity in Jamaica and Puerto Rico is energised by transactions with other economies. Small populations and limited resources mean that small countries can offer only a few outputs at international levels of efficiency and price, using the proceeds to import everything they need for consumption and investment and all the materials for production. Puerto Ricans can pay for it all with domestic currency. In contrast, Jamaican currency can only be used for purchases within Jamaica. When the time comes to restock supermarket shelves, purchase fuels and materials and secure all other imports, buyers must seek US dollars to complete their purchases.

The fact that Puerto Rico is US territory entitles the country to federal assistance in the wake of natural disasters, problems of debt and financial management, and other shocks affecting the domestic economy. Puerto Ricans have a right to protest if the levels of federal support are insufficient, because the provision of that support is an obligation of the federal government, as it is for any other part of the United States. Sovereign Jamaica, on the other hand, has no godfather of any kind. Jamaicans, and their government are obliged to purchase insurance against perils at the ruling international rates. In the aftermath of national disasters, they must seek loans from international institutional and private sources; when they run into public financing and external debt problems they are obliged to enter into arrangements for financial support by the IMF, with the associated stipulations on economic policies and strategies.

The fact that the small sovereign state has representation at the United Nations and other international institutions and negotiates directly with IMF staff on the content of economic adjustment, may not be of much benefit. The small state has limited analytical capacity to diagnose and prescribe policy solutions that reflect the economy's circumstances and its potential. On the other side of the table are IMF officials who are obliged to treat all member countries of the Fund even-handedly. They are sensitive to the developmental and environmental needs of the borrowing economy, and to the need to preserve safety nets for the most vulnerable in the society. However, they cannot be expected to have the local knowledge to design the best package of policies to stabilise the economy and satisfy social, developmental and environmental goals. That is the responsibility of the sovereign, and all too often, its representatives make the wrong choices.

The national identities of our separate Caribbean countries are now firmly established in the minds of Caribbean people; there is no indication that that will change. There are, however, changes in policy that could ameliorate the detrimental effects of the unfortunate balkanisation of the region. A very helpful first step which countries may undertake individually and without delay is to dispense with the domestic currency altogether. They may do so by redeeming the entire domestic issue at the current exchange rate, using the ample reserves of US dollars which all Caribbean countries have accumulated with the US Federal Reserve Bank of New York. In this way they will afford their citizens the privilege enjoyed by Puerto Ricans of paying for foreign purchases with the domestic currency.

My Economic Letters may be found under "[Commentary](#)" at DeLisleWorrell.com.