

Fiscal policy and debt sustainability

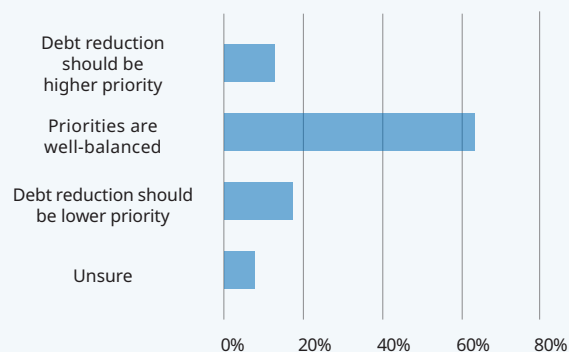
The second round of the Jamaican Economy Panel (JEP) asks panelists about their perceptions of Jamaican fiscal policy. Jamaica has had a high level of debt for some time, but in cooperation with the International Monetary Fund and with the support of both political parties, the debt was reduced from 144% of GDP in 2012 to 94% of GDP in 2019¹. However, largely due to the large decreases of GDP that occurred in 2020, debt has increased once more to reach 106% of GDP.

The first question to the panelists focused on the Government's continued focus on debt reduction and asked whether Government priorities were well-balanced between debt reduction and other priorities. Overwhelmingly, the respondents believe that current Government policy balanced debt reduction and other spending rather well. The panelists recognize that the socioeconomic situation is dire and that the post-COVID recovery requires substantial investments. However, at the same time, they recognize that the country's debt burden has held Jamaica back for a long time and that it is not opportune to let go of the priority of debt reduction. **Ozan Sevimli**, Resident Representative, World Bank Jamaica and Guyana, for example, argues the following:

“ Debt reduction needs to be balanced with key investment needs in Human Capital, Digital Transformation, and Energy Reform, which do not all need to come from public resources. However, the government needs to distinguish between reforms that have fiscal implications and those that do not.

– Ozan Sevimli

Balance between debt reduction and other priorities



Aiming for the public debt to reach 60% by 2027/28

In his Statement on the Budget for Fiscal Year 2021/22, the Hon. Nigel Clarke, Minister of Finance and the Public Service reiterated the Government's objective to reduce the debt burden to 60% of GDP. However, in response to the COVID-19 pandemic, the target year for achieving that level of debt was to be moved by two years from FY 2025/26 to FY 2027/28².

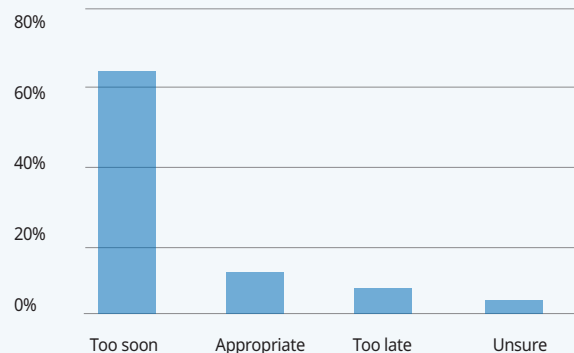
The panelists were asked about two different aspects of the long-term debt objective: the target *level* and the target *year*. Concerning the target level, there was overwhelming agreement, with more than 80 per cent of the panelists believing that the target level was appropriate. This is not surprising, since the 60 per cent target is quite commonly recognized in international policy circles. While IMF research from 2012 argues that for Caribbean countries debt levels should be limited to around 55 per cent of GDP³, the great majority of panelists believe that a goal of 60 per cent is appropriate in the case of Jamaica.

Things are rather different with respect to the time by which the goal is to be achieved. Two-thirds of respondents believe that FY 2027/28 is too soon and that the Government of Jamaica should take some more time to achieve this ambitious objective. **Dr. Patricia Northover**, Senior Fellow, Sir Arthur Lewis Institute of Social and Economic Studies, The University of the West Indies (UWI), Mona believes that the debt target is both too high and too soon:

“ Given the stabilization and structural adjustment programmes enforced on the economy over the years, the social reproduction capabilities of the country have been sacrificed without any real redress to declining social wellbeing from either foreign investment or 'poverty and aid' policies. As such, fiscal policy should be addressed to facilitating fundamental (not just market friendly) structural reform (both social and economic) and the rebuilding of the social economy (education, health, care economy) in order to engender social capabilities grounded in the ILO principles of decent work for sustainable development.

– Dr. Patricia Northover

Achieving debt objective by Fiscal Year 2027/2028



¹<https://www.imf.org/en/Countries/JAM>

²<https://mof.gov.jm/budgets/the-budget.html>

³<https://www.imf.org/external/pubs/ft/wp/2012/wp12157.pdf>

Dr. Christine Clarke, Lecturer from the Department of Economics at UWI Mona, adds to this by focusing on the level of uncertainty regarding the recovery from the COVID-19 crisis:

“ While the target level is appropriate from the perspective of the internationally acceptable standard in this regard, I am as yet unclear as to its viability as the recovery from COVID-19 is still in its gestation.

– Dr. Christine Clarke

Taxing capital

Recently, the Economic Commission for Latin America and the Caribbean (ECLAC) published its annual Fiscal Panorama⁴, in which the option of wealth taxes is brought up in the context of the post-COVID recovery. ECLAC argues that a wealth tax would not only address the impact of COVID-19 on government finances, but also address the increasing (wealth) inequalities observed in society from before the start of the pandemic. The final question that was asked of the panelists was whether they supported any type of wealth taxation in Jamaica and what type would be ideal.

This turned out to be a controversial topic, with a substantial minority of the panelists not supporting wealth taxes of any kind. Several point out that this is politically difficult and possibly beyond the institutional capacities of the Jamaican reality. Dr. Samuel Braithwaite, Lecturer from the Department of Economics at UWI Mona, additionally points out the following:

“ Jamaica does not need a new tax, what Jamaica needs is to ensure that it increases the capacity of the TAJ to operate more efficiently and to collect the taxes that are already on the books

– Dr. Samuel Braithwaite

Of those panelists that do support wealth taxes, there is some appetite for taxing excessive wealth gained during the COVID-19 crisis, though with the caveat that it may be challenging to administer such a tax in an effective and efficient way. The greatest support, however, is seen in the support of instituting a recurrent and progressive wealth tax for structural budget support and a reduction in wealth inequality. As Dr. Olaf J. de Groot, Economist at the UN Resident Coordinator's Office states

“ While it is important not to demonize wealth, the excesses of inequality are a worthwhile target if the income from such a wealth tax can be used to support programmes that alleviate poverty for those at greatest risk of being left behind.

– Dr. Olaf J. de Groot

Conclusion

The second round of the Jamaican Economy Panel focused on fiscal policy in Jamaica. While the panelists overwhelmingly believe that the Government of Jamaica is carefully balancing between debt reduction and other priorities, the general sense is that the target year for achieving a 60% debt-to-GDP ratio is too soon. Asked about wealth taxes, the panelists lean towards supporting the concept, though with substantial variation concerning the preferred method. It is particularly important that any fiscal reform would need to be carefully considered and assessed in the context of realistic institutional capacities.

⁴https://www.cepal.org/sites/default/files/publication/files/46809/S2100169_en.pdf

