Elected Oligarchy and Economic Underdevelopment: The Case of Guyana

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Abstract

This study proposes the idea that Guyana's present government can be categorized as an elected oligarchy. It highlights the existence of several binding constraints (or structural bottlenecks) and demonstrates how these constraints are exacerbated by the elected oligarchy to impair the economic development of the country. Using stylized data on economic trends, the paper illustrates the direct and indirect channels through which the elected oligarchy stifles the private sector and consequently economic progress. As such, the paper presents the elected oligarchy as an alternative channel through which private investments are crowded out by the political strategy of the state.

Introduction

October 5, 1992 is seen as the re-introduction of free and fair elections in Guyana. On this date, the Peoples National Congress (PNC) was displaced by the Marxist-Leninist Peoples Progressive Party (PPP) through free and fair elections sponsored by former US President Jimmy Carter. Prior to this date the PNC maintained power through rigged elections. Free and fair elections, however, do not make a liberal democracy, a concept outlined by Zakaria (1997). Indeed, the concept of democracy within the Guyanese context appears to be limited to free and fair elections[1] (Wiggins, 2007; Kissoon, 2008).

[1] Wiggins listed several features in contemporary Guyana that account for the de-democratization of the country. Applying Zakaria's thesis of illiberal democracy, Guyanese scholar, Frederick Kissoon, has

Equal treatment under the law appears to be on the wane, the private press is being pressured with government advertisement boycott, and the state appears unconcerned about the rise of drug lords[2].

Therefore, this paper sets itself two tasks: (i) to demonstrate that the post-1992 PPP government is an elected oligarchy, which violates the conditions of a liberal democracy; and (ii) to demonstrate how the elected oligarchy worsens the economic development challenges confronting Guyana. With respect to the latter point, the paper argues that the elected oligarchy seeks to control the economic space for the formation of business interests of friends and families close to the government. Other private businesses are either penalized or they face the constraints associated with doing business in Guyana. Thus the elected oligarchy violates several of Zakaria's crucial conditions of a liberal democracy. In violating these conditions, it makes the task of economic development more difficult to achieve.

Oligarchies may exist in other parts of the world. For instance, there is the Russian oligarchy, which has been largely dismantled by the Putin government (Robinson, 2009). In the Russian case, there was a conflict between the state and powerful members of the business class. The state was able to wrest power away from the

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pioneered the notion of elected dictatorship in Guyana. Kissoon has written numerous columns adumbrating his thesis; however the following serves as a sampling of his writings on this subject (see Kissoon, 2010a; 2010b and 2008).

[2] See the following: "Drug traffickers able to operate here 'without significant interference' – annual US report" (2011, March 3), *Stabroek News,* http://www.stabroeknews.com/2011/news/stories/03/03/drug-traffickers-able-to-operate-here-without-significant-interference%E2%80%99/
For a report on the threat to press freedom see: "Ads boycott showed multi-dimensional nature of press freedom". (April 10, 2008), *Stabroek News,* http://www.stabroeknews.com/2008/news/stories/04/10/ads-boycott-showed-multi-dimensional-nature-of-press-freedom/
For a description of the favoured treatment received by a Presidential Adviser, see the letter written by Williams (2011). On the same matter see the following newspaper report: "Eyewitness implicates Kwame Mc Coy in sworn statement". (March 6, 2011), Kaieteur News, http://www.kaieteurnewsonline.com/2011/03/08/eyewitness-implicates-kwame-mc-coy-in-sworn-statement/

oligarchs, thus centralizing it in its own hands (Robinson, 2009). In the case of the United States, an oligarchic relationship exists between US lawmakers and financial interests that possess strong lobbying powers. This relationship is explained by Johnson and Kwak (2010). In subsequent opinion pieces, these two authors developed the theme of the oligarchy and argued that the lobbying power of the financial oligarchs played a role in diluting the Dodd-Frank Bill of 2010 that was meant to re-regulate the financial industry. Igan *et al* (2009) also highlighted the existence of this oligarchic relationship by providing econometric evidence which reveals that the financial crisis has a political economy dimension as banks with the greater lobbying capacities pursued more risky investment strategies.

Unlike the aforementioned oligarchies, the Guyanese oligarchy appears to be uninterested in seizing power from the incumbent business class and is not directly influenced by lobbyists who work in the interest of large businesses. Instead, the oligarchy in Guyana seeks to create its own subservient business class with the use of state funds, while stifling pre-existing businesses that might not be perceived as friendly to the elected government (Ram 2010a, 2010b, 2010c). The Guyanese oligarchy also expands state investments in the economy, and empowers friends of the government who pursue private investments (Ram, 2008; Badal 2010). The present Guyanese oligarchy derives its power from the "Burnham Constitution". The Constitution was created by the previous PNC government (under President Forbes Burnham) and it bequeaths significant powers to the President, making him immune to prosecution for wrongdoing committed in office.

There is, of course, an extensive literature that examines the role of state involvement, through industrial policies, in the economic transformation of a county. Several of today's developed economies have deployed industrial policies successfully (Chang, 2002), as have several developing economies that enjoy relatively higher incomes today (Rodrik, 2007; Shapiro and Taylor, 1990). Scholars analyzing these policies have also examined the conditions under which industrial policies have succeeded (Rodrik, 2007; Evans, 1995; Lall, 2004; Wade, 2004). Khan (1998) went further in order to explore the underlying patron-client relationship between the state (patron) and clients (private business owners). According to Khan, patron-client relations – and the inherent corruption in these networks – have different development outcomes in South Asia versus South-East Asia. Furthermore, this author notes that the ability of clients to derive favours from the state stems from the historical evolution of the patron-client arrangements. This historical divergence, moreover, accounts for the different impact of corruption on economic outcomes. For instance, although there does not seem to be a substantial difference in an index measurement of corruption, the South Korean or Malaysian patron-client networks have been less detrimental to economic progress compared with South Asia.

In contrast, this paper argues that the Guyanese oligarchy has been detrimental to the country's economic transformation. Two channels through which the oligarchy impedes economic development are proposed. Firstly, the oligarchy indirectly impedes progress by making existing binding constraints more difficult to circumvent. It should be noted that these constraints were not engineered by the present government, but rather its economic strategy compounds their adverse effects on the economy[3]. Secondly, the government imposes itself as a constraint by acting as a semi-predatory state rather than as a developmental state[4]. A semi-predatory state marginalizes non-subservient private businesses and promotes those that are more willing to cooperate with the state. The paper argues that the overall or net effect is the crowding out of private investments. These two adverse channels lead to the persistence of economic backwardness; namely, (i) deterioration in the total factor productivity of the nation and (ii) the continuation of a backward production structure.

Before outlining the core thesis of the paper, it is essential to clarify the meaning of economic underdevelopment. There is an extensive literature that examines what constitutes development. It is not the task of this paper to delve into this important discussion on the nature of economic development[5]. This paper consciously takes a narrow definition of the concept – that is, we interpret development as structural production transformation. This view is more consistent with classical development economics (UN, 2006) and with Reinert's recent arguments (2007). We take it as given that poverty reduction, improvement in healthcare, and the diffusion of education have to be sustained in the long run by a transformation of the structure of production of the country. On average – abstracting from the obvious income inequality problem – in the long run, the citizens of a nation will be as rich as the stock of what they produce. This point was emphasized by Sobhee (2009) when he analyzed the economic progress of

[3] See Hausmann, Rodrik, and Velasco (2005) for a methodology that could be used for identifying binding or growth constraints.

[4] See Evans (1995) for the definitions of a predatory and development state.

[5] See, for instance, the description given by Nafziger (2006) and Ingham (1993).

Mauritius and found that structural production change was an integral aspect of the success story. On the other hand, Hillbom (2008) noted that while Botswana made progress in terms of sustained economic growth from diamond extraction, it is yet to change its pattern and structure of production. Hillbom therefore questions the ability of Botswana to sustain economic development.

The Nature of Guyana's Oligarchy

The elected oligarchy is rooted in the following arrangements. Firstly, it emerges out of the Marxist-Leninist Democratic Centralism of the Peoples Progressive Party's (PPP's) Executive Committee and Central Committee. Essentially, the committees select the Presidential Candidate and Members of Parliament who are then offered to the electorate in free and fair general elections. Since the candidates are selected from the top, they do not necessarily reflect the interests of the mass members of the party.

Take for example Mr. Moses Nagamootoo and Mr. Frank Anthony who received, respectively, the fifth and third highest vote count in the 29th Party Congress (in 2008). At the Congress a total of 913 votes were casted from a list of 1020 delegates[6]. The delegates would represent the PPP's grass root supporters. However, neither Mr. Anthony nor Mr. Nagamootoo was elected by the 35 member Central Committee to be part of decision-making Executive Committee. Therefore, the voting decision of a committee of 35 individuals trumped the voting of the mass delegates who came from every region in Guyana. Clearly, the internal organization of the PPP opens the door for voter collusion as a way of marginalizing dissenting party leaders. Recently the *Stabroek News* reported

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[6] See the following report for more detailed election result: "PPP's 29th Congress -Moses, Donald, Frank in top 5". (2008, August 4). *Stabroek News*, http://www.stabroeknews.com/2008/stories/08/04/ppp9s-29th-congress/

Mr. Nagamootoo as saying party members no longer matter in the selection of their Presidential Candidate[7]. However, the PPP has recently signalled its continuing commitment to the top-down method of leadership selection[8].

This selection mechanism, moreover, represents a crucial filtering process to find like-minded leaders who would be supportive of the President. These like-minded individuals determine the destiny of the nation as they become part of the government. Once elected, the leadership of the PPP, purged of dissenting leaders, now enjoys the benefits of the marginally reformed 1980 Forbes Burnham Constitution. As noted earlier, the internal selection process of the PPP is susceptible to voter collusion and even coercion. This was made clear in the media recently by one faction of the PPP which wants the Presidential Candidate to be elected by secret ballot, while another prefers show-of-hands (Ramkarran, 2010). With the use of show-of-hands, the current President could see those who have dissented against his chosen candidate. The dissenter could be punished by a loss of job and other privileges.

Secondly, like-minded leaders are propelled to the national stage by general elections through a party list system. The tinkered 1980 Burnham Constitution thus avails significant power to the leaders to essentially form an oligarchic government. The national Constitution – written by the PPP's archrival, the PNC – gives the President enormous powers, and the system of proportional representation enshrined in the

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[7] "PPP statement on candidate selection shows members 'no longer count'- Nagamootoo". (2010, September 28). *Stabroek News*, http://www.stabroeknews.com/2010/news/stories/09/28/ppp-statement-on-candidate-selection-shows-members-%E2%80%98no-longer-count%E2%80%99/.

[8] See for instance the article: "PPP retains selection procedure for Presidential Candidate". (2010, September 24). *Stabroek News*, http://www.stabroeknews.com/2010/news/stories/09/24/ppp-retains-selection-procedure-for-presidential-candidate/.

Burnham Constitution allows for unaccountable Members of Parliament to be selected by the PPP party leaders. While there are free and fair elections, only a narrowly selected list of Members of Parliament is offered to the electorate.

Third, powerful members of the party and selected like-minded government officials are in a position to channel state contracts, jobs and even implement laws to benefit those with the political connections. One example is the tax breaks offered and special government procurement contracts offered to the Queens Atlantic Investment Inc. (Ram, 2008). Another more recent example involves the decision by the government to award a road-building contract for the Amaila Fall Hydro Project to Synergy. This firm has no major road building experience but is expected to construct the access road through virgin forests and over swamp terrain (Ram, 2010)[9]. However, the owner of Synergy, like the proprietor of Queens Atlantic Investment Inc., is a close friend of President Jagdeo. These favoured entrepreneurs are referred to by the President as the Newly Emerging Private Sector (see Singh, 2007). Apart from facilitating the favoured entrepreneurs who are referred to as the 'Newly Emerging Private Sector' by President Jagdeo, the government also punishes members of the business community who are deemed to be unfriendly. This appears to be the case with Mr. Robert Badal who publicly criticized the president at a shareholders' meeting in 2009. Following this incident the President indicated his intention to offer the Marriott chain of hotels preferential treatment. The move by President Jagdeo was intended to encourage Marriott to set up operation in Guyana in order to compete with the Pegasus – a prestigious hotel owned by Badal (Badal, 2010; Ram, 2010; Persaud, 2010).

[9] See the following news paper report: "Synergy bid for Amaila Falls project was most viable, lowest priced". (2010, April 16). *Stabroek News*, http://www.stabroeknews.com/2010/stories/04/16/synergy-bid-for-amaila-falls-project-was-most-viable-lowest-priced/.

In concluding this section, we argue that the Guyanese oligarchy emerged from the Marxist/Leninist principle of Democratic Centralism and internal party collusions. The Burnham Constitution allows the elected officials of the government to use the state apparatus and resources to either facilitate their friends or punish those who are regarded as detractors. This in turn results in the creation of a subservient business class. In the process, it is apparent that the elected government officials benefit from their own economic aggrandizement but at the expense of national development.

Binding Constraints

The first constraint to economic development is a state apparatus which acts in a predatory manner instead of a fulfilling the tasks of a developmental state. According to Evans (1995) a developmental state, is one which is embedded and autonomous. When the state is embedded it continually cajoles the private sector over a set of coherent and realistic policies. Moreover, the political views of the investor do not matter as the bureaucracy is motivated by a social purpose. On the other hand, in order to be autonomous the bureaucracy should be is independent of political and private sector controls (Evans, 1995). Autonomy is also ensured when the government offers well paid long-term career paths that are selected via meritocratic recruitment practices.

In contemporary Guyana, the elements of a developmental state are sorely lacking. For instance, the government employs the state apparatus to gain control over the economic space of the country in order to empower its members and the so-called "Newly Emerging Private Sector". Additionally, the bureaucracy is hardly autonomous and is not selected via meritocratic recruitment practices. For instance, despite President Desmond Hoyte's attempts to move away from the political control of the public service, the current head of the Presidential Secretariat is a seasoned politician, thus reversing a progressive shift in policy. Further, certain key positions within the public sector are filled with persons who are close to the government but often lack requisite competencies. Many working in the public service are employed on short-term contracts (usually renewable annually) with high pay. The purpose of this human resource strategy is essentially to control the agenda of public agencies, as short-term contracts create incentives for the bureaucrat to be follower in order to attain contract renewal.

In light of the foregoing, the bureaucracy is devoid of a collection of skilled and forward looking bureaucrats who are capable of supporting the private sector in a modern economy which is driven by high productivity sectors (Khemraj, 2009). Unfortunately, Guyana is a high fixed cost economy whereby the fixed costs act as a barrier into the market place (see Khemraj, 2008). This in turn leads to a development trap and major coordination failures (Rosenstein-Rodan, 1943), thus requiring an efficient state with strong capacity to encourage the most productive private enterprise. However, given the nature of the existing bureaucracy, development in Guyana is stymied.

The second constraint to development is the dearth of human capital in the broader economy. In particular, Guyana is experiencing a shortage of engineers, scientists, entrepreneurs, CEOs, financial analysts, etc. and the current government's actions are only exacerbating the situation by reducing the returns to expertise in the private sector. When there is already a shortage of skilled workers, the last course of action one wants to take is to allow adverse intra-group ethnic networking to dominate a meritocratic and competitive labour market. In the Guyana context, there is an ethnic dimension to political mobilization since the PPP and PNC, respectively, draw support from the Indo-Guyanese and Afro-Guyanese factions of the society. Therefore, there is always the risk of intra-group ethnic networking taking precedence over a more broad based selection procedure.

The third constraint is the persistence in Guyana of a backward production structure since its independence in May 1966 (Khemraj, 2009; 2010). The critical point here is that the citizens of a country are as rich as what they produce. This idea goes back to the work of the classical development economists (UN, 2006). Essentially, the country manufactures products that are low in export income elasticity and are at the low end of the global hierarchy of commodities. Moreover, it continues to be dependent on a limited range of primary commodities that are susceptible to external shocks. In order to overcome this constraint the country's long-term development strategy will have to be rooted in production transformation. Unfortunately, the existing bureaucracy may not be able to create and support an industrial policy necessary for transformation in the production structure.

The fourth binding constraint is inadequate finance to support development initiatives locally. This is due in part to our underdeveloped financial architecture that results in low levels of financial intermediation (see discussion below). The government has sought to circumvent this problem by pursuing a Low Carbon Development Strategy, which pins its financing hopes on the REDD (Reducing Emissions from Deforestation and Degradation). However, it is far from certain whether the international community has the will to fund such environmental schemes. The REDD schemes have remained small in scale and it could take years for this mechanism to emerge as a serious source of development finance[10].

The fifth constraint is the result of a lack of physical security. Police reform continues to be an elusive objective, many brutal crimes and robberies are never solved and perpetrators are never brought to justice. Investors have to price in these uncertainties when making an entry decision. Only high returns could compensate investors for these uncertainties, but, as we have noted, many punitive structures diminish the profit possibilities of private investment projects.

Evidence of the Constraints in Operation

This section presents some evidence on the operation of the binding constraints outlined above, using data on per capita GDP growth and inflation, the structure of production, total factor productivity growth, and the relationship between private and public investments.

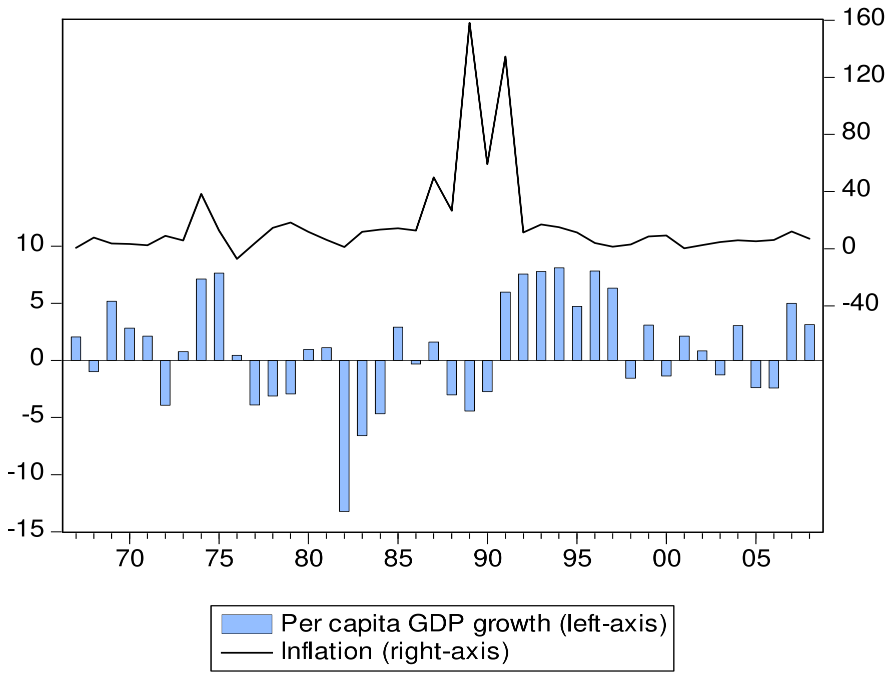
<u>Per capita GDP growth and inflation</u>

The growth of per capita GDP (placed on the left-axis) is often seen as an aggregate measure of a nation's productivity; persistent growth of this measure of productivity is at the heart of the welfare of a nation. Figure 1 presents Guyana's rate of growth of per capita GDP (total real GDP divided by population size) and the inflation rate from 1967 to 2008. We can divide the growth performance into several key periods in Guyana's history. First is the period of early independence, from 1967 to 1975, over which per capita GDP expanded at an average rate of 2.54%. Three economically significant events took place in the early independence period: (i) the first oil supply

[10] See the special report: "Better REDD than dead". (2010, September 25). *The Economist*.

shock, (ii) in 1970, economic policy shifted to Socialist planning, and (iii) in 1974 and 1975, Guyana benefitted from a major increase in world sugar price causing per capita GDP to expand in these two years by 7.1% and 7.6% respectively. Over the first period (1967 to 1975), inflation averaged 9.3%.

Figure 1. Per capita GDP growth (left-axis, %) and inflation rate (right-axis, %) – 1967 to 2008



Data source: World Development Indicators and Bank of Guyana

The second phase– from 1976 to 1988 – witnessed a protracted downturn in the growth of per capita GDP (by an average of -2.36%) and consequently the living standard of Guyanese. Over this period, state control intensified with the nationalization of banks, sugar industry and bauxite industry. The inflation rate over this period averaged around 11%. This could have been an underestimation given the price controls that were instituted in that period.

In the third period, from late 1988, the government launched an Economic Recovery Programme (ERP) supported by the IMF and World Bank. These reforms would eventually pave the way for significant inflows of concessional loans, grants and debt relief in subsequent years. Moreover, the inflows would help to place Guyana on a more stable financial path with the support of the sister Bretton Woods institutions. Between 1989 and 1997, productivity grew by 4.57%. In this early period of economic reforms and liberalization, the inflation rate was at an all time high. The highest rates of 158.2%, 59.1% and 134.6% occurred in the years 1989, 1990 and 1991, respectively. By 1992 the inflation rate stabilized to 11.3%. Economic analysts agree that the liberalization of the foreign exchange regime in 1990 resulted in the rapid depreciation of the Guyana dollar against the US currency. This, in turn, resulted in significant pass-through to domestic prices given that the economy is dependent on imports of consumer goods, capital goods and fuel. In the final period, from 1998 to 2008 per capita GDP grew by a paltry 0.75%. The underground economy picked up momentum in this final period (Thomas *et al*, 2011). This period was also characterized by a rise in criminal violence and political instability.

Structure of production

Table 1 presents the percentage share of GDP of each production sector in Guyana. As these structures do not change overnight, the table reports selected years. Each sector's output was divided by GDP to obtain the relative share. The data suggest there have not been significant structural shifts in the economy since 1960. The manufacturing sector continues to be weak. These data, reported by the Bureau of Statistics and the Bank of Guyana, include processing of rice paddy and sugar as manufacturing. This means that non-traditional manufacturing is virtually non-existent in Guyana. As noted earlier, a respectable literature in development economics consider that structural change in the direction of higher value added industry is essential for maintaining long-term economic and productivity growth (see UN, 2006; Thirlwall, 2007).

Table 1. Structure of Guyana's GDP – selected years (%)

	1960	1970	1980	1990	2000	2009
Sugar	17.6	12.9	15.3	16.4	12.8	7.1
Rice	5.3	3.8	3.9	2.6	6.8	5.4
Livestock	1.3	2.3	3.2	2.6	2.2	2.4
Other Agriculture	3.3	3.1	3.7	6.9	5.5	5.0
Fishing	1.6	1.1	1.3	12.8	6.7	5.8
Forestry	2.5	1.1	1.2	1.8	2.1	1.7
Mining & Quarrying	11.0	21.3	17.1	10.1	15.9	11.2
Manufacturing	5.3	4.4	4.7	5.2	3.2	3.4
Distribution	14.1	11.9	8.9	6.6	4.4	6.9
Transport & Communication	7.5	6.2	5.8	7.6	7.8	6.5
Engineering & Construction	9.5	8.2	7.3	4.5	4.9	13.3
Rent of Dwelling	3.1	2.4	1.4	5.1	4.0	4.9
Financial Services	3.2	3.6	4.2	7.0	3.9	4.6
Other Services	5.0	3.9	2.6	2.2	1.7	2.3
Government	9.7	13.8	19.3	8.5	18.1	19.4
Total Percentages	100	100	100	100	100	100

Note: manufacturing includes processing of rice paddy and sugar cane.
Data source: Bank of Guyana *Annual Reports* and *Statistical Bulletins* (various years)

Structure of finance

Guyana's financial system is dominated by commercial banks, which by the end of 2008 still accounted for approximately 67% of all financial assets. There is no active bond market and the stock exchange is yet to assume a prominent place in development financing. Guyana dismantled its state development bank as part of the era of financial liberalization. Table 2 presents the composition of the key assets demanded by commercial banks (space does not allow us to present the asset composition of non-bank financial institutions). The primary asset classes are reserves (required and excess), foreign assets, credit to government (mainly T-bills), credit to government enterprises, and credit to the private sector (business loans and loans to individuals).

Business credit is very important from an economic growth perspective as it reflects, to a large extent, the intermediation of the society's savings to private businesses. It is obvious that the percentage of private credit has increased in bank portfolios in the post-liberalization era. However, commercial banks have continued to hold substantial levels of excess reserves and government Treasury bills – as is the case in many other developing economies (Khemraj, 2006; Saxegaard, 2006). According to Table 2, another important asset is the foreign asset category. Commercial banks need to hold foreign assets for the purpose of facilitating their customers' international business transactions, although some of these could be for the purpose of proprietary investments (Khemraj, 2006).

Insufficient financial intermediation to the business sector could reflect both demand and supply conditions. Demand for credit could be curtained by the reduced business formation owing to the binding constraints that make investments less profitable. On the other hand, it could also reflect the loan supply behaviour of commercial banks. Commercial banks could restrict credit because the market interest rate does not compensate for the marginal cost of making a particular loan. Therefore, the banks demand a minimum loan rate that is a mark up over the marginal cost of doing business. In the special situation, when the marginal cost is equal to or greater than the loan rate, commercial banks prefer to hold non-remunerated excess reserves and extend fewer loans (Khemraj, 2006; 2008). Here non-remunerated excess reserves are voluntarily demanded by the banks.

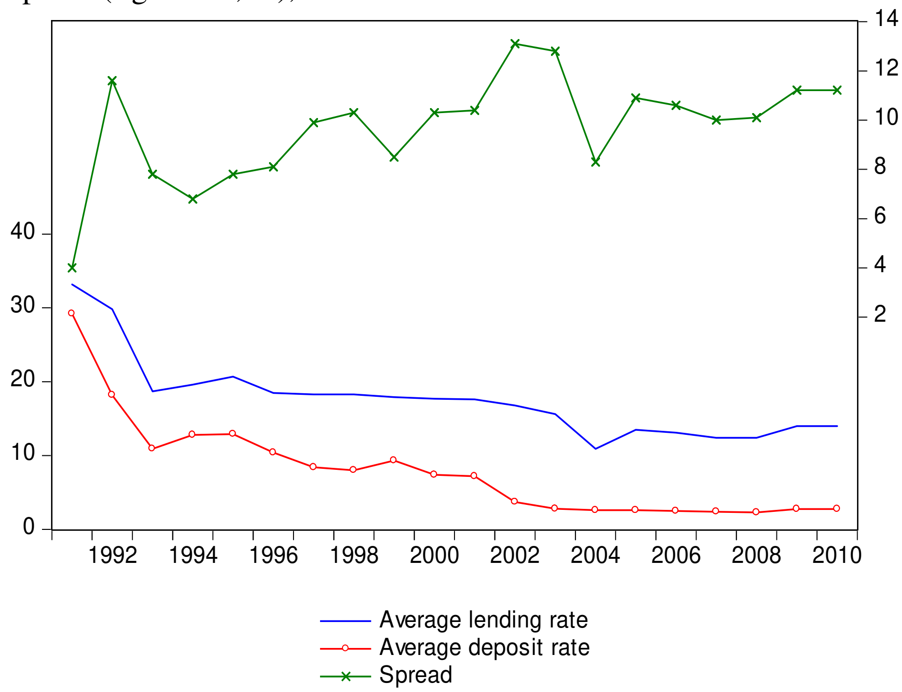
Table 2. Composition of commercial bank assets

		Percent of total				
	Total assets (G$mill)	Reserves	Foreign assets	Credit to government	Credit to public enterprises	Credit to private sector
1980	834	15.1	7.1	27.1	27.5	23.3
1985	2851	22.0	1.2	29.1	29.4	18.2
1990	13233	13.6	18.2	31.1	5.7	31.4
1995	50598	20.4	7.5	31.4	0.8	39.9
2000	102396	15.1	7.0	19.8	0.4	57.7
2005	150180	17.7	18.8	26.9	1.0	35.6
2006	180216	18.0	17.5	25.5	0.6	38.4
2007	203975	11.7	24.3	21.7	0.1	42.2
2008	232629	12.5	21.3	21.5	1.1	43.6

Source: IMF, International Financial Statistics and Bank of Guyana Statistical Bulletins (various years).
Credit to government includes bank purchase of T-bills.

Further indication of poorly functioning business financing is indicated by Guyana's high lending rate and, from a customer perspective, the low savings and deposit rates. The combination of high loan rates and low deposit rates produces a wide intermediation spread for Guyana. Although this picture is not atypical of the Caribbean and other developing economies (Moore and Craigwell, 2002), a wide loan-deposit spread is indicative of disintermediation. The spread (see right axis in Figure 2) has tended to widen since the early 1990s. At the end of 2010, the average lending rate was 14%, while the average deposit rate was at 2.88%.

Figure 2. Average lending rate (left-axis, %), average deposit rate (left-axis, %) and spread (right-axis, %), 1991 to 2010



Data source: International Financial Statistics

Total Factor Productivity (TFP) growth

Total factor productivity (TFP), otherwise known as the Solow residual, measures how efficient a society is in utilizing its factors of production (labour, physical capital, natural resources, etc) to achieve growth in per capita GDP. It is possible for a country to experience positive per capita GDP growth but negative productivity growth, if the country's growth depends on exploiting raw materials and minerals instead of innovating. Such growth, however, will be short-lived and subject to the principle of diminishing returns – per capita GDP will stop growing at some point. On the other hand, growth in technology can allow a country to circumvent diminishing returns in the long-term.

Technology includes new ideas, research and development that contribute to better ways of organizing production in the government and private sector.

Table 3. Total factor productivity growth

Periods	Change in capital %	Change in labour %	Change in GDP %	TFP growth %
1991 - 2004	3.87	0.06	3.85	1.77
1992 - 1997	5.76	0.55	7.09	3.75
1998 - 2004	1.98	-0.42	0.61	-0.22

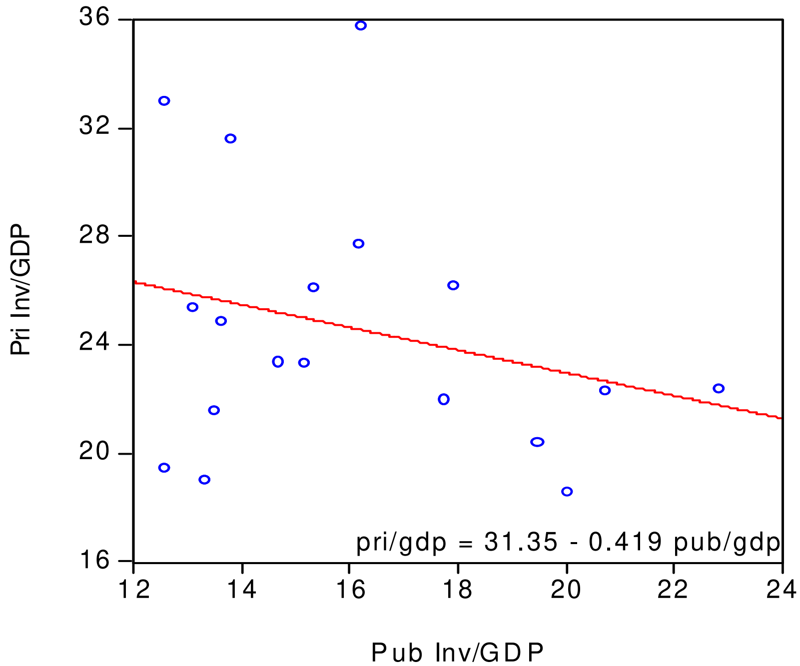
Source: Staritz, Atoyan and Gold (2007)

Table 3 reports trends in Guyana's economic growth rate, decomposing GDP growth in terms of the growth of the labour force, physical capital and of technology (TFP). The estimates, taken from Staritz *et al* (2007), suggest that the period 1992 to 1997 was most productive, while the period 1998 to 2004 was least productive.

The crowding out of private investment

As noted earlier, the Jagdeo government has decided to create its own private sector using state largess (Ram, 2008; Badal 2010). The President himself termed this favoured group the Newly Emerging Private Sector (NEPS). In other words, we have a situation where an oligarchic government crowds out private investors who could also be generating economic growth, while selectively supporting several new private investors.

Figure 3. Government and private investment (%)



Data source: Bank of Guyana *Annual Report* (various years)

In order to obtain the net effect, this paper utilizes data from Bank of Guyana to calculate the annual percentage of GDP accounted for by private investments and government investments. Annual data from 1993 to 2010 are used. A scatter plot of the percentage shares of private and public funds (figure 3) shows that, as government investment increases, private investment declines. The data suggest a simple regression estimate of pri/gdp = 31.35 – 0.419 pub/gdp. The slope of the regression line is – 0.419, indicating that a one percent increase in public investments reduces private investments by 0.419 of one percentage point. Although this is not in itself evidence of a causal relationship, the data are consistent with the proposed mechanism of an elected oligarchy crowding out the private sector in the pursuit of political and economic control.

Concluding Remarks

An analysis of trends in Guyana's economic performance suggests that constraints imposed by the current political and electoral system reinforce the inertia of an out-dated production structure and inadequate financial markets. Guyana's political institutions are not conducive to the kinds of human capital and industrial policy needed for development. If anything, the data indicate that they are permitting the political actors to undermine incentives in the private sector by playing favourites with investors.

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