

DEBT OR DEVELOPMENT  
THE JAMAICAN DILEMMA

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At this time Jamaica is at the most important crossroads in its history. It is faced by the serious dilemma of formulating and implementing a strategy to ensure development and avoid economic decline and social distress. The origins of this dilemma can be traced to the unprecedented disequilibrium in the balance of payments, caused primarily by adverse external events such as the escalation in the price of oil during most of the 1970's and continuing into the 1980's, e.g. the decline in demand for bauxite. These large and persistent deficits and the concomitant process of adjustment, initially involved a deceleration in growth, followed later by a period of economic decline. While undertaking a process of adjustment, designed largely by the International Monetary Fund and the World Bank, the Government of Jamaica accumulated a substantial external debt, the repayment of which is one of the major obstacles to further development.

The resuscitation of economic growth in Jamaica is imperative if the country is to extricate itself from the stifling economic deprivation which engulfs the majority of Jamaicans and threatens the social stability and peace in which two party democracy has flourished since the introduction of universal adult suffrage in 1944. If the stranglehold of debt on development is not broken, the cancer of a drug culture, which spawns amidst poverty and unemployment, could lead to corruption, increased crime and possibly, societal disintegration. Given the global operation of drug cartels and syndicates, it is quite conceivable that this international scourge could subordinate the economy of a small, developing country and destabilize its government.

## DEPENDENCE AND DECELERATION

The Jamaican economy is a small (4,411 sq. miles, 2.2 million people and Gross Domestic Product of US\$3.3 billion), highly open economy, i.e. transactions are large in relation to total economic activity, e.g. foreign trade/GDP of over 80 percent. The process of economic growth is very import dependent as consumption, investment, and production for domestic and export markets have a high import content. The import content is 40 percent in tourism, 20 percent in export agriculture, 34 percent in bauxite/alumina, 25 percent in construction and 40-60 percent in manufacturing. Consequently, the imports/GDP ratio averages between 33 percent and 60 percent. The volume of imports is therefore the principal determinant of economic growth.

Imports have to be paid for in foreign currency, therefore the amount of imports depends on the amount of foreign exchange available to the economy. The sources of foreign exchange are (1) export earnings, including tourism and (2) foreign capital inflows in the form of (a) foreign investment and/or (b) loans, either on commercial or concessionary terms. Traditionally, there has been an adverse trade balance in Jamaica, i.e. imports exceed exports. The gap was financed by a large net inflow of foreign capital during the period 1959 to 1970, and therefore the growth rate was high and sustained, permitting an increase in GDP per capita. After 1970, foreign investment in the bauxite/alumina industry declined, reducing the economy's ability to sustain an excess of imports over exports. The rate of economic growth declined, and after the mid-1970s there was a contraction of GDP.

## DEBT

Since 1977, a series of IMF stabilization programmes, in tandem with World

Bank structural adjustment loans, have been implemented to secure adjustment, to increase growth, reduce the balance of payments deficit, and control inflation. In an environment of a paucity of foreign investment, loans from multilateral institutions, in particular the IMF and World Bank, and bilateral development assistance agencies like USAID became vital for the economy, as they helped to finance essential imports.

In the heyday of economic growth, when foreign investment was sufficient to finance a sizeable excess of imports over exports, external debt was insignificant. In 1970, the external debt was only US\$124 million, and debt servicing required 4 percent of exports and 5 percent of government revenue. By 1980, the external debt stood at US\$1.8 million, of which US\$525 million was owed to multilateral institutions and bilateral agencies. The debt service ratio was 20 percent and repayment of external debt required 20% of government expenditure. At the end of 1988 the external debt amounted to US\$4 billion of which US\$3.4 billion, or 85 percent of the total, was owed to the multilateral and bilateral institutions. Jamaica is now one of the most heavily indebted countries on a per capita basis. Each Jamaican now owes over US\$2,000, or over 7 times GDP per capita. The debt to debt service ratio was 47.5% in 1987 and 38.8% in 1988. In the 1988/89 fiscal year, debt servicing used up 40 percent of the budget. If the resources preempted by servicing external debt were available, imports could be increased by over 60 percent, resulting in a substantial increase in economic growth, and the government's expenditure on physical infrastructure, health and education could be increased significantly.

#### **DECLINE AND DEPRIVATION**

In the years since 1977 when IMF designed adjustment programmes began, two adverse developments have taken place. First, Jamaica has become so heavily indebted that debt repayment is now a major barrier to economic growth. The other dominant feature of this period is the impoverishment of the majority of people.

The GDP in 1988 was at the same level as it was in 1978, which means that given population growth, the per capita GDP is lower than it was a decade previously. At the present, one in five Jamaicans are unemployed and among the youth the unemployment rate is near 50 percent. The cost of feeding a family of five is now three times the minimum wage. There has been a deterioration in nutrition due to increased food prices resulting from the effects of devaluations and the reduction of food subsidies. The worst affected are the poor, the old and the children. The number and percentage of children suffering from malnutrition and gastro-enteritis has increased since 1978. Approximately 45 percent of Jamaican children under ten years old are anemic, 61 percent of the children in Kingston have hemoglobin levels below the WHO standard.

#### DRUG CULTURE AND ECONOMY

In the milieu of unemployment and poverty, earning an income from crime and drug trafficking is increasingly a means of survival for Jamaicans. There has been an increasing tolerance of, and involvement, in drug use, production, distribution and export of marijuana and, more recently, cocaine. These activities are in some instances linked to international drug rings. The anti-narcotics campaigns instituted by successive Jamaican governments, have reduced marijuana production and export, decreasing the amount of foreign exchange available to the economy and eliminating revenue to certain rural communities.

Interdiction and imprisonment are not a viable deterrent, given the near absence of alternative employment. The government cannot mount an effective anti-narcotics campaign with the resources available to it. However, relief on debt servicing could make available a substantial amount of money which could be deployed to fight drug trafficking and provide programmes of employment opportunities as an alternative to succumbing to involvement in drugs and crime. More resources are urgently needed to strengthen law enforcement, mount a national anti-narcotics education efforts, create a center for treatment and rehabilitation, and improve the penal system. These measures cannot be contemplated in a situation of tight fiscal constraints.

If Jamaica is to stave off the menace of a drug culture and underground economy, the economy must generate more jobs and more opportunities for employment which yields remuneration capable of sustaining and motivating effort and perseverance. This can only be achieved by higher rates of economic growth. In Jamaica the needed growth must be given the critical push by substantial debt relief, freeing resources for increased imports and government expenditure on infrastructure, health and education.

#### **COMMITMENT TO ADJUSTMENT**

Since 1977, Jamaica has, to the best of its ability, implemented a policy package of economic reform. This has involved large devaluations, reduction of the fiscal deficit (as a % of GDP), privatization of government owned enterprises, removal of price and rent controls, progressive elimination of protectionist import restrictions, reduction of subsidies, liberalization of exchange controls, and a restrictive credit policy. The objectives are to ensure that private enterprise, which is the engine of growth, operates in an

environment in which market forces decide resource allocation and the level of domestic savings and investment are increased.

Results of this program are encouraging. The deterioration in the balance of payments has been arrested, inflation has been stabilized at tolerable levels and there has been some economic growth.

A strenuous effort has been made to reduce the debt burden and strict limits have been adhered to on external borrowing. Much of the small, commercial bank debt, as well as the large bilateral debt, has been rescheduled, and a debt-equity programme has been established. The government is committed to pursuing adjustment, reform and debt management, despite considerable pressure to increase expenditure on social services and projects to alleviate poverty. This process of adjustment can be reinforced, and given substantial stimulus, through debt relief. Unfortunately, 45 percent of Jamaica's debt is owed to multilateral institutions, which do not reschedule debts owed to them. Jamaica benefits neither from the Brady Initiative nor from the forgiveness of the bilateral debt of the least developed countries. There should be some facility specifically geared to assist countries like Jamaica which have carried out a sustained programme of adjustment and which have never defaulted or reneged on its debt obligations.

#### **DEBT RELIEF FOR DEVELOPMENT**

Debt relief to enable Jamaica to more effectively tackle the twin problems of development and drugs could be achieved by a variety of means which would be preferable to further borrowing. One possibility which could be explored is to allow bilateral debts to be repaid in Jamaican dollars. This would save scarce foreign exchange while allowing the fulfillment of the obligation to repay the

debt. These funds could be converted to a grant to the Jamaican government to be spent on (a) the anti-narcotics campaign and (b) providing alternative employment opportunities to rehabilitate communities formerly dependent or involved with drug trafficking. This would, in effect, recycle these funds providing funding for expenditure on development projects.

The difficulty of bilateral agencies not receiving repayment in foreign currencies would be avoided by conversion of repayment to grants, thus obviating the need for new and increased US lending for these projects. There are other possibilities and mechanisms which need to be carefully examined to determine how they could be brought to fruition as quickly as possible. It would be useful if a study of Caribbean debt, its implications for development and the mechanisms of debt relief to promote development could be prepared and submitted to Congress as a basis for an action programme.