

Labour Productivity, Competitiveness, and Growth in the Caribbean



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Definition



Productivity:

The effectiveness of productive effort or the rate of output produced per unit of input



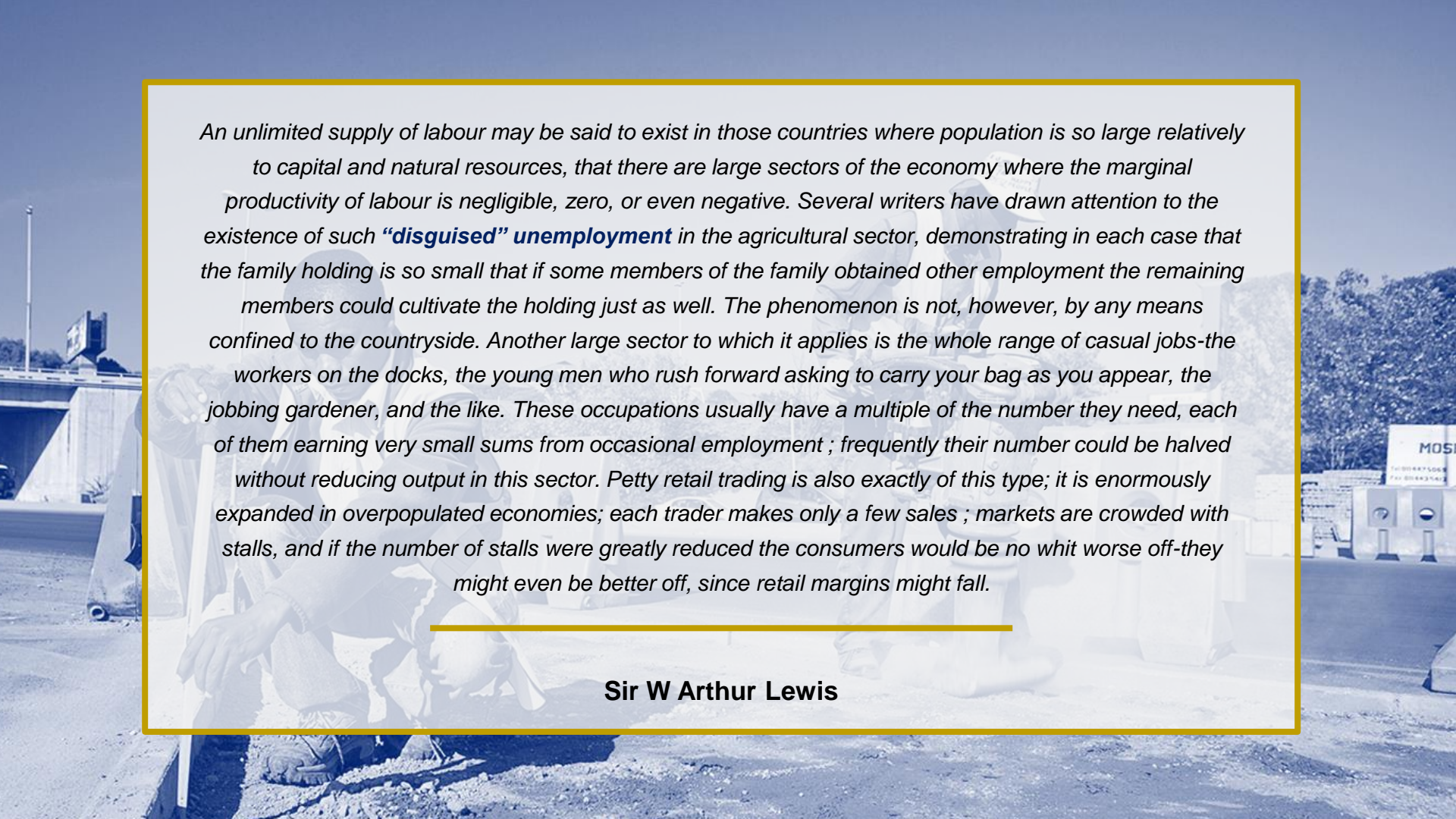
Why is it important?

Increasing productivity produces a more competitive cost structure for an economy and enables it to offer more competitive prices to its customers (domestic or foreign)

Rationale

- Production and productivity is at the very **core of economic development**
- Productivity is the essential reason **why some nations emerge from poverty** and others do not
(Adam Smith, 1876)





*An unlimited supply of labour may be said to exist in those countries where population is so large relatively to capital and natural resources, that there are large sectors of the economy where the marginal productivity of labour is negligible, zero, or even negative. Several writers have drawn attention to the existence of such **“disguised” unemployment** in the agricultural sector, demonstrating in each case that the family holding is so small that if some members of the family obtained other employment the remaining members could cultivate the holding just as well. The phenomenon is not, however, by any means confined to the countryside. Another large sector to which it applies is the whole range of casual jobs-the workers on the docks, the young men who rush forward asking to carry your bag as you appear, the jobbing gardener, and the like. These occupations usually have a multiple of the number they need, each of them earning very small sums from occasional employment ; frequently their number could be halved without reducing output in this sector. Petty retail trading is also exactly of this type; it is enormously expanded in overpopulated economies; each trader makes only a few sales ; markets are crowded with stalls, and if the number of stalls were greatly reduced the consumers would be no whit worse off-they might even be better off, since retail margins might fall.*

Sir W Arthur Lewis

Rationale



Technological

Use of more efficient equipment, robots, computers and other technologies to increase output. Technology can also refer to a system or way of doing things



Labour

Workers produce more output in a given period, usually after better training. Improved training could involve cross and multi-skilling, the re-engineering of work practices, the introduction of participative management styles, or the altering of remuneration levels or types



Managerial

Managers do a better job of running business, government, and other entities. Management productivity improves when managers emphasize quality over quantity, break down communication barriers and empower employees using a participative decision-making management style. Managers must learn to use reward systems, to use management by objectives, to increase employee involvement, to better utilise teamwork and to adopt other management techniques and systems in order to increase productivity



Objectives

1

To examine and understand Caribbean stylized facts

2

Explore policy imperatives



Stylized Facts



Low average regional economic growth. In the 1960s income per capita in Latin America and the Caribbean was almost one quarter that of the US. Fifty years later it is one sixth of US income per capita



High unemployment.



High, unsustainable debt levels. Low growth has led to increased borrowing for capital projects and even recurrent expenditures. Liberal tax incentives to promote investment and exports have led to significant foregone revenue

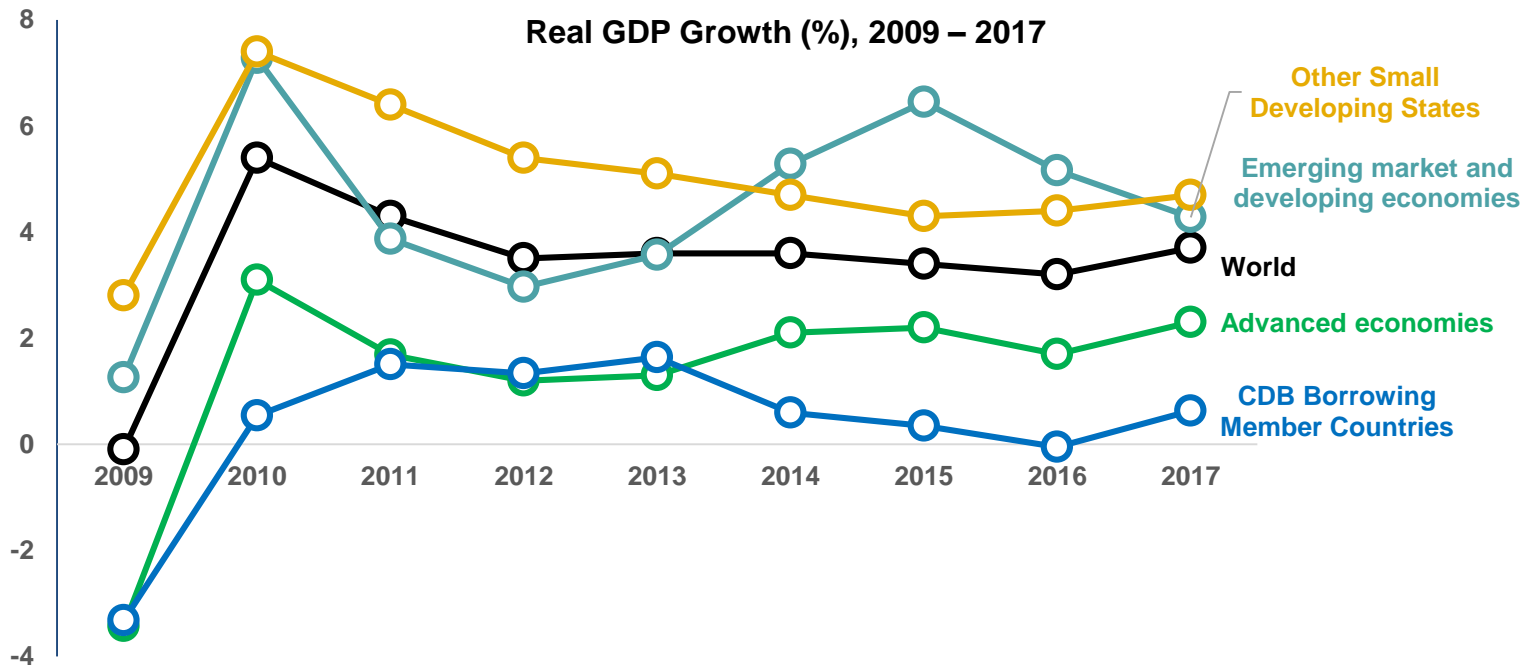


Low “Doing Business” rankings.





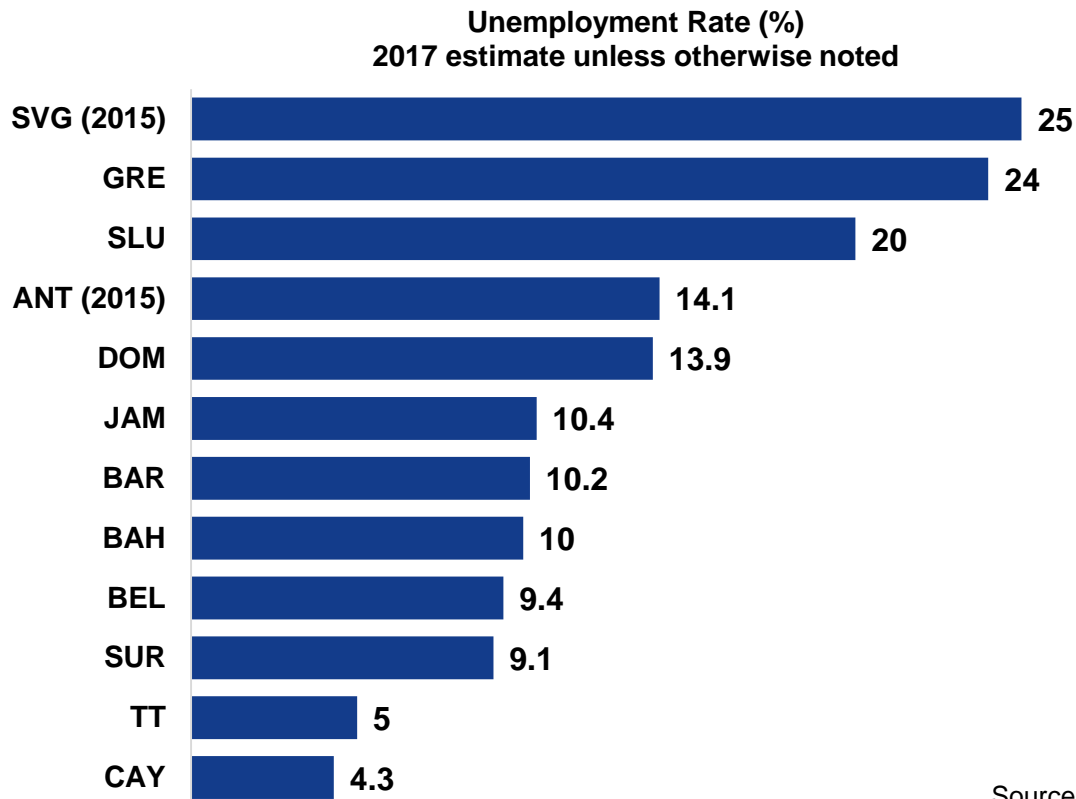
Average BMC growth is consistently lower than other small and developing states



Source: IMF, WEO, CDB






















Many BMCs have had double-digit rates of unemployment for more than a decade





Regional debt levels are still unsustainably high

		2016	2017	Change in %			2016	2017	Change in %
	BAR	161.5	157.1	-4.4		SUR	68.8	63.2	-5.6
	JAM	119.4	113.4	-6.0		TT	58.8	60.1	+1.3
	BZE	92.3	93.9	+1.6		ANG	60.6	56.8	-3.7
	ANT	82.5	78.3	-4.2		GUY	45.7	45.2	-0.5
	SVG	82.1	77.2	-4.9		HAI	33.7	32.6	-1.1
	DOM	72.7	72.7	--		BVI	18.8	18.7	-0.1
	BAH	68.0	72.7	+4.7		CAY	16.3	14.7	-1.6
	SLU	66.7	67.0	+0.3		TCI	7.6	7.4	-0.2
	GRE	76.3	66.3	-10.0		MON	5.1	6.1	+1.0
	SKN	64.8	64.6	-0.2					

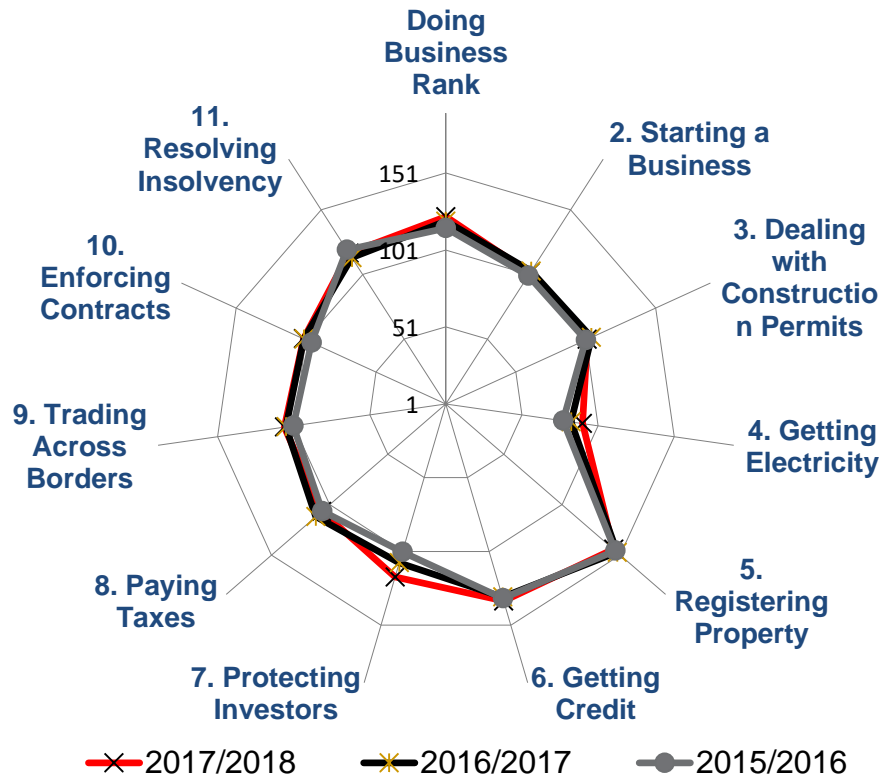
Source: Central Banks



Regional Performance: World Bank Doing Business rankings 2016 to 2018

**119 positive reforms
(2016-2018)**

**11 negative reforms
(2016-2018)**



**Best Performer:
Jamaica (70th)**

**Most Reforms:
Jamaica (11)**



Regional Challenges



Macroeconomic

Low growth

average 0.4% over a decade

High debt

regional median 65% of GDP

Low commodity prices and
declining reserves



Low Productivity & Competitiveness

Jamaica is the **70th** country in the WB
Ease of Doing Business Index– highest
BMC

Large infrastructure gaps
Weak governance

Inefficient and costly **transport links** and
high **energy costs**



Poor Human Development

High poverty (43.7%) and **youth unemployment** (18-47%)

Poor education outcomes, skills
mismatch and brain drain

High crime and citizen insecurity



Environmental Threats

High annual natural disaster costs

Low insurance payouts

Insufficient **building codes**

Poor **climate change** adaptation tools

The Issues



Stagnant Caribbean Labour Market



Policy Inertia and Limited Policy Innovation





Labour Market

Source: National Insurance Authorities, IMF, ECCU



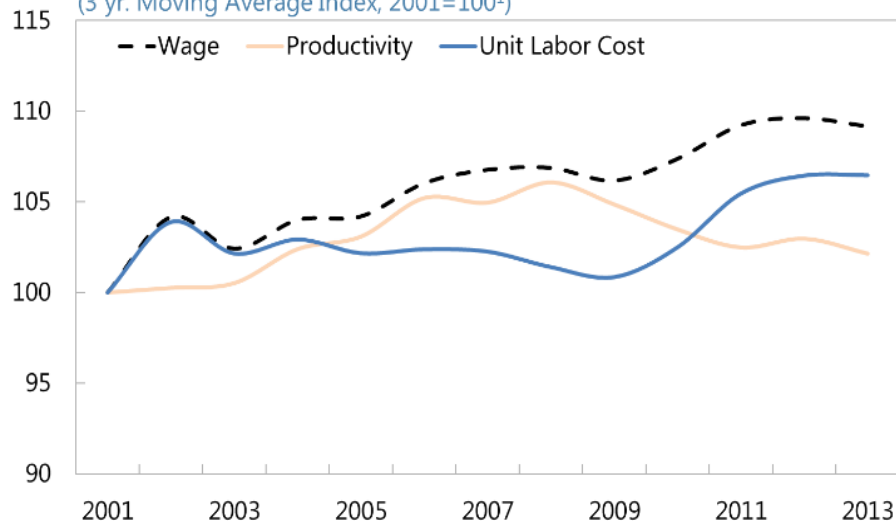
The Caribbean Labour Market



Policy Inertia and Limited Policy Innovation

Wages, Productivity, Unit Labor Cost

(3 yr. Moving Average Index, 2001=100¹)



- Real wage (20%) and productivity growth (*flat*) are disconnected
- This divergence is not only attributed to public sector wages
- In some countries productivity has declined



Labour Market



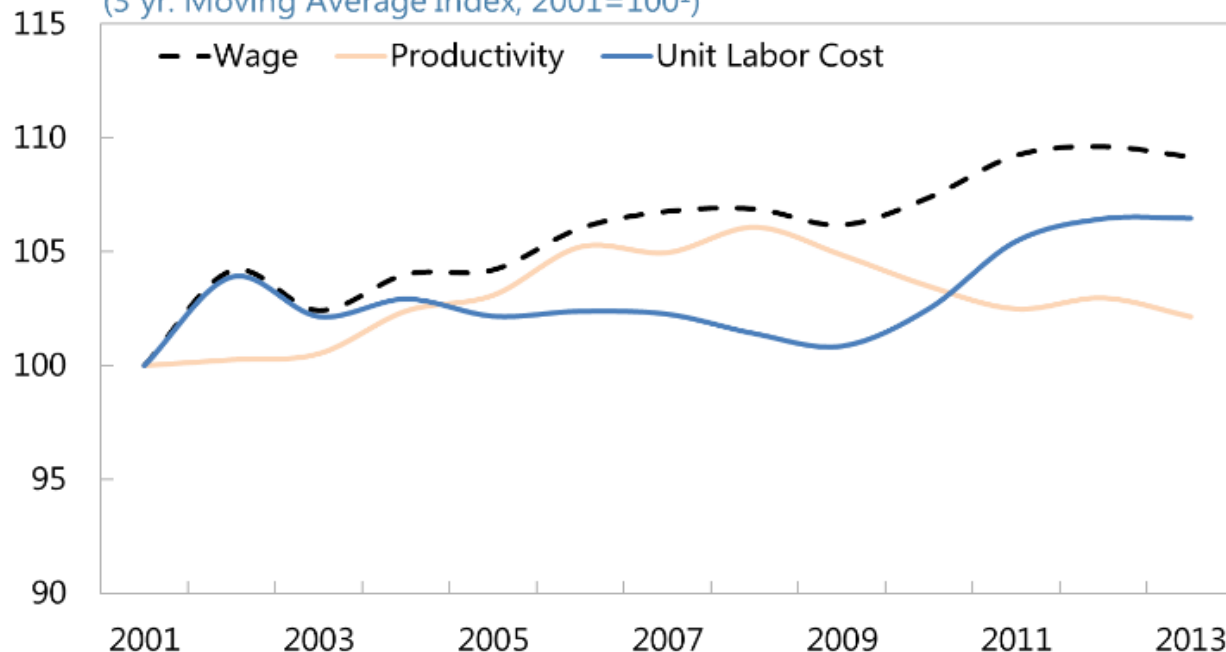
The Caribbean Labour Market



Policy Inertia and Limited Policy Innovation

Wages, Productivity, Unit Labor Cost

(3 yr. Moving Average Index, 2001=100¹)



Sources: National Insurance Scheme, National Authorities; and IMF staff calculations.

¹Average for ECCU using data for Antigua and Barbuda, Grenada, St. Lucia, and St. Vincent and the Grenadines during 2002-13, Dominica 2009-13, and St. Kitts and Nevis 2003-12.



Labour Market

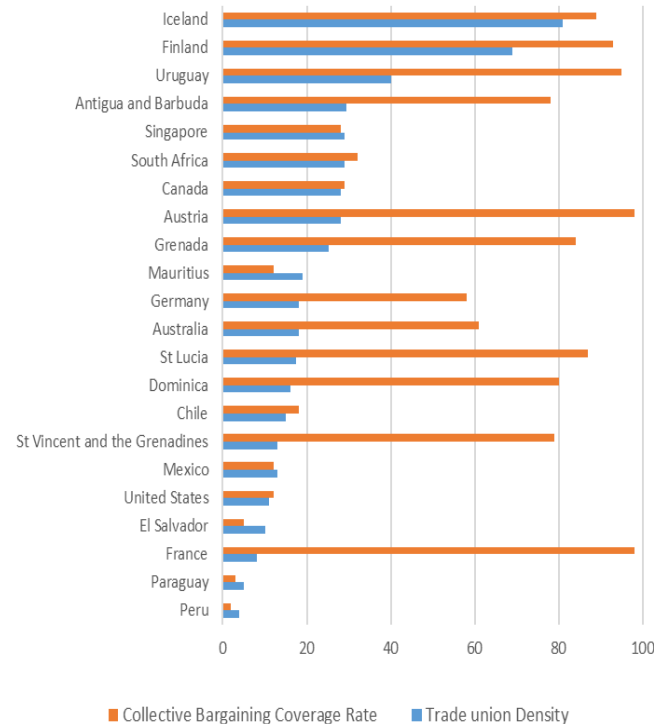


The Caribbean Labour Market



Policy Inertia and Limited Policy Innovation

Collective Bargaining Coverage and Trade union Density,
2013 or later



Possible Drivers:

Industrial relations and
the power of unions

High collective bargain
coverage

Labour Regulations



Labour Market

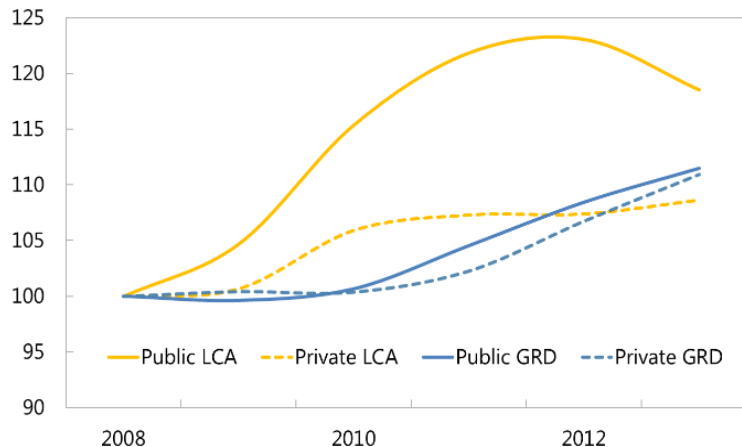


The Caribbean Labour Market



Policy Inertia and Limited Policy Innovation

Nominal Public and Private Sector Wages in Grenada and St. Lucia (Index, 2008=100¹)



¹Series are smoothed using a 2 year moving average. Private includes manufacturing, construction, tourism, financial and real estate and business.

- Public sector wage growth exceeding and preceding private sector wage growth
- High reservation wages. Kim (2007) points to remittances reducing labour supply in Haiti and Jamaica
- Skills Mismatch: This is increasing as the sectoral shift on the demand side has not been accompanied by adequate skills growth (especially among youth)

The Issues

Downes (2006) summarizes Caribbean specific labour market challenges:

1. mismatch between labour demand and supply, reflecting a small cadre of professional, technical and managerial personnel
2. growth in service-oriented labour that directly displaces agricultural and industrial labour
3. high levels of unemployment, especially among young females
4. wage growth that exceeds productivity growth
5. rigid regulations
6. less presence of unions in wage negotiations and labour protection across the economy
7. low rate of labour force growth due to high rates of emigration and ageing populations
8. increasing female labour force participation and stagnant male labour force participation
9. slow growth of the formal sector
10. an increase in the number of self-employed over time



**The Caribbean Labour
Market**



**Policy Inertia and Limited
Policy Innovation**





Labour Market



The Caribbean Labour Market



Policy Inertia and Limited Policy Innovation

Caribbean: Labor Market Policies and Insitutions

	ILO Conventions Ratified	Annual Leave with Pay (days)	Maternity Leave (days)	Social Security Contributions (% of wage)	Government Employment (% of labor force)	Minimum Wage/Avg. Wage (%)	Severance Pay (days)	Unionization of Labor Force (%)	Index of Labor Market Rigidity 1/
ECCU									
Antigua & Barbuda	15	12	55	10.6	27.5	49.6	240	24	0.380
Dominica	20	10	50	8.9	17.7	18.8	245	25	0.223
Grenada	25	...	50	8.0	26.2	...	0	47	0.328
St. Kitts & Nevis	...	...	64	10.5	...	...	260	33	0.476
St. Lucia	25	...	57	10.0	14.1	...	245	20	0.306
St. Vincent & the Grenadines	...	...	55	7.8	20.7	49.5	200	12	0.251
Other Caribbean									
Bahamas	...	...	...	...	21.0	...	0	25	...
Barbados	35	15	84	12.0	38.0	...	112.5	31	0.580
Belize	27	6	50	7.0	16.0	21.9	100	13	0.182
Guyana	...	12	59	12.5	25.0	...	0	32	0.415
Jamaica	25	10	56	5.0	9.7	...	250	24	0.278
Suriname	26	12	...	2.0	45.0	...	0	42	0.283
Trinidad & Tobago	13	14	55	8.4	29.8	30.8	275	28	0.354

Sources: Rama (1995); International Labor Organization; and IMF staff estimates.

1/ The LMR index, sometimes called the worker protection index, is a numerical measure based on a number of labor market policies that protect workers, such as restrictions on hiring and firing, paid leave, maternity leave, and severance payments.

Labour Market



The Caribbean Labour
Market



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Caribbean: Wage Determination Flexibility

	Score (1-7)	Rank (out of 144)
Barbados	4.7	98
Guyana	5.3	47
Jamaica	4.9	84
Suriname	5.0	76
Trinidad and Tobago	4.2	119


Source: World Economic Forum, Global Competitiveness
Report 2012-2013.





Policy Inertia: Poor Implementation Stunts Delivery

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Shared Regional and International Challenges



Elaborate and Promising
Development Plans



Weak Implementation Capacity

Insufficient training

Ineffective results accountability systems

Obsolete personnel management systems

Weak decision enforcement culture

Scarce financial resources



**Delayed or ineffective
project/policy implementation**



Many traditional policy measures are **expensive**, **forceful**, or sometimes **ineffective**



Government wants to fight diabetes by **reducing the public's consumption of sugary drinks**



Traditional Policy Approaches



Education campaign on the evils of sugar



Banning sugary drinks



Taxing sugary drinks

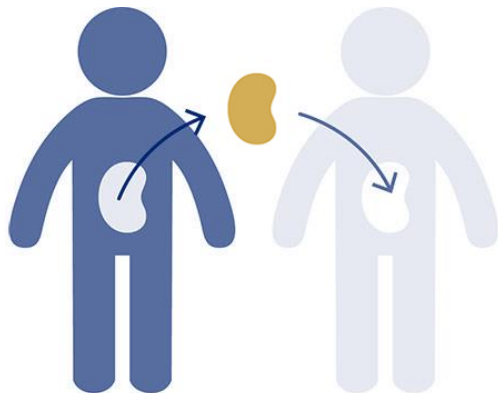


How are “nudge” strategies applied in public policy?

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Policy Innovation

“Opt-out” National Organ Donation Registry



Within six months of switching to an “opt-out” system in Wales, **more than 50%** of transplanted organs came from donors whose **consent was “deemed”**

The rate of living donors and family consent also increased

Tailored Tax Reminder Communications



The UK government predicted how taxpayers will respond to specific triggers in official communications

Her Majesty's Revenue & Customs gained an extra **£210m** in the first year of their nudge strategy

Policy



The Caribbean Labour
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Policy Innovation



- Productivity growth is key to growing Caribbean economies, reducing unemployment and raising living standards
- Labour market reform that induces greater flexibility
- Boosting productivity requires creation of scale economies through integration, improved business climate, lowering energy costs, customization of education and training to labour demands, and institutional reforms that keeps wage growth in line with productivity





A Caribbean blueprint

Macroeconomic

Economic growth and diversification

Strong / resilient financial sector

Fiscal rules, e.g., Debt-to-GDP limits

Productivity & Competitiveness

Private sector-led growth

Opening new trade markets

Regional payments facility (Fintech)

First class and cost-effective infrastructure

Human Development

Good quality education for all

Workforce skills training based on employers' needs

Conditional cash transfers to the most vulnerable

Environmental Preparedness

Strict building code compliance

CCRIF, indemnity insurance, resiliency funds

Environmental tools

Climate change adaptation tools

Microcredit for recovery lending



Sustainable Society

Regional Integration

Gender Equality



Thank you

