

GAS PRICE RIOTS: THE BIGGER CRISIS IS YET TO COME

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The appointment of the Moses Committee was a positive, if belated move by the Government to bring civil society more actively into the decision-making process. Had the National Roundtable Consultation held in January been a serious exercise in consensus building, the Government would hardly have made such a huge political blunder in the matter of the gas tax. Either it would have structured the budget in a different way, or the society would have been better prepared for the increases.

But the collective sigh of relief that greeted the partial rollback of the gas tax is far from justified. The truth of the matter is that we are faced with a fiscal and economic crisis of massive proportions. Some of the alarming numbers in the budget are:

- This fiscal year the government plans to borrow an amount that is the equivalent of 25 percent of the GDP, while government investment will be less than 4 percent of the GDP. This is a recipe for economic disaster.
- Interest payments will be 37 percent of recurrent expenditure, far more than the wages and salaries bill. Debt repayment will be 86 percent of capital spending while capital programmes (which increase the economic and social infrastructure) will be only 13 percent. Overall debt servicing will be 10 times the spending on capital programmes. Essentially, we are running down our human resources and physical capital to service debt.
- The net resource outflow on debt account from the budget (interest and repayment minus new borrowing) will be \$30 billion, or 14 percent of the GDP. However by the end of the year the public debt will be \$6 billion *more* than at the beginning, amounting to \$108,000 for every man, woman and child in Jamaica. This is unsustainable.
- Payment on the domestic debt is now 71 percent of total debt service and 28 percent of the GDP. This amounts to a massive transfer of wealth from the population as a whole to the holders of financial assets, and is grossly inequitable.
- The government should be generating a surplus on its current account (excess of recurrent revenue over recurrent expenditure) to add to the resources available for investment in building up the country's productive capacity. Instead it is dis-saving 5-6 percent of the GDP, borrowing to finance debt service and consumption. This is economic madness.
- There has been no real growth in the economy in the past four years and there cannot be growth with the current high interest rates, which are the result of the huge borrowing requirements of the government.

- There is very little scope to reduce government's borrowing requirements by cutting capital or recurrent spending. For example, halting all capital programmes would reduce borrowing by only 14 percent, reducing the public sector wage bill by 10 percent would cut borrowing by less than 5 percent, and implementing the \$1 billion potential savings identified by the Orane Report would reduce borrowing by only 1.4 percent. The principal cause of the huge borrowing requirements is the burden of debt service itself.
- There is good reason to question the sustainability of the budget as presented. It projects an increase in tax revenue of 12 percent, which will be difficult to realise in an economy that is shrinking. The Government also plans to raise 60 percent more in foreign loans than it did last year, although world financial markets are still unsettled and there are growing doubts about Jamaica's stability. In the year just ended there were significant shortfalls in the tax revenue and foreign borrowing projections.

What are the options for 1999/2000? The Government may attempt to meet its foreign borrowing target by agreeing to a higher interest premium and to a shorter repayment period than it originally bargained for. If this works, what it does is to postpone the problem this year to an even bigger problem next year. By borrowing abroad to service internal debt, rather than to build up productive capacity and the ability to repay, we are digging ourselves even deeper into a hole.

Alternatively, the government might try to make up the shortfall with greater domestic borrowing, as it did in the fiscal year just finished. But this will derail the targeted 1 percent decline in domestic interest rates, adding back nearly \$1 billion to expenditure and further choking the economy.

Or the government might resort to additional Bank of Jamaica credit—which will throw out its targets for inflation, the exchange rate, and the fiscal deficit.

There is always the possibility of a return to the IMF. IMF conditions are likely to include a major devaluation, severe cuts in public expenditure, and a fire sale of FINSAC assets. The effects are certain to impact far more harshly on the poor than those of the gas tax, which provoked the recent riots. Apart from spelling the demise of the current PNP Administration, an IMF programme would do little or nothing to cure the underlying ills of the economy.

The prospects for the fiscal year 2000/2001 are even more daunting. There will be an even bigger burden of debt to service, more FINSAC debt to be paid, and a smaller economy to extract it from. The chances are that the required tax package in next year's budget will be substantially greater than this year.

In short, the scale of the fiscal and economic crisis is so vast and its social repercussions so serious that it has the potential to destroy the stability not just of the present Administration but that of our society as we know it. It cannot be confronted without a

full recognition of its magnitude and an acceptance that it is beyond the capacity of any one social institution to manage it.

What needs to be done? My own view is that the point of departure should be to effect a steep reduction in the burden of debt service on the budget by means of negotiated debt conversion with holders of the domestic debt and as part of a *total package* of economic and social revival. Other elements of such a package would include:

- Use of the savings from debt reduction to reduce the budget deficit and to finance a large increase in capital programmes to rebuild the social and economic infrastructure;
- Reduction of real interest rates to targeted levels with the aim of easing the burden on business and boosting private productive investment;
- A target for government savings on the recurrent budget to finance a stated portion of capital programmes;
- Ruthless elimination of waste, inefficiency and corruption in public spending and ruthless improvement in tax collection;
- Agreed restraints on wages and management remuneration in the public and private sectors;
- Greater equity among income groups in the sharing of the tax burden (e.g. income and property taxes)
- A target inflation rate and exchange rate aimed at maintaining internationally competitive costs;
- A targetted increase in the national savings and investment rate and in the proportion of total investment devoted to productive activity (agriculture, industry, tradable services and supporting economic infrastructure);
- Empowerment of the poor and marginalised groups in the inner cities and squatter settlements for poverty alleviation and employment generation.
- Agreed targets and timetable for the above.

A package of this kind requires broad agreement among all the social partners and a politically bipartisan approach. Given the competitive, tribalistic nature of our political culture, this may well be Utopian.

The danger is that after damage control, clean up and tax rollback there will be a return to business as usual. On the other hand, the gas price riots could be a wake-up call on the economic, social and political unsustainability of the present path. If the episode provides the impetus for a new beginning, then some good may yet come of it.

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