Jamaica

Introduction

Jamaicans have suffered from a debt crisis and austerity for more than four decades. Even the IMF has admitted that the most recent austerity programme, agreed in 2013, will fail to deal with the debt. But the legacy of high debt payments and austerity is that Jamaica is off track to meet many of the MDGs, with progress on education and maternal mortality even going backwards.

Origin of debt crisis

At independence in 1962, Jamaica inherited a high dependency on exporting crops such as sugar, coffee and cocoa. In 1973, the economy crashed due to the rise in world oil prices, rapidly pushing up the costs of imports. When interest rates rose at the start of the 1980s, debt payments shot up from 16% of exports in 1977 to 35% by 1986.

Foreign debt payments have remained above 20% of government revenue ever since. Between 1972 and 1995, Jamaica took bailout loans from the IMF in all but one year. And between 1980 and 2010, Jamaica's economy grew by an average annual rate equivalent to just 0.65%. Since 1990 the economy has effectively stopped growing.

The IMF and World Bank began issuing large amounts of bailout loans in the 1980s, with consequent austerity conditions, including cutting public sector jobs, attached. For example, through the 1980s, the number of registered nurses fell by 60%. An austerity programme carried out between 1989 and 1993 was the most drastic, with large increases in inequality and poverty following financial liberalisation in 1991.[29]

High interest payments have been a constant burden. Since 1970, the Jamaican government has actually repaid more money overseas ($19.8 billion) than it has been lent ($18.5 billion).[30] Yet the government is still said today to owe $7.8 billion in external debt. Before including debt interest payments, the Jamaican government has had budget surpluses for the last two decades, but because of interest payments, it has remained in deficit.[31]

In the mid-to-late 1990s a private banking crisis ensued, and government debt increased again through bank bailouts and the costs of the consequent recession. Government foreign-owed debt increased from 32% of GDP in 1998 to 52% by 2004. The economy entered recession yet again in 2008.

In 2010 and 2011, Jamaica again received more bailout loans from the IMF, but its economic performance was worse than predicted by the Fund. That year the economy shrank 1.5%, when the IMF had predicted it would grow 0.6%.[32] One of the conditions of the IMF loan was the introduction of public sector wage freezes which, given inflation, amounted to a 20% real terms cut in pay. Public sector employees took the government to court, and the Industrial Disputes Tribunal and Supreme Court ruled that the wage cuts had been illegal. To comply with the courts' rulings, the Jamaican government paid back wages owed to public sector employees. But the IMF, taking no notice of the fact this was a legal entitlement, reacted by suspending the bailout loans.

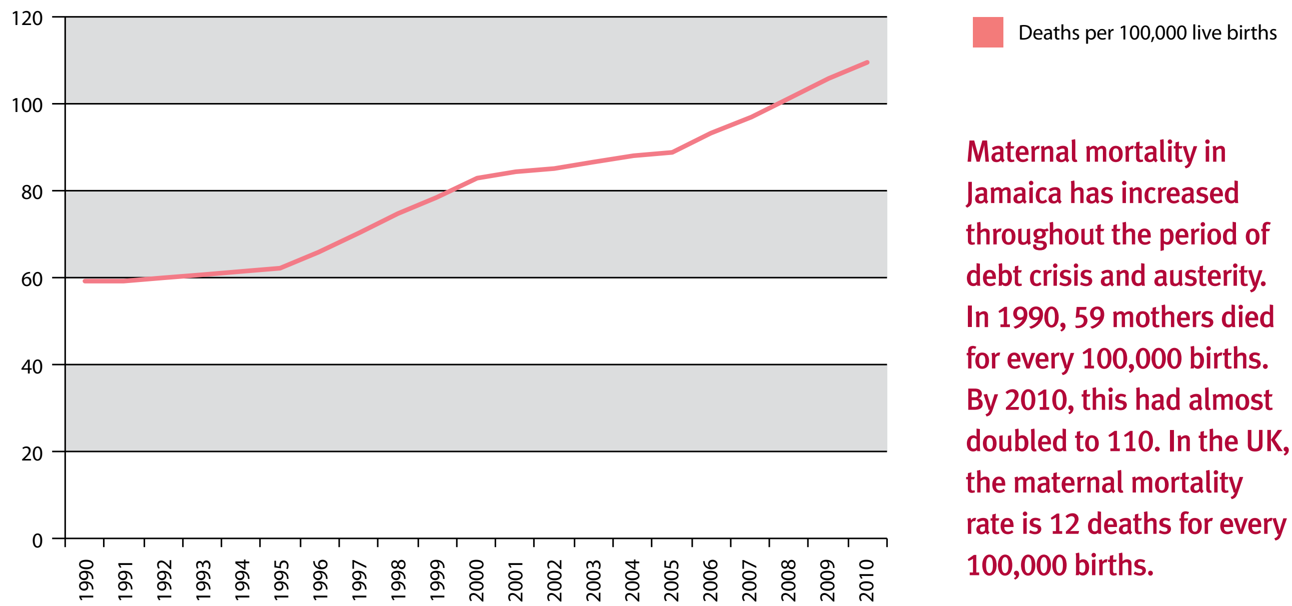
Following the IMF suspension, the World Bank, Inter-American Development Bank and European Union all reduced the loans and grants available to Jamaica, further worsening the country's financial difficulties.[33] In September 2011, the EU Ambassador told the Jamaican press: *"We have already declared that we have to wait for Jamaica to re-engage with the IMF in order to continue disbursing our own funds."*[34]

Government external debt:
- $7.8 billion
- 54% of GDP

Private external debt:
- $4.3 billion
- 30% of GDP

Government external annual debt payments:
- $1.2 billion
- 33% of revenue
- 27% of exports

References for case study three are on page 22



Maternal mortality in Jamaica has increased throughout the period of debt crisis and austerity. In 1990, 59 mothers died for every 100,000 births. By 2010, this had almost doubled to 110. In the UK, the maternal mortality rate is 12 deaths for every 100,000 births.

Figure C3: Maternal mortality in Jamaica (deaths per 100,000 births)[35]

In April 2013, the IMF agreed a new lending programme of $930 million over four years, with a further $1 billion from the World Bank and Inter-American Development Bank, in order to enable the country to meet its debt payments as they fall due. One pre-condition for this loan was a requirement to restructure the debt owed to domestic creditors, reducing the interest rate, but not any principal. Yet, the debt owed to *external* creditors was explicitly excluded. The consequence is that as well as the restructuring being far too small to have a large enough impact on the debt, it also excludes the more damaging external debt, while potentially weakening the Jamaican financial system. This restructuring went directly against IMF advice in a February 2013 paper on the Caribbean, which stated that:

"It is costly for debt restructuring to be 'too small'. There is a low limit to how often a country can undertake debt restructuring. Hence, partial restructuring that generates only minor gains while eliminating future renegotiation possibilities should, where possible, be avoided."[36]

A further precondition of the programme was to agree a new pay freeze with unions for 2012–2013 – an effective pay cut of 8.5% – and wage increases of no more than 5% for the following two years (which, given inflation of 7% a year, will result in further pay cuts and a loss of spending power).

Other conditions of the IMF programme, which need to be implemented for Jamaica to keep receiving the loans, include reducing government spending and increasing taxes, reviewing labour legislation, increasing property taxes and taxation of companies, implementing a freeze on the hiring of staff in schools deemed 'overstaffed' and securing investment in infrastructure through public-private partnerships, including in schools, healthcare, tourism, agriculture and transport.

The IMF programme sets a condition of getting the government debt (external and domestic) below 100% of GDP by 2020 but, incredibly, the IMF also says that *"current projections under the programme suggest that the target will not be achieved"*. The IMF says that by May 2014 the Fund and Jamaica will decide by how much more the debt needs to be reduced, possibly including some debt cancellation. However, this is most likely to be debts owed to foreign governments rather than the much larger debts owed to the private sector and institutions like the IMF and World Bank.

Life and debt in Jamaica

The global financial crisis and spikes in the price of commodity imports, alongside Jamaica's unmanageable debt burden and the resultant spending cuts, have sparked a surge in **unemployment**, which increased from less than 10% in 2008 to over 16% in 2013 – the second highest in the Americas. The proportion of people living in poverty increased from 9.9% in 2007 to 17.6% in 2010.[37] A 2011 IMF report said that 43% of the population live on less than $2.50 a day.[38]

It is little wonder poverty is on the rise when the government spends more than half its income just servicing its debt. In the 2012–2013 budget, 55%

 References for case study three are on page 22

Photo: Carlos Barria / REUTERS

Residents walk on a mud-covered road in Kingston after Hurricane Dean passed close to Jamaica in 2007. The island keeps being hit by disasters and other shocks caused elsewhere in the world.

of expenditure was allocated to paying foreign and domestic debts, leaving too little to provide adequate levels, or quality, of education, health, housing and other services. The government currently spends more than twice as much on paying foreign debts as it spends on education and health combined, and 2.5 times what it does on capital projects.

As a result there have been savage **spending cuts**. Over the course of the 27-month IMF agreement Jamaica was forced to reduce the public sector wage bill from 11.5% of GDP to 9.5%. Public sector workers are enduring a five-year **wage freeze**, amounting to a 20% real terms pay cut, and have seen more than 3,000 jobs go over the past two years. In April 2013, the government announced plans to axe a further 4,200 jobs. A number of state agencies have been closed or merged, leading to further job losses. Plans to install computers and IT in community centres across the country were abandoned due to a lack of funds.

As a consequence, Jamaica is off track on at least one of the indicators for all the MDGs. Maternal mortality has almost doubled, rising from 59 per 100,000 live births in 1990 to 110 by 2010. In 1990, 97% of children completed primary school but by 2010 the figure was just 73%.[39]

Increasing poverty has also been fuelled by **rocketing prices**. Electricity prices have increased by over 135% since 2001. Salaries have not kept pace with food price rises. The country's leading newspaper, the *Gleaner* revealed that the average price of a basket of basic goods had risen 15.5% in 2011.

To meet its growing debt-servicing requirements the current government launched a raid on the funds of the National Housing Trust – taking out J$45.6bn. The Campaign for Social and Economic Justice (CSEJ) called it *"illegal as well as immoral. Spending that money on one-room block-and-steel starter homes at J$0.5m each, on the people's land, would yield 90,000 low-cost housing solutions that would benefit 300,000 people"*.

All this at a time when **homelessness** remains a major problem, with many more living in sub-standard accommodation. In Riverton City alone, the location of a garbage dump, 5,500 Jamaicans live in shacks and do not have any plumbing. The local people rummage through trash as soon as it comes off the garbage truck and collect anything that they can re-use or sell.

In light of IMF-imposed austerity it is little wonder that the gap between the rich and poor has grown wider. Jamaica ranks as the second worst for **inequality** in

References for case study three are on page 22

income distribution among the 23 countries in the Americas – scoring 59.9 on the Gini co-efficient, worse than Haiti and only outranked by Suriname.[40]

Jamaica is now borrowing again to repay the interest on its previous loans. It is a vicious cycle. According to the US-based Centre for Economic and Policy Research (CEPR), debt servicing represents *"a consistent transfer of output from taxpayers to domestic and foreign creditors, and a serious impediment to the formulation and implementation of a development agenda. As long as creditors are prioritised over the country as a whole, Jamaica will remain heavily indebted with persistently low growth."*

Resistance and the demands of activists

With sustained low growth rates, an increasing reliance on borrowing and growing poverty it comes as no surprise that on the pages of Jamaica's main newspapers and across the airwaves the debate about the country's debilitating debt rages.

"Much of the debt is odious and illegitimate as any debt audit would reveal. We need a moratorium on both local and foreign debt servicing – it is the only way forward.

"Then we can begin to believe in ourselves and finally make emancipation and independence a reality."

CSEJ (LEAFLET – NO TO DEBT SLAVERY, NO TO THE IMF)

Activists from the CSEJ, who have been behind a number of the high profile public protests against the terms of the IMF bailouts, have called for a forensic **debt audit** as part of a comprehensive programme to set Jamaica on a new course.

Among their demands are: putting a **moratorium** on debt payments and stopping borrowing; holding a forensic **audit** of the debt to determine who has corruptly enriched themselves at the public expense; stopping public sector cuts and lay-offs; **repudiating** the large amount of **debt** which is odious/illegitimate; collecting unpaid taxes and **taxing** the banks and the rich (additional tax on incomes of over J$5m was introduced but for only one year, then abolished).

CSEJ claims that the aim of a forensic audit is to make people more aware of how corruption blights their social existence, in that it represents a method of transferring wealth from the poor to the rich. CSEJ say *"If only 50% of the debt is corrupt, it lends a moral force to the argument as to why the debt cannot be repaid on the backs of the workers and poor. It is a tool for negotiating debt repudiation."*

Professor James Petras of Binghampton University believes that 70% of Jamaica's debt is **illegitimate**. Activists claim subsidies were paid to profitable tourism companies such as Sandals resorts – especially the US$120m taxpayer-funded building cost of Sandals Whitehouse which was then sold to the company for US$40m. In 2009, UK bridge-building company Mabey and Johnson pleaded guilty to paying bribes to secure a contract,[41] which was funded with loans guaranteed by the UK government's UK Export Finance. And J$100m earmarked for infrastructure projects was used to refurbish the offices of the National Works Agency. The contract was given to a Chinese company in line with the conditions imposed by Chinese lenders. In another infamous case the National Commercial Bank was bailed out by taxpayers before being sold to the private sector at less than its market value.[42]

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