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Sustained Debt Reduction: The Jamaica Exception

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Sustained Debt Reduction: The Jamaica Exception¹

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1. Introduction

Sharp, sustained reductions in public debt are exceptional, especially recently. We know this because public-debt-to-GDP ratios have been trending up in advanced countries, emerging markets, and developing countries alike. Governments have borrowed in response to financial crises, pandemics, wars and other emergencies, resulting in higher debt ratios. But only in rare instances have they succeeded in bringing those higher debt ratios back down once the emergency passed.

Both economic and political factors underlie this inability to reduce debt ratios. Slowing GDP growth and rising real interest rates (an unfavorable $r-g$ differential in the economist's parlance) make for adverse debt dynamics. Ideological polarization and frequent government turnover make it hard to stay the course. Turnover creates an opportunity for a new administration to repudiate the policies of its predecessor, disrupting efforts to sustain substantial primary budget surpluses. Polarization makes it hard to agree on how to share the burden of fiscal adjustment, fraying the coalition favoring debt reduction and causing policies to be reversed.²

These economics and politics leave one pessimistic about the prospects for sustained debt reduction. Against this gloomy backdrop, it is uplifting to consider cases where countries have succeeded in significantly reducing their debt ratios. In addition to their morale-building effect, such cases may help to illuminate the economic and political conditions that facilitate debt consolidation.

Jamaica is such a case. The government reduced its debt from 144 percent of GDP at the end of 2012 to 72 percent in 2023.³ Jamaica cut its debt ratio in half despite averaging annual real growth of only $\frac{3}{4}$ percent over the period. It did so despite vulnerability to hurricanes, floods, droughts, earthquakes, storm surges and landslides: Jamaica is ranked as the third most disaster-prone country in the world according to the Global Facility for Disaster Reduction and Recovery. It did so despite a COVID-19 pandemic that disrupted tourism and mandated exceptional increases in public spending. Yet, despite this exogenously prompted deviation from

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² Alesina and Tabellini (1990) provide a formal framework where polarization leads to overspending and debt increases, consistent with our presumption. Admittedly, there are also other theoretical models, based on somewhat different assumptions, that point to somewhat different effects.

³ All figures for Jamaica are in fiscal years, which run from April 1 to March 31 of the following year.

plan, the IMF's baseline projection, in its 2023 Article IV report, forecasts a further fall in debt/GDP to less than 60 percent over the next four years.

Figure 1 shows Jamaica's achievement. It suggests that 2013 was a breakpoint, when the debt ratio began its decline. Table 1 underscores the exceptional nature of the experience. Using a broad group of emerging markets and developing economies, it tabulates cases since 2000 where debt ratios fell by as much as 20, 30, or 40 percent of GDP over a five-year period. Jamaica has few peers.

Figure 1 also points to the central economic mechanism responsible for the reduction in the debt ratio. The Government of Jamaica ran large, sustained primary budget surpluses.⁴ Table 1 shows how unusual this is: of the debt reduction episodes we identify since the turn of the century, just 5 relied principally on primary surpluses.

The question is how Jamaica accomplished this. Our answer consists of two parts. First, Jamaica adopted fiscal rules that highlighted the debt problem, encouraged formulation of a medium-term plan, and limited fiscal slippage. The Fiscal Responsibility Framework introduced in 2010 required the Minister of Finance to take measures to reduce, by the end of fiscal year 2016, the fiscal balance to nil, the debt/GDP ratio to 100 percent, and public-sector wages as a share of GDP to 9 percent. The framework was augmented in 2014 to require the minister, by the end of fiscal year 2018, to specify a multi-year fiscal trajectory to bring the debt/GDP ratio down to 60 percent by 2026. The framework included an escape clause to be invoked in the event of large shocks. This prevented the rule from being so rigid, in a volatile macroeconomic environment, as to lack credibility. At the same time, it included clear criteria and independent oversight to prevent opportunistic use.

Fiscal rules and targets do not always achieve their intended results. A quick look at the European Union's Stability and Growth Pact, which similarly targets a 60 percent debt-to-GDP ratio, provides a stark reminder of this fact. This brings us to the second part of our answer: elected officials leveraged Jamaica's hard-won tradition of consensus building – of constructing over the course of 30 years social partnerships aimed at facilitating dialogue, limiting political instability, and reducing political polarization and violence (see Figure 2). In 2013, a series of ongoing discussions in the National Partnership Council, a social dialogue collaboration involving the government, parliamentary opposition, and social partners, culminated in the Partnership for Jamaica Agreement on consensus policies in four areas, first of which was fiscal reform and consolidation. The Partnership for Jamaica Agreement fostered a common belief that the burden of fiscal adjustment would be widely and fairly shared. It supported the creation and ensured broad national acceptance of the Economic Programme Oversight Committee (EPOC) to monitor and publicly report on fiscal policies and outcomes, and to provide independent verification that all parties kept to the terms of their agreement.

EPOC and the Partnership for Jamaica Agreement solidified the sharp decline in conventional measures of political polarization that began four years earlier, coincident with the

⁴ Other factors, from real exchange rate stability and banking-system stability to bits of clever financial management (e.g., a domestic debt exchange in 2013, the PETROCARIBE debt buyback in 2015), also contributed to this process. We discuss these below.

creation of the National Partnership Council (see Table 2).⁵ A sustained lower level of polarization made for policy continuity and continued debt reduction when a different political party took power in 2016. For the first time in decades, a new government did not reverse the policies of its predecessor. By creating a sense of fair burden sharing, Jamaica's organized process of consultation thus sustained public support for the operation of the country's fiscal rules, culminating in March 2023 with the establishment of a permanent, independent Fiscal Commission.

As always, the full story is more complex. Jamaica managed its financial system well in this period. It adeptly managed the term structure of the debt, as we describe below. But the two elements highlighted above – a well-designed fiscal rule, and a partnership agreement creating confidence that the burden of adjustment would be widely and fairly shared – were key. Neither element would have worked to achieve sustained debt reduction in the absence of the other. Both were needed.

An important question is whether the lessons from Jamaica generalize. In Section 5 we discuss two other countries that achieved significant debt reduction by adopting fiscal rules and consensus-building arrangements: Ireland in the late 1980s and Barbados for a decade starting in the early 1990s. These cases differ in their particulars. But they have in common that Ireland and Barbados – like Jamaica – are small, open economies. These economies are highly structured, in that trade unions and employers associations are cohesive and powerful. In both cases, the agreements reached and institutions created to initiate and maintain the momentum of debt reduction leveraged earlier historical experience with institution-based consensus building.

The similarities of these cases are consistent with the literature suggesting that democratic corporatism, a process of policy formulation involving extensive consultation and consensus building, is easiest where interest groups are well organized and the number of agents is limited.⁶ They are consistent with the view that such arrangements are imperative in small, open economies especially exposed to exogenous shocks. And they are consistent with the view that so-called neocorporatist arrangements, when and where they emerge, build on earlier historical experience.

A clarification before proceeding. Our paper is about debt reduction; it is not about fiscal consolidation, where the latter connotes episodes where governments move from large budget deficits to smaller deficits or surpluses. There is a substantial literature on fiscal consolidations,

⁵ We acknowledge that cause and effect are difficult to disentangle in this context. It is reasonable to believe that causality ran both ways. We return to this issue in Section 4D below.

⁶ Peter Katzenstein, who is prominent in defining and popularizing the concept of democratic corporatism, defines it as a political system characterized by “an ideology of social partnership, a centralized and concentrated system of economic interest groups, and an uninterrupted process of bargaining among all of the major political actors across different sectors of policy” (Katzenstein (1985, p.80). Although Katzenstein applied these ideas to countries’ response to international competitive pressures, not so much to debt problems, we build on his insights. We are not arguing that democratic corporatism is the only setting in which significant debt reduction can occur. One can think of authoritarian settings where high debts were dramatically reduced; Romania under Nicolae Ceaușescu springs to mind (not that this turned out well for the Ceaușescus). 2 of the 14 cases in Table 1 have a rating of 0.4 or below on the Polity Scale, situating them on the autocratic side of the autocracy-democracy continuum. Others have relatively high levels of political polarization but were able to reduce high levels of debt through other means (high inflation financial repression, or more positively faster economic growth). But to reiterate, our goal here is not to determine whether democracy or autocracy is “better” for debt reduction, or whether low levels of political polarization are always and everywhere a prerequisite for significant debt reduction. It is simply to understand how Jamaica did it.

including in this journal (Alesina, Perotti and Tavares 1998). To be sure, the two concepts are related. In Jamaica, however, the primary surplus already was large before the process of debt reduction began (more than 7 percent of GDP in 2012, as in Figure 1). The surplus remained broadly unchanged thereafter and then became smaller, as appropriate for a country with lower debt. We are not studying a change in the stance of fiscal policy starting in 2013; we are focused instead on understanding a decade and more of debt reduction sustained by large, persistent primary surpluses.⁷

2. Historical Background

Jamaica's recent experience of debt reduction is exceptional, but the country's earlier history was also marked by exceptional fiscal developments, some positive, others not. The 1962 constitution included a provision prohibiting the government from borrowing without parliamentary approval. It prioritized servicing the debt as an obligation senior to other government expenses (Langrin 2013). Accordingly, Jamaica has never had an outright default on its sovereign debt, although it has conducted domestic debt exchanges (described below). Fiscal restraint was designed to attract the foreign direct investment (FDI) needed for development of the capital-intensive bauxite industry. True to form, FDI financed 30 percent of all capital formation in the 1960s and virtually all investment was in the bauxite sector.

Public debt remained modest in the first post-independence decade, reflecting the consensus around these priorities. The ruling Jamaica Labour Party (JLP) eschewed activist fiscal and monetary policies, relying on tax breaks and free profit repatriation to attract foreign investment.⁸ Jamaica successfully grew the denominator of the debt-to-GDP ratio: real GDP rose by roughly 6 percent per annum in what Stone and Wellisz (1993) called "one of the best growth records in the world." Mining was relatively unimportant in the 1950s, and tourism had contributed only modestly to economic activity; this meant that there was low-hanging fruit to be picked. King (2001, p.7) describes growth in this period as built on "natural endowments of bauxite and beaches."

Capital-intensive mining created little employment, however, while Dutch Disease pressures led to declines in the relative importance of agriculture, forestry, and fishing. Small-scale manufacturing and services had limited capacity to absorb surplus labor released by the rural sector, given the floor placed on wages by strong unions and insider-outsider dynamics.

By the time of the 1972 election, unemployment, mostly urban, had risen to more than 20 percent, and dissatisfaction with education and health-care services was rife. These grievances led to a backlash against the JLP's cautious policies, culminating in the electoral victory of the People's National Party (PNP) led by the charismatic Michael Manley. The approach of the new PNP government was variously labelled "state populism" (King 2001) and "democratic socialism" (Stephens and Stephens 1986).⁹ The PNP nationalized companies, raised import barriers, and imposed exchange controls; spending on schooling, food subsidies and public housing exploded (Henry 2013, Chapter 2). Public employment rose by two-thirds between

⁷ As also highlighted by IMF (2023).

⁸ Thus, fiscal deficits averaged a relatively modest 2.3 percent of GDP from 1962 through 1972 (Henry and Miller 2009), while the currency was pegged to the pound sterling under a quasi-currency board system. Jamaica switched from a sterling peg to a dollar peg in 1973, following the change in government (which reinforced the peg with capital controls – more on which below), the U.S. by this time having become the country's leading trade partner.

⁹ The party used the latter term in its election manifestos.

1972 and 1977, while public spending as a share of GDP doubled from 23 percent to 45 percent. The budget deficit averaged 15 percent of GDP. The government financed what it could by borrowing, mainly abroad, and the Bank of Jamaica financed the rest. The debt/GDP ratio soared from 24 percent at the time of the 1972 election to 124 percent in 1980 (Figure 3). Inflation, having averaged 4 percent in the first post-independence decade, reached 27 percent in 1980.

The PNP's focus on social justice notwithstanding, its policies were economically disastrous. Dirigiste rhetoric and policies of nationalization discouraged investment. Labor productivity and real wages slumped, and unemployment rose to 30 percent. As standards of living continued to fall, the implications for survival of the zero-sum patronage gained or lost with each election rose higher, and political violence spiked (Figure 2). This economic and political chaos led, predictably, to the PNP's defeat in the 1980 election, the return of the JLP, and a swing back toward more market-oriented policies.

When the decline in foreign investment and macroeconomic stimulus created balance-of-payments problems in 1977-78, the PNP was forced to negotiate agreements with the IMF. Both programs were then suspended when the government failed to meet performance targets. (Figure 4 shows a timeline of the country's agreements with the Fund.) The JLP government tried again in 1980: it devalued to improve export competitiveness, cut government spending, eliminated price controls, and negotiated new loans with the IMF and World Bank (Kirton 1992). Its policies were contractionary in the short run, provoking violent demonstrations, but by the mid-1980s productivity and GDP began rising again.

Jamaica's first episode of concerted debt reduction began in the second half of the 1980s. Debt had risen to an extraordinarily high 240 percent of GDP, requiring urgent action. The JLP imposed spending cuts, moving the primary balance into surplus. Progress was interrupted in 1988-9 by Hurricane Gilbert, which destroyed more than 100,000 homes, but even this did not throw the process off course. Importantly, when the PNP returned to power in 1989, it maintained the same basic economic stance. Chastened by its earlier experience of deficits and negative growth, it restrained public spending, raised taxes, and restricted credit, allowing primary surpluses to be maintained. There was now more dialogue between the parties as their policy differences grew less pronounced. Figure 2 shows the measure of political polarization from the Varieties of Democracy (V-Dem) data base; this is based on responses to a survey of country experts conducted each year.¹⁰ The figure documents a fall in polarization at the beginning of the 1990s, the largest fall since independence, exceeding even the sharp fall in polarization two decades later. This was then followed by a steep decline in political violence

¹⁰ V-Dem typically takes input from at least five experts for each country and year, drawing on some 3,700 experts worldwide. For political polarization, it asks: "Is society polarized into antagonistic, political camps?" Responses range from: 0 (Not at all. Supporters of opposing political camps generally interact in a friendly manner); 1 (Mainly not. Supporters of opposing political camps are more likely to interact in a friendly than a hostile manner); 2 (Somewhat. Supporters of opposing political camps are equally likely to interact in a friendly or hostile manner); 3 (Yes, to noticeable extent. Supporters of opposing political camps are more likely to interact in a hostile than friendly manner); and 4 (Yes, to a large extent. Supporters of opposing political camps generally interact in a hostile manner). For political violence, it asks: "How often have non-state actors used political violence against persons this year?" Responses range from: 0 (Not at all. Non-state actors did not use political violence); 1 (Rare. Non-state actors rarely used political violence); 2 (Occasionally. Non-state actors occasionally used political violence); 3 (Frequently. Non-state actors frequently used political violence); and 4 (Often. Non-state actors often used political violence). See V-Dem Dataset Codebook (2023).

from the mid-1990s to early 2000s (also shown in Figure 2). This experience thus shows how cross-party agreement on basic economic priorities is important for debt reduction.

This is the positive part of the story. The negative part is inflation, which was the single most important contributor to debt reduction in the decade ending in 1995. End-of-fiscal-year inflation accelerated to 28 percent in 1990, 106 percent in 1991, and 21 percent again in 1992. Given that some 60 percent of local government debt was held in medium- to long-term securities, this brought the debt ratio down very sharply, from 175 percent of GDP at the end of 1990 to 100 percent at the end of 1991, for example.

But this route to debt reduction was unsustainable because it undermined the foundations of the financial system. Inflation reflected measures taken by Jamaican authorities to liberalize the financial system, without at the same time strengthening financial supervision. In the run-up to the crisis, they removed ceilings on credit provided by banks, deregulated deposit rates, encouraging banks to compete for funding, and permitted banks to make U.S. dollar-denominated loans.¹¹ Unfortunately, even while Jamaica began easing restrictions on capital account transactions, it retained a patchwork of financial regulators and regulations, creating scope for regulatory arbitrage given the weak supervisory capacity of the central bank. The authorities liberalized the capital account in the hope that this would lead to capital inflows, reduce depreciation pressure on the exchange rate, and mitigate inflation. This was also a period when the IMF was advising its emerging market members to liberalize the capital account, and Jamaica, continuously under IMF programs, acted accordingly.¹²

The result was a very large capital inflow as exchange controls were relaxed, funding additional domestic lending as investors repatriated offshore dollars. The removal of quantitative credit ceilings permitted the development of an enormous credit boom; bank credit to the private sector grew at double-digit rates, always a warning sign; hence the surge of inflation.¹³ The credit boom was characterized by deteriorating asset quality, declining bank profits, and a growing currency mismatch as banks extended U.S. dollar loans to firms in the nontraded goods sector where revenues accrued in local currency.

Initially, the implications for the debt/GDP ratio were favorable, as the credit-fueled burst of inflation led to a negative real-interest-rate-real-growth-rate differential (Figure 5). But those favorable dynamics did not last. In mid-1995, the Bank of Jamaica finally got serious about inflation and tightened monetary policy. Higher interest rates led to weakness in the real estate sector, to which financial institutions were predictably committed. This raised questions about bank solvency, precipitating withdrawals by panicked depositors.¹⁴ A massive financial crisis

¹¹ Kirpatrick and Tennant (2002), p.1935. There had in fact been an earlier attempt to liberalize the banking system in the mid-to-late 1980s as a condition of the country's World Bank program, but this was reversed in 1989 when Hurricane Gilbert prompted sharp increases in government spending, which the fiscal authorities enlisted the banks to finance. Another factor prompting reregulation was a massive inflows of reinsurance funds, leading to increased bank liquidity and what was perceived as an unsustainable surge in lending (Peart 1995).

¹² Jamaica had begun dismantling exchange controls in 1990 and formally abolished all remaining capital controls in 1991-92 (again see Kirkpatrick and Tennant 2002).

¹³ World Bank (2004), p.25.

¹⁴ Newly deregulated life insurance companies aggressively marketed short-term products offering high rates of return and invested these short-term funds in long-term, illiquid assets, mainly real estate. Seizing an opportunity, banks for their part extended high-interest-rate loans to insurance companies with which they were connected, causing the banking system to be implicated. This is a clear instance of the regulatory arbitrage noted above.

engulfed commercial banks, investment banks, building societies, insurance companies and security brokers in the mid-1990s. Laeven and Valencia (2020) rank this as the third most costly banking crisis anywhere in the world in the five decades after 1970.¹⁵

Starting in 1996, GDP fell for three consecutive years. With nonperforming loans as a share of total loans rising to nearly 30 percent, the financial system had to be recapitalized by a newly created special purpose vehicle, the Financial Sector Adjustment Company, whose liabilities were ultimately transferred to the government's balance sheet. Effectively, the government replaced nonperforming loans with government debt in an effort to reassure depositors.

Given a fiscal cost of 44 percent of GDP and falling revenues owing to the crisis-induced recession, it is no surprise that this mega-financial crisis threw debt reduction off course. After falling steadily for more than a decade, the debt ratio now rose sharply. This episode is a reminder that financial stability is essential for sustained debt reduction, and that a burst of inflation, even if helpful for debt reduction in the short run, is not compatible with such stability.

The debt ratio continued rising through the first decade of the new century, from roughly 100 percent of GDP at the outset of the decade to 140 percent at decade's end. It did so even once the government resumed running primary budget surpluses, as it had before the banking crisis.¹⁶ This suggests that the cross-party consensus favoring fiscal rectitude was alive, but that Jamaica was experiencing an unfavorable $r-g$ differential, reflecting anemic growth that rarely exceeded 1½ percent together with stubbornly high nominal interest rates in the range of 15 percent.

The root causes of this slow growth were several. Jamaica lacked affordable energy to profitably refine bauxite into aluminum and the inexpensive labor needed to compete with its lower-cost Caribbean and Central American neighbors. Infrastructure, education, and training remained deficient (Henry 2023).¹⁷ High real interest rates reflected chronic doubts about the government's willingness and ability to control inflation and service its debts. Given an unfavorable $r-g$ and high inherited debt, the World Bank in 2004 calculated that the government would have to run primary surpluses of 10 percent of GDP just to prevent the already sky-high debt ratio from rising further. Given these formidable headwinds, little progress was made on the debt front for the remainder of the decade.

3. What Jamaica Did

This unpropitious backdrop renders what happened next all the more remarkable. As shown in Figure 1, the public debt/GDP ratio stopped rising in 2010 and, after a few years, began falling precipitously. From a peak of 144 percent in 2012, it declined to just 72 percent in 2023. The IMF expects that debt ratio to decline still further, to below 60 percent four years from now.

By emerging market standards, this achievement is exceptional (in several senses of the word). We first analyze how this debt reduction was achieved in an accounting sense before

¹⁵ This crisis was exceeded in cost only by Indonesia in 1997 and Argentina in 1980.

¹⁶ Recall that we noted in the introduction how this distinguishes the present analysis of debt reduction from the literature on budgetary adjustment or fiscal consolidation.

¹⁷ In addition, the global economic crisis of 2008-9 hit an economy reliant on bauxite exports, tourism, and remittances with exceptional force. This is evident in the collapse of $r-g$ in Figure 5.

asking how it was achieved in an economic and political sense. To this end, Figure 6 shows the standard debt decomposition:

$$\Delta b = d + \frac{(r-g)}{1+g} b_{t-1} + sfa \quad (1)$$

where b is debt as a share of GDP and Δb is its change. The right-hand side is made up of the primary budget deficit (net of interest payments) relative to GDP, denoted d ; $r-g$ interacted with the inherited debt ratio; and the residual, which captures defaults, restructurings, conversions, assumption by the public sector of private debt, other off-budget spending, and exchange rate effects, collectively denoted sfa (stock-flow adjustment).

Figure 6 shows that debt reduction was driven mainly by primary budget surpluses, which are large throughout the period, falling to low levels solely in 2020, the first year of COVID. The government maintained these primary surpluses despite strongly increasing non-interest spending, from 19 percent of GDP in 2014 to 23 percent of GDP in 2019, on the eve of the COVID crisis.¹⁸ In other words, surpluses were sustained by strongly increasing tax revenues as a share of GDP. Most of the gains in tax revenue resulted from broadening the base (removing tax exemptions). In addition, there was an increase in the general consumption tax and an increase in the personal income tax rate for high earners from 25 to 30 percent (the latter in fiscal year 2016), accompanied by improvements in tax administration. This is a reminder that we are not telling the standard tale of fiscal consolidation where deficit gives way to surplus, typically through a one-time reduction in public spending.¹⁹

In addition, there is a modest contribution from GDP growth, mainly toward the end of the period, modest because growth remained anemic by emerging market standards. This is a reminder that sound debt management by itself is no guarantee of positive growth performance – and, conversely, that strong growth is not always and everywhere a prerequisite for successful debt reduction.²⁰ There is also a contribution to debt reduction from the negative real interest rate, reflecting high inflation in the immediate post-COVID period.²¹

Figure 6 highlights several years early in the period in which there were increases in the debt burden due to factors not otherwise explained. These increases reflect the materialization of contingent liabilities stemming from unexpected losses by public enterprises such as Clarendon Alumina Production (CAP) and Jamaica Urban Transit Co. In fiscal year 2012, for example, the

¹⁸ There was some reduction in public spending as a share of GDP from 2012 through 2014, but this was swamped by the increase in the public expenditure ratio in the period that followed. Note that we are referring to non-interest expenditure, since this is what matters for the primary balance.

¹⁹ There is debate in the literature about whether deficit reduction achieved through cuts in spending rather than through increases in taxes are more likely to be sustained or are more conducive to economic growth (see e.g., Alesina and Ardagna 2010, 2013 and Alesina et al. (2019)). Although we find a different pattern in the data for Jamaica, we are not concerned with this debate directly, since we are addressing a different question.

²⁰ Growth was at or near the average for Caribbean economies. Such growth as occurred came mainly from a decline in the unemployment rate, which fell steadily over the period, not from productivity growth (see Henry 2023). All this reinforces our point that the exceptional decline in the debt ratio is not attributable to exceptional growth performance.

²¹ Otherwise, real interest rates are modestly positive on average (Figure 5), roughly offsetting the contribution of real GDP growth (Figure 6). There is a sharp fall in both inflation and nominal interest rates on government debt in 2014, leaving the real interest rate essentially unchanged.

government was forced to assume 70 percent of the liabilities of CAP.²² The prevalence of such problems was then reduced in the period's second half by strengthened governance of public enterprises.²³ Meanwhile stronger financial supervision and regulation helped to avoid losses from the kind of banking crisis that had thrown 1990s debt-reduction efforts off course.

Figure 7 sheds more light on what lies behind the debt decomposition. Here we further decompose the change in the debt/GDP ratio as follows:

$$\Delta b = d + \frac{(r-g)}{1+g} b_{t-1} + \frac{z a}{(1+g)(1+p^*)} b_{t-1} + \frac{(p-p^*) a}{(1+g)(1+p)(1+p^*)} b_{t-1} + s f a \quad (2)$$

where r = the real interest rate; p = growth rate of GDP deflator; p^* = growth rate of U.S. GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; z = real exchange rate depreciation (measured as $[(e_t/e_{t-1})(1+p^*)/(1+p)] - 1$) and e = nominal exchange rate (measured by the local currency value of U.S. dollar).²⁴ The exchange rate matters because more than a quarter of debt at the beginning of the debt reduction period was denominated in or indexed to dollars. Comparing Figures 6 and 7, we can see how limited but ongoing depreciation of the Jamaican dollar increased the domestic-currency value of external debt.

Relatedly, Figure 8 shows how the foreign-currency share of the debt rose as debt reduction allowed Jamaica to resume tapping international financial markets in 2014. It didn't hurt that this was a period of low interest rates in advanced countries, encouraging international investors to search for yield in emerging markets. While a limited number of relatively large middle-income countries were able to place domestic-currency debt with international investors over this period (freeing themselves of the "original sin" of foreign-currency-denominated external debt), Jamaica was not one of these.²⁵

The country's increasing reliance on foreign currency debt was not overly detrimental. Figure 7 shows why: although there was a contribution to the debt from exchange rate depreciation, the real exchange rate was reasonably stable against the U.S. dollar (that is, the nominal exchange rate moved broadly in line with the inflation differential vis-a-vis the United

²² IMF (2018), p.44.

²³ Jamaica Urban Transport remains government owned and operated. The government agreed to privatize Clarendon Alumina Production as a condition of its subsequent programs with the IMF, and in 2020 merged its holdings with those of General Alumina Jamaica, which is owned and operated by the Hong-Kong based Noble Group; 55 percent of the merged entity was owned by Noble Group, 45 percent by the government of Jamaica.

²⁴ See IMF (2022, Box 3) for the derivation.

²⁵ Arslanalp and Eichengreen (2023) show how success at placing domestic-currency-denominated securities with international investors in this period was largely limited to a handful of relatively large emerging markets economies. In November 2023, Jamaica issued its first-ever Jamaican dollar-linked bond in international capital markets, "with the objective of opening local currency debt issues to international investors" (Ministry of Finance and the Public Service 2023). Jamaica-dollar linked means that while the issue is denominated in Jamaican dollars, debt service payments are in U.S. dollars at a rate determined by the average of the prevailing Jamaican dollar exchange rate over the 10 days prior to each payment. Jamaica used the proceeds to buy back outstanding U.S. dollar-denominated bonds, which Moody's commented would reduce "the government's exposure to foreign exchange risk, which is a credit positive" (Ibid).

States). This is a reminder of the value of a relatively stable real exchange rate for debt reduction, especially when a portion of that debt is denominated in foreign currency.²⁶

Comparing Figures 6 and 7, we see that separating out the impact of exchange-rate depreciation on the value of external debt turns the overall contribution of the *sfa* from positive (adding to the debt burden) to negative (subtracting from the debt burden).²⁷ This makes it tempting to look to the pair of domestic debt restructurings conducted in 2010 and 2013. In fact, these operations had a limited impact on the debt burden. Neither entailed nominal haircuts reducing the face value of the debt, partly because a non-negligible fraction of that debt was held by domestic financial institutions (Figure 9) whose stability would have been jeopardized (Schmid 2016). External debt was excluded because Jamaica’s global bonds lacked majority action clauses, threatening litigation and inconclusive negotiations with holdout creditors.²⁸

Still, these exchanges helped on the budgetary front, despite the absence of face-value haircuts, by reducing coupons and extending maturities. In both cases, the government succeeded in achieving very close to 100 percent investor participation. Here the same factor that prevented face-value haircuts, that domestic debt was held mainly by a handful of financial institutions, helped by attenuating free-rider problems.²⁹ This observation has implications for whether the lessons from Jamaica carry over to other countries, since in quite a few other countries debt securities are not in the hands of domestic banks but are widely held by heterogeneous creditors whose coordination is difficult to achieve.

In sum, the Jamaican authorities mainly reduced their debt “the old-fashioned way,” by running substantial primary budget surpluses for an extended period. To be sure, they also grew

²⁶ This is not to recommend issuing debt in foreign currency so as to take advantage of relatively low international interest rates. The risks are well known. The strategy worked in Jamaica because the authorities succeeded in limiting real depreciation of the local currency. The credibility of Jamaica’s policies, discussed further below, may help to explain the stability of the currency in the face of global shocks. So too may an element of luck.

²⁷ Figures 6 and 7 show that at least as important quantitatively as the 2013 debt exchange were a pair of financial operations undertaken in 2015 and 2016. The 2015 residual reflects a buyback at a substantial discount of the government’s Petrocaribe debt. Jamaica incurred this debt in return for purchases of oil from the Venezuelan state-owned oil company PDVSA. In 2015 the government bought back this debt, raising cash for the operation by issuing a 13-year Eurodollar bond. The buyback replaced debt to Venezuela with new external debt bearing a significantly lower face value but a higher interest rate. The net effect was to push a portion of the financial burden out into the future, creating a 10 percent of GDP reduction in measured debt in 2015. See Okwuokei and van Selm (2017). The 2016 residual reflects an accounting adjustment implemented in conjunction with the new Fiscal Responsibility Law described below, that excluded intra-governmental debt holdings and Bank of Jamaica’s external debt (offset by the central bank’s external reserves), in line with international statistical standards. In any case, these operations made only a limited contribution to the reduction in debt over the period.

²⁸ Such clauses allow a qualified majority of creditors to cram down restructuring terms on a dissenting minority. The exclusion of external debt from restructuring was a factor in the government’s ability to tap the Eurodollar market in 2014 and 2015 and buy back the Petrocaribe bonds, as described in the preceding footnote. In addition, the constitutional priority attached to servicing external debt (we described in Section 2 above how this provision was put in place in the 1960s to help attract FDI) may have contributed to the difficulty restructuring.

²⁹ Thus, the government could coordinate its negotiations with this limited number of financial institutions over which it had regulatory oversight and leverage. As an inducement, financial institutions that participated were offered preferential access to a Financial Sector Support Fund administered by the central bank. Participants in the 2010 debt exchange had the option of new series that were CPI indexed and non-callable, features not included in the old bonds. In the 2013 exchange, large institutional investors that initially held out were subjected to political pressure (they were criticized as “unpatriotic”), while small retail investors who might have held out from a second restructuring that further lengthened maturities were offered special one-year bonds. See Langrin (2013).

the economy, if modestly, while eschewing excessive currency depreciation that might have elevated the domestic-currency value of external debt. They avoided financial instability that had caused the materialization of contingent liabilities and derailed earlier efforts at debt reduction. They engaged in some clever financial management.³⁰ But budget surpluses were key.

This strategy of running substantial primary budget surpluses for extended periods is not commonplace; other emerging markets, developing countries, and advanced economies would be envious. The question is how Jamaica did it.

4. How Jamaica Did It

Our explanation of how Jamaica did it consists of two parts. First, Parliament passed a set of rules known as the Fiscal Responsibility Framework.³¹ These rules highlighted the debt problem, legislated formulation of a medium-term plan, and made it easier to define and detect fiscal slippage.

All too often, however, rules are honored in the breach. This brings us to the second element: Jamaica leveraged its hard-won tradition of forging social partnerships to establish consultative bodies with the legitimacy, independence, and stature needed to build and sustain a social consensus for fiscal adjustment, while credibly monitoring and reporting on the government's adherence to its fiscal rules and the progress of the overall economic reform program. In 2009, government, the opposition, business, trade unions, and civil society groups formed a consultative body called the National Partnership Council to address the effects of the Global Financial Crisis, as well as longstanding economic and social issues. Deliberations of this council enabled stakeholders to exchange views, provide input, reach consensus about the societal importance of debt reduction, and assure all partners that the burden of adjustment would be broadly and fairly shared. In ongoing meetings, its members discussed the conformity of policies with their shared priorities and suggested changes to align policies and priorities more closely. The Fiscal Responsibility Framework we discuss in the next subsection can be seen as a legislative response to the broad societal consensus for fiscal restraint built by the National Partnership Council. It then became possible to move from vision to reality when the Economic Programme Oversight Committee (EPOC) was created in 2013. EPOC consists of representatives of the private and public sectors, unions, and civil society but with disproportionate representation of the financial sector. It is tasked specifically with monitoring the government's progress and benchmarking this against the performance targets of the Fiscal Responsibility Framework.

This monitoring, dialogue, and consensus building were pivotal for holding government accountable for its budgetary actions and for maintaining the consensus needed to get the process on track and keep it there.

4A. Fiscal Rules

³⁰ This refers to the buyback of Petrocaribe debt describes in footnote 27.

³¹ Jamaica is unusual in this regard; it is one of only two Caribbean Community (CARICOM) countries, along with Grenada, to have adopted an explicit national fiscal rule. Grenada's national budget balance, debt and expenditure rules date from 2015 – that is, they post-date Jamaica's fiscal rule.

Prior to 2010, when the Fiscal Responsibility Framework was put in place, Jamaica's best laid fiscal plans repeatedly went off course. Recorded deficits exceeded those in the budget passed by Parliament in every year between 2003 and 2009 (Leon and Smith 2012, pp.13-14). Growth forecasts were excessively rosy. Tax revenues regularly fell short of projections. Expenditure overshot what was budgeted; in particular, public-sector wage settlements regularly exceeded what was assumed by the Ministry of Finance. Public bodies such as the Urban Development Corporation and the Bauxite Aluminum Trading Company, of which there were more than 200, did not regularly report to the Ministry of Finance. For its part, the Ministry did not update cash flow forecasts and performance for these entities in-year, unlike for the central government. Lack of updating permitted chronic overspending and the accumulation of arrears by these public bodies. Moreover, the central government conducted budgeting on a year-by-year basis; "the future implications of expenditure decisions [were] not elaborated on in the budget documents ... consideration is not always given for the medium/long-term implications of decisions made in the short-term" (Ibid). Though the Ministry of Finance was responsible for describing its debt management strategy in broad terms, it was not required to formulate and present a debt sustainability analysis.

The 2010 Fiscal Responsibility Framework, formally an amendment to existing Financial Administration and Audit Regulations, addressed most of these shortcomings.³² It anchored budgeting by requiring the Minister of Finance to take appropriate measures to reduce, by the end of fiscal year 2016: (a) the fiscal balance to nil; (b) the ratio of debt/GDP to 100 percent; and (c) public-sector wages as a share of GDP to 9 percent (Jamaica House of Parliament 2010, p. 6).³³ The Framework was tightened in 2014 to require the Minister, by the end of fiscal year 2018, to specify a multi-year fiscal trajectory bringing the debt/GDP ratio down to no more than 60 percent by fiscal year 2026 (Jamaica House of Parliament 2014, p. 10).³⁴

Importantly, these numerical targets for debts and deficits came with an escape clause to be invoked in exceptional circumstances. Rigid targets would have lacked credibility in an environment prone to hurricanes, floods, and other natural disasters: the government's assertion that under no circumstances would it respond to such events with a revised budget would not have been taken at face value.³⁵ At the same time, an escape clause not limited to events beyond control of the government, lacking explicit thresholds for activation, and with no provision for independent verification would have been destabilizing; it would have given the government free rein to disregard its targets. As Valencia, Ulloa-Suárez and Guerra (2024) describe, a well-designed escape clause must be accompanied by clear triggers and conditions, clear assignment of responsibility for activation and deactivation, and a clear communication strategy.

³² The IMF and World Bank made adoption of the Fiscal Responsibility Framework conditions of their 2010 lending programs (IMF 2010) but were unhappy with the incomplete nature of the rules adopted that year; no immediate changes were made, since the IMF agreement went off track almost immediately, and disbursements were halted. The IMF then required strengthening of the Framework as a condition for its 2013 arrangement, and the amendments described later in this paragraph followed in 2014.

³³ The rationale for the separate public-sector wage target was that wage compensation was a principal driver of the fiscal balance. Subsequent experience showed that even when the wage target was missed it still could be possible to meet the debt and deficit targets; correspondingly, the separate wage target was eliminated in 2023.

³⁴ The 2026 deadline was pushed back to 2028 due to the pandemic, in an example of the operation of the escape-clause mechanism described below.

³⁵ IMF (2013, p.13) noted that "Given the frequency of hurricanes, any credible rule should contain an escape clause to be activated in the event of an extraordinary storm."

Jamaica's escape clause satisfies these prerequisites. It can be activated only in response to a natural disaster, a public health or other emergency, or a severe economic downturn (of 2 percent of GDP in a quarter). It can be invoked only after verification by the Auditor General, whose independence from other government agencies is guaranteed by the constitution, that the fiscal impact exceeds a minimum threshold of 1.5 percent of GDP. The Auditor General must submit its assessment to Parliament, along with supportive documentation from the Ministry of Finance, and suspension of the fiscal rule must be approved by both Houses. Valencia et al. (2024) rate escape clause clarity on six dimensions and give Jamaica's escape clause a rating well above the Latin American and Caribbean average.

The government was thus able to invoke this escape clause in response to COVID-19, reducing the VAT rate and increasing spending on health and social protection. It deactivated the clause only after one year; the short duration of the suspension speaks to the credibility of the arrangement, given the severity of the COVID crisis.³⁶ In contrast, Hurricane Matthew caused widespread damage in 2016 but was deemed not to meet the fiscal threshold and hence did not precipitate suspension of the rule.

The Framework corrects specific institutional weaknesses that had led to deficit overshooting in the past. The Minister of Finance is obliged to submit to Parliament a Fiscal Responsibility Statement describing the overall strategy. The Minister is also required to submit a Fiscal Management Strategy that reports and explains deviations between fiscal targets and outcomes over the preceding year and projects the government's finances over the coming three fiscal years, together with a Macroeconomic Framework outlining the assumptions behind these revenue and spending estimates. The independent Auditor General is then tasked with examining the Ministry's reports and providing an assessment to Parliament within six weeks of the Ministry's submission.³⁷

This Framework addressed the problem of excessive public-sector wage growth by requiring the Ministry of Finance to describe a specific trajectory for bringing public-sector wages down to 9 percent of GDP by the end of fiscal year 2016. Together with concurrent amendments to the Public Bodies Management and Accountability Act, it required public bodies to prepare and submit information on their financial performance in the current and preceding years, together with explanations for deviations from budget, to be used as input for the Fiscal Responsibility Statement. The Framework enforces a time limit for these submissions and subjects them to independent assessment by the Auditor General.

In sum, the Fiscal Responsibility Framework provided concrete numerical targets for debts and deficits, along with associated deadlines and a well-defined escape clause; required the Minister of Finance to provide multi-year plans for how the targets will be achieved; mandated the transparency of assumptions and forecasts, together with independent assessments by the Auditor General; and held the central government and public bodies accountable for revenue shortfalls and expenditure overruns.

³⁶ Invoking the escape clause entailed delaying the deadline for bringing the debt/GDP ratio down to 60 percent by 24 months.

³⁷ An important observation which bears on the question, asked below, of whether lessons from Jamaica generalize is that the Auditor General is a strong institution and office, given this constitutional guarantee and the weight of history.

4B. Institutionalized Partnership and Monitoring

The failure of fiscal adjustment efforts in 2010-12 indicates that the rules adopted in 2010, by themselves, were not enough. There remained a significant danger of the process being derailed until the Economic Programme Oversight Committee (EPOC) was created in 2013 and until EPOC was supported by the signing of a meaningful national partnership agreement (The Partnership for Jamaica Agreement) that same year. The Partnership for Jamaica Agreement affirmed that the government, political opposition, and social partners had reached a consensus on policy priorities; it committed the parties to monitoring the conformity of public policies with those priorities. EPOC meanwhile enabled financial stakeholders to track fiscal policies and hold the government accountable for its budgetary actions. We think of the National Partnership Council (NPC), which produced the Partnership for Jamaica Agreement, as a consultative and consensus-building institution designed to create confidence that the burden of fiscal adjustment was equitably shared – as an example of the approach to consensus building known in the literature as “democratic corporatism.” We think of EPOC primarily as a monitoring and information-dissemination technology focused on the budget.³⁸

The NPC in fact drafted a series of “Partnership Agreements,” some of which were more substantive than others. The first such agreement in 2011 was a mere “code of conduct” including no specific commitments.³⁹ The political opposition consequently boycotted its signing, indicative of a lingering lack of trust. The 2013 Partnership for Jamaica Agreement, which coincided with the inauguration of sustained debt reduction, was very much more detailed. It was the outcome of an extended round of consultations on specific issues, including debt. The document started by acknowledging the sense of crisis created by “inter alia, an unsustainable debt-to-GDP ratio.” It spoke of the need for social dialogue and participatory decision making to engender “trust and confidence among the Partners...” It provided commitments by both the government and the opposition to the principles of transparency, accountability, and consultation, and to the pursuit of “long-term national goals rather than short-term political imperatives”; by business to limit profit margins; from trade unions to address problems of low productivity; and by representatives of civil society to help “stabilise and transform the economy.” It then presented four specific policies requiring monitoring and accountability, of which “Fiscal Consolidation (with Social Protection and Inclusion)” had priority of place.⁴⁰

The NPC agreed to monitor the compliance of parties to the terms of this agreement in a manner complementary to the other newly created oversight body, the Economic Programme Oversight Committee, that focused more closely on fiscal functions. EPOC was established specifically to reassure domestic holders of sovereign bonds that the government would keep to its fiscal commitments, including the rules set out under the Fiscal Responsibility Framework. The government had completed a first domestic debt exchange in 2010, as noted in Section 3, as a precondition for the 2010 IMF Stand-By Arrangement. But that arrangement was off-track already in early 2011, due to an overrun of the 9 percent public-sector wage/GDP target. The prime minister resigned in October, and his party was immediately voted out of office, raising questions about its successor’s intentions. The new government then tabled a second domestic

³⁸ In practice there was overlap between the objectives and deliberations of the two entities, as we make clear below.

³⁹ It had simply listed a set of “key guiding principles” such as sensitivity, courage, patience and understanding.

⁴⁰ The other three were rule of law adherence; ease of doing business and employment creation; and energy diversification and conservation.

debt exchange, also described in Section 3, with an eye toward securing a new IMF agreement.⁴¹ This time, however, debt holders refused to participate absent assurances that any additional maturity extensions and coupon reductions would be the last. Hence the creation of EPOC to monitor implementation of the government’s economic reform measures and specifically its compliance with IMF targets and conditions.

EPOC has 11 members representing the public sector, trade unions, business, and finance, with relatively heavy representation of this last category. This difference in composition compared to the NPC, specifically greater representation of financial interests, reflects EPOC’s focus on fiscal questions.⁴² EPOC issues reports, typically quarterly, on fiscal-policy conduct and outcomes, comparing realized tax revenues and expenditures with those budgeted, and analyzing their determinants. It has continued to do so since the country’s ongoing arrangement with the IMF concluded in 2019. This is a key observation: monitoring was shared with the IMF virtually from the start, and it has continued long since the IMF exited the scene.

EPOC’s assessments are posted on its website, together with communiques and video recordings by its chair. In addition, EPOC started a program called “On the Corner” that involved going from town to town with reports in hand, explaining what the debt reduction program was designed to achieve. These consensus-building efforts were followed by a visible improvement in public opinion: survey data from the Latin American Public Opinion Project show little change between 2006 and 2014 in the share of the public thinking that the economic situation was improving and then a steady increase after 2014.⁴³

Recently the government and Parliament agreed to provide a proper legal basis and full independence for its proceedings by creating a Fiscal Commission to “provide an informed second opinion on fiscal developments, and...play a constructive role in informing the public and, in so doing, incentivizing adherence to Jamaica’s fiscal rules.”⁴⁴ EPOC will stop meeting once the Fiscal Commission is fully staffed and operational in fiscal year 2024.

4C. Ownership

Jamaica was under IMF programs in 2010-11 and earlier, but those programs went off track. They did not result in sustained debt reduction. This earlier experience and experience of myriad other countries are reminders that IMF involvement is no guarantee of success.

The difference in Jamaica starting in 2013 involves that oft-mentioned but rarely explained, or even defined, concept of ownership. By ownership we mean that country authorities and, importantly, stakeholders to whom those authorities are accountable develop and

⁴¹ This involved tapping the IMF’s Extended Fund Facility (EFF), which provides assistance to countries with medium- as opposed to short-term balance of payments problems because of structural issues or slow growth. Jamaica’s 2013 EFF arrangement was for four years.

⁴² At the same time, EPOC has sufficiently broad non-financial-sector representation to effectively supplement the dialogue and consensus-building efforts of the NPC. Members engage in dialogue and consensus building that allows the principal stakeholders to monitor and express their views regarding the conformity of fiscal policies with shared public priorities of fiscal accountability and equitable burden sharing.

⁴³ The precise question asked is “Do you think the country’s current economic situation is better than, the same as or worse than it was 12 months ago?” See <https://www.vanderbilt.edu/lapop/>

⁴⁴ Quoted from Finance Minister Clarke’s budget presentation to the House of Representatives (7 March 2023): Clarke (2023).

maintain a broad and credible commitment to the agreed program of policies.⁴⁵ In Jamaica, the commitment was broad because it was based on an encompassing partnership agreement that the burden of adjustment would be widely and fairly shared. It was credible because policies and outcomes could be benchmarked against concrete rules and thresholds, and because there existed institutionalized monitoring mechanisms to verify the compliance of stakeholders with their commitments.

Well-defined rules and robust partnerships made for ownership of the country's fiscal adjustment and IMF programs. Jamaican officials successfully completed the first 10 quarterly reviews under the 2013-17 Extended Fund Facility Arrangement. Even when there was a change of government from the PNP to the JLP in March 2016, debt reduction continued. The new JLP administration successfully completed the 11th, 12th, and 13th quarterly reviews with the IMF and then surprised all concerned by announcing the early ending of the Extended Fund Facility and immediately entering a precautionary Stand-By Arrangement.⁴⁶ When the IMF and Jamaican authorities held a High-Level Caribbean Forum in Kingston in November 2017, leaders of both political parties endorsed institutionalizing EPOC. The following April the Cabinet embraced the concept of an independent fiscal institution. One month later, the Minister of Finance delivered a speech, "Enhancing Jamaica's Fiscal Responsibility Framework," initiating another consultative process designed to transfer responsibility for budgetary monitoring from the ad hoc body EPOC to a permanent, independent Fiscal Commission.

4D. Origins

The question is how Jamaica was able to reduce political polarization and achieve a broad social consensus in favor of debt reduction. And how and why did it create the institutionalized partnerships that were central to this process?

Here again our answer has two parts. The first element is Jamaica's historical journey: its troubled history as an independent nation and the lessons drawn from that early experience by political leaders and the public. Over time, that experience and those lessons translated into a visible decline in political polarization. The second element is the construction of institutions for monitoring, consensus building, and cohesion, first in the electoral realm, where the need was most pressing, but then in the areas of economics, finance, and finally fiscal policy, where policy makers could build on earlier precedents and achievements.

Jamaica was not always a cohesive society. Shortly after independence, Yale sociologist Wendell Bell (1962) observed of the country: "The white upper classes, the brown middle classes, and the black lower classes are grossly unequal with economic and social advantages accruing most to the upper and least to the lower classes." This sense of inequality fueled the PNP's 1972 electoral victory and its subsequent populist rhetoric and policies. One year before the 1976 election in which PNP Prime Minister Michael Manley won a second term, he declared: "Jamaica has no room for millionaires." For those who wanted to be millionaires, he suggested, "We have five flights a day to Miami." (Levi 1990, p. 157). In response to the PNP's rhetoric and policies, the opposition JLP moved further to the right. Accusations of electoral

⁴⁵ Boughton (2003) is one of the rare sources providing an actual definition along these lines.

⁴⁶ Precautionary arrangements are for cases when countries do not intend to draw on the IMF facility but retain the option of doing so.

intimidation, malfeasance and fraud were widespread (Electoral Commission of Jamaica 2014, pp.18-19). Political violence soared: election season saw rampant shootings in Kingston’s “garrisons” of those thought to favor the political opposition. Estimates are of more than a hundred politically motivated murders in 1976 and more than 800 in 1980.

This ghastly situation created a groundswell for reducing political polarization and violence. Prominent public figures took the lead: during the One Love Peace Concert, before an audience of more than 30,000, the country’s leading artist, Bob Marley, joined hands on stage with the prime minister and the leader of the opposition. Following their defeat in the 1980 election, Manley and the PNP moderated their rhetoric and policies. On retaking office in 1989, the PNP embraced the JLP’s previously implemented economic reforms, as noted in Section 2. Manley himself articulated the Party’s new more collaborative, centrist approach to economic policy:

“[The PNP], like many other people in the broad social democratic movement, placed greater reliance at that time on the capacity of the state to be a direct factor in production. Experience showed us that the state is not necessarily a reliable intervener in production. You stretch your managerial capacity and create tensions with the private sector that can be counterproductive. So the second great lesson that we learned is not really to depend on the government as a factor in production but rather to use government as an enabling factor for the private sector” (Massaquoi 1990, p. 112).

Given Manley’s personal popularity, his party’s endorsement of this newfound economic policy consensus played an important role in creating a less polarized political environment conducive to constructive engagement. This is evident in Figure 2, where we see discrete steps down in political polarization after 1980 and again after 1989.

The second element was institution building. To address problems of electoral intimidation and fraud, leaders of both parties agreed that oversight of elections should be removed from the direct ministerial control of the government. Following the recommendations of a bipartisan commission, Parliament voted in 1979 to create an independent, nonpartisan institution with representation of both political parties and civil society to monitor and validate electoral results. This Electoral Advisory Committee (EAC) consisted of eight members: the Director of Elections, three members of civil society, and four nominated members (two each from the JLP and PNP).⁴⁷ The EAC was “not answerable to any minister of government” (Electoral Commission of Jamaica 2014, p. 21). It was a venue for dialogue between the parties and other stakeholders, and had independent authority to invalidate any election result tainted by violence or malfeasance.⁴⁸

The EAC was a first step on Jamaica’s journey toward social partnership. It was the precedent for the creation, over the next three decades, of a series of other independent, multi-

⁴⁷ Civil society representatives were selected by the Governor-General. The Governor-General, a legacy of the British Commonwealth, represents the monarch on ceremonial occasions and has various powers, sporadically exercised, under the constitution. The EAC was unlike other standing commissions, such as the Public Service Commission and Police Commission, in that the Director-General took advice directly from both the prime minister and the leader of the opposition and not just from the prime minister.

⁴⁸ For a detailed discussion of the workings of the EAC and the process by which it was created, see Electoral Commission of Jamaica (2014), pp. 20-40.

stakeholder consultative bodies that addressed not electoral intimidation and fraud but other issues, notably including economic growth and debt reduction. These subsequent steps are shown in Table 2.

The National Planning Council in 1989 was the next significant institutional innovation: its 22 members brought together government officials with business, trade union and other private sector members (representing academic, professional and consumer interests) in monthly meetings intended to “contribute to the formulation of economic policies and programmes, to assess economic performance and to identify measures designed to achieve broad-based development and growth in productivity, employment and the national product” (Government of Jamaica 1989).

The National Planning Council was followed in 1997 by ACORN, a venue for social dialogue “in which leaders of the Country's labour unions, private sector and academia have met together continuously over the last twenty-one years, focusing on building social capital and trust among actors in key sectors of the Jamaican society in pursuit of national growth and competitiveness” (Wint 2018). The launch of ACORN again coincided with a visible drop in political violence and a drop in political polarization centered on 1999. ACORN is widely viewed as a progenitor of the partnership committees and councils culminating in creation of the National Partnership Council in 2009, as described in Section 4B. Creation of the National Partnership Council was followed by one of Jamaica’s largest post-independence declines in political polarization and political violence (again see Figure 2). This became the vehicle for the landmark Partnership for Jamaica Agreement in 2013 and its sequel, the Partnership for a Prosperous Jamaica, when the government changed hands in 2016.

Building on this foundation, Jamaican leaders used this same approach of building encompassing institutions with independent powers starting in 2010 when the issue became fiscal adjustment and debt sustainability. Table 3 shows the sequence of institutional steps, starting with introduction of the Fiscal Responsibility Framework in 2010 and continuing with creation of the Economic Programme Oversight Committee in 2013. A sense of crisis informed the decision to create EPOC in 2013, just as a sense of crisis had informed the decision to create the Electoral Advisory Commission in 1979. In 1979, political violence had threatened Jamaica’s survival as a political democracy. In 2013, normalizing the finances was “essentially a matter of survival of the Jamaican nation as a viable nation state,” as Peter Philips, the Minister of Finance, put it.⁴⁹

The generous representation of financial interests on EPOC was important for disciplining and creating confidence in fiscal and financial policies, as argued above. Jamaica’s specific approach to debt restructuring had a lot to do with the development of this particular institutional configuration. Governments are typically more inclined to restructure external than domestic debts.⁵⁰ Historically, domestic debt has been held by residents, who are also citizens and voters. Incumbent governments prefer to avoid subjecting them to financial pain, knowing that those voters can retaliate by inflicting electoral pain. In addition, where domestic debt is held by local financial institutions, there can be fear that restructuring it could destabilize the financial system. In Jamaica, unusually, a combination of practicalities and legal restrictions made it more expedient to restructure domestic debt. This meant that local financial institutions,

⁴⁹ Quoted in Wigglesworth (2020).

⁵⁰ Though not always: see Reinhart and Rogoff (2011).

which held this debt, became highly attentive to fiscal developments. Because the painful 2010 restructuring, was unsuccessful, in that it did not help to put the country on the path to sustained debt reduction, local financial institutions refused to participate in the deeper 2013 restructuring without further reassurance. They viewed the creation of EPOC, their ample representation, and the efficient operation of its monitoring and consultation functions as a non-negotiable precondition for their participation in this second round.

While EPOC had relatively heavy representation of financial interests and focused on monitoring fiscal policies and outcomes, including those associated with the IMF's Extended Fund Facility (EFF), it did not do so to the exclusion of other issues, such as collective bargaining. The unions had agreed to a two-year public-sector wage freeze as part of the failed 2010 Stand-By Agreement. Just as investors were now willing to accept further maturity extensions and coupon reductions only as part of a successful program, unions were prepared to extend the wage freeze only if they were confident that the broader stabilization program had a reasonable chance of success. Their representation on EPOC was important for creating this confidence. In the words of Philips, the monitoring and deliberations of EPOC "did much to build public support across class lines, and I dare say, across political lines for the necessity of the fiscal consolidation and pro-growth efforts at public sector reform and legislative reforms..." (Philips 2017, p.2). As further explained by Clarke (2018, p.10),

"...the consensus building mechanisms of non-governmental bodies had, and continue to have, an indispensable role to play. It was against this background that the previous administration approached members of the financial community with a second debt exchange and the unions with a multi-year wage freeze as prior actions for entry into the Extended Fund Facility. Both groups correctly insisted on the right to monitor Jamaica's economic program in return for such sacrifices, in order to ensure that Jamaica maintained its commitments to the reforms embedded in the agreement with the IMF. And so EPOC was born..."

This passage makes clear that while the focus of EPOC monitoring was fiscal policy and Jamaica's commitments to the IMF, the committee entailed a broader social partnership in the manner of the other multi-partner consultative bodies that preceded it. And while EPOC's establishment coincided with the country's entry into the EFF, the impetus for its creation came exclusively from Jamaica. As IMF Managing Director Christine Lagarde noted in 2014, monitoring of an IMF reform program by an "outside group...is something that I have never heard of [and] that none of my staff had heard of..."⁵¹

5. Do the Lessons Generalize?

Does the Jamaican case generalize? Can other economies similarly shed heavy debt burdens by strengthening fiscal rules and backing them with consensus-building institutions? The IMF evidently thinks so: its current Managing Director has pointed to Jamaica as a model to be followed (Georgieva 2019).⁵² At the same time, the fact that Jamaica's case is widely seen as

⁵¹ Ibid.

⁵² Similarly, her predecessor, Lagarde, in the interview just quoted, went on to suggest that "This surely is a role model that should be emulated elsewhere. With everybody inside the tent, all voices are heard, and everyone has a stake in success."

exceptional raises questions about whether the lessons generalize. Insofar as the relevant agreements and institutions were products of Jamaica's distinctive history, shouldn't they be treated as *sui generis*?

We address these questions through a discussion of two countries, Ireland and Barbados, that bear a strong resemblance to Jamaica in their success at putting in place consensus-building arrangements accompanied by fiscal rules.

Ireland. Ireland already had strong fiscal institutions, but these were further strengthened in 1987 in response to disappointing outcomes. The budgetary process was centralized and disciplined. The government first debated the minister of finance's budget proposal in a series of meetings. When the Taoiseach (prime minister) exercised strong discipline over his spending ministers, free-riding was contained. To this end, in May 1987 the Fianna Fáil government led by Taoiseach Charles Haughey set up an Expenditure Review Group, a kind of "star chamber" made up of two finance department officials and an independent economist. Staff in the Finance Department first drew up a list of schemes that were candidates for termination or for which funding could be reduced. The department secretary then was called before the Review Group, where he was expected to agree to the Finance Department's list or offer his own proposals for abolishing schemes and saving money. Ministers failing to find the necessary cuts were subject to ruthless discipline by the Taoiseach, who threatened them with political consequences. As Haughey put it in a letter to ministers, "any Minister who came to the Cabinet with proposals for expenditure should bring his seal of office with him [i.e. be prepared to resign] and any Department Secretary who proposed expenditure would be sacked" (quoted in Cromien 2011).

At this point, the government's proposal went to the Parliament. Under the constitution, only the government could propose spending and tax plans, and there could be no amendments in parliamentary debates; this limited the logrolling characteristic of other legislatures. The government's tax proposals might be voted down by coalition partners or when it was a minority relying on independents (as happened in 1982). But in 1987 the leader of the opposition agreed not to oppose budgets that promised to address the country's now pressing debt and deficit problems, so adoption of the government's austerity budget was assured.

Despite these institutional arrangements, previous governments' budget-balancing efforts had proved unavailing. Consolidation had foundered over strife between the social partners. Uncoordinated strikes by the country's myriad craft unions first secured substantial pay increases, to which public sector unions then responded with aggressive wage demands of their own (Sexton and O'Connell 1997, p.77). Budgets made provision for limited public sector pay increases but were then blown off course by these demands for substantial increases from public sector unions, requiring additional expenditure during the year.⁵³ The 1984 "Building on Reality" Plan had the modest goal of reducing the primary deficit sufficiently to just stabilize the debt at its then high level but was upended in 1986 by a teachers' strike to which the government capitulated (Honohan 1992). Governments sometimes responded with additional steps to balance the budget, but weak growth continually undermined the fiscal accounts.

⁵³ As also happened in Jamaica after 2010, recall.

By 1987 a deeply unfavorable interest-rate-growth-rate differential had contributed to a rise in the public debt ratio to an alarming 110 percent of GDP, creating a sense of crisis.⁵⁴ Superimposed on the country's contentious industrial relations, this led the new Fianna Fail government take a different tack, seeking to forge a consensus with trade unions and employers associations. As the political party historically associated with centralized bargaining, it started by negotiating a common agenda with the unions, whose leaders agreed to pay restraint in return for cuts in taxes on labor income, increased say in decision making, and initiatives to foster job creation. Coordination was facilitated by the fact that all but a few unions were affiliated with the Irish Congress of Trade Unions, their umbrella organization (Hogan 2010). Reluctant employers organizations came on board, attracted by the prospect of pay moderation but worried that agreement with public-sector unions to reduce the length of the workweek might spread to the private sector, where they would be economically burdensome (McGinley 1999, p.134). Consultations on the details were conducted with farmers, community representatives and NGOs. The resulting Programme for National Recovery, covering 1988-90, entailed agreement to limit annual pay increases to 2.5 percent, reduce taxes on employers and employees, and curtail public sector employment through attrition while preserving the overall value of social-welfare benefits and essential public services. It encouraged the belief that the sacrifices required for debt reduction would be widely and equitably shared.

These consensus-building arrangements were buttressed by encompassing discussions, by independent analysis to confirm the accuracy of assumptions, and by mechanisms providing ex-post verification that everyone was keeping their word. The National Economic and Social Council (NESC), an independent body whose members included business representatives, union leaders and academics, was enlisted to analyze the realism of the proposed agreement. A Central Review Committee (CRC) with representation of government and the social partners was established to monitor implementation of the program, enabling the parties to verify that everyone was adhering to the agreement. As MacSharry and White (2000) observe, the regular meetings of the CRC enabled the social partners to have continuing input into government decision-making. They allowed union representatives to connect concessions on pay restraint to the provision of public services. And they provided "valuable political and economic education" for all. These arrangements, in their own way, were not unlike consultation and consensus-building institutions adopted in Jamaica and were accompanied by a decline in measured political polarization (Figure 10).

As in Jamaica, this cooperative burden-sharing agreement did not come out of nowhere. It did not reflect a sudden realization that the country faced a fiscal crisis; the backdrop of fiscal problems was well known. Rather, it built on a series of earlier proposals. In 1982, a national economic plan, "The Way Forward," had proposed a collaborative approach to eliminate the budget deficit within four years, but which governments were unable to implement, as described above. In 1986 the NESC then issued a report recommending shared fiscal adjustment, but the unions again refused to participate, and the coalition was again unable to implement it.

⁵⁴ Figures here for Ireland use gross domestic product to scale debt (for consistency with other countries). The alternative would be to use gross national income, given the importance of profits booked in Ireland by multinational corporations. Another alternative is modified gross national income, which subtracts depreciation of intellectual property and leased aircraft as well as the net factor income of redomiciled publicly listed companies. This however would complicate international comparisons and does not change the narrative for Ireland.

What then was different in 1987? MacSharry and White (200) point to three factors. First, the Thatcher reforms in the UK were a wake-up call for the unions, which were forced to recognize the need to balance pay and productivity. With Thatcher's defeat of the miners' union, confrontation with employers and the government no longer appeared to be a successful way forward.⁵⁵ Second, earlier agreements had focused on the need for wage restraint to the exclusion of other factors; incorporating tax and workplace considerations into the 1987 agreement brought labor on board. Third, at this point, finally, "all the parties, through their earlier involvement with the NESC, were familiar with the scale of the problems facing the economy" (MacSharry and White 2000, p.129). This answer to the question of why 1987 was different is a reminder that, as in Jamaica, history and experience matter.

Almost immediately, deficits narrowed, and the debt ratio began falling. Real net borrowing by the public authorities fell by half between 1987 and 1988; it again fell by half between 1988 and 1989 (Honohan 1992, p.301). The success of the Program for National Recovery led to a series of subsequent agreements, each covering three years. The government was able to sustain large primary budget surpluses for an extended period.⁵⁶ Despite the fact that it took time for growth to pick up and for the interest-rate-growth-rate differential to become favorable, the public debt ratio fell from its peak of 110 percent in 1987 to barely 60 percent a decade later, and then to a scant 20 percent a decade after that.⁵⁷

Success has many fathers. Other observers will point to rapid catch-up growth, aid from the EU's Structural Funds, and Ireland's success at attracting foreign investment. While not disagreeing, we would emphasize the combination of solid fiscal institutions and consensus-building arrangements.

Barbados. A last case painting a more mixed picture is Barbados. In July 1991, Prime Minister Erskine Sandiford had faced dwindling reserves and a rapidly rising debt-to-GDP ratio. Rather than accepting the IMF's recommendation to devalue the currency, he proposed an 8 percent cut in public-sector wages. The Coalition of Trade Union and Staff Associations of Barbados responded with a plan exploring other options. However, talks broke down when the prime minister disregarded the Coalition's proposal and presented public-sector workers with a plebiscite that gave them a choice between wage cut or the IMF-recommended devaluation. Reflecting the national attachment to the currency peg (in operation since 1975) as a nominal anchor – especially given the evidence of the inflation spike following Jamaica's 1990 exchange rate liberalization – workers opted, somewhat remarkably, for the wage cut.

The government implemented these reductions on October 1st, 1991. On October 24th and again on November 4–5, some 30,000 Coalition protesters, the proportional equivalent of 36 million Americans, marched through the streets of Bridgetown calling for the prime minister's resignation. The Coalition challenged the wage cut in court, arguing that the government had negotiated in bad faith and violated the constitution. The case was escalated to the Privy Council

⁵⁵ An additional factor coinciding with these Thatcher reforms (and reinforcing their impact in Ireland) may have been the advent of a new generation of more collaborative union leaders (Teague and McCartney 1999).

⁵⁶ The appendix shows our standard decomposition of the sources of changes in the debt/GDP ratio, first for Ireland and then for the case Barbados considered below.

⁵⁷ Kenney (2016) shows that $r-g$ contributed negatively to debt reduction until the mid-1990s, after which Ireland's growth accelerated to the high single digits, inaugurating the "miracle" period. Ireland in its earlier years thus resembled Jamaica in that the success of debt reduction did not hinge on rapid growth and a favorable interest-rate-growth-rate differential.

(Henry 2013, Wint 2003).

Simultaneously, Barbados experienced its first post-independence increase in political polarization in 1991 (Figure 11). The deterioration in political conditions was not lost on IMF staff who conducted the Article IV Consultation that led to the country's February 1992 Stand-By Arrangement. The minutes of the Fund's July 1992 Executive Board meeting make clear staff's approval of the government's willingness to cut wages but express concerns about the government's ability to sustain the wage agreement given societal tensions. The minutes also note staff's strongly held view of the need for the private sector to accept wage restraint in order for the stabilization plan to succeed.

From the time of the wage cut through the signing of the Stand-By Arrangement, only the government and public-sector unions engaged in meaningful discussion; the private sector was notably absent. Consistent with the view that the plan could not work without private sector participation, the country's debt/GDP ratio continued to rise (Figure 12). Finally, in August 1993, a three-party agreement known as "the Protocol on the Implementation of a Prices and Incomes Policy in Barbados" was brokered with help from the Anglican Church. Employers agreed to limit price increases, accept lower profit margins, and share their financial accounts with the unions. In return, private-sector unions assented to a two-year wage freeze (retroactive to April 1993) and agreed to keep demands for future pay raises in line with increases in productivity (Downes 1994). The government committed not to devalue, and all parties agreed to create a national productivity board to provide data on which to base future negotiations (Henry and Miller 2009). There followed a marked decline in political polarization between 1993 and 1994 (Figure 11). Barbados ran a primary budget surplus of 8 percent of GDP in 1994, and the country maintained a primary surplus in excess of 5 percent of GDP in each of the next five years. As a result, the net debt/GDP ratio came down from 71 percent in 1994 to 50 percent by 1999.

Beyond that, however, the process did not last. From the turn of the century the debt ratio began rising again, slowly initially but then rapidly with the onset of the Global Financial Crisis when growth stagnated and the interest-rate-growth-rate-differential turned especially unfavorable. The debt/GDP ratio rose from 61 percent of GDP in 2000 to as high as 157 percent in 2017 (Deyal, Alvarez and Waithe 2019).

Part of the problem was that the consensus-building measures of the mid-1990s were not buttressed by significant reforms of fiscal institutions (increased fiscal transparency, independent institutions for monitoring the realism of budgeting assumptions, explicit fiscal rules). The government continued to make unbudgeted transfers to loss-making SOEs providing water, transportation, electricity, waste disposal and health services. These transfers averaged 7½ percent of GDP per annum in the decade following the 2008 Global Financial Crisis.⁵⁸ They culminated in an IMF program and debt restructuring in 2018.

As part of this program, Barbados finally put in place an explicit debt/GDP target and measures enhancing the transparency and facilitating outside monitoring of the fiscal accounts, including the operations of SOEs. The Financial Management and Audit Act was amended to give expenditure ceilings to line ministries. The amendment enhanced monitoring and supervision of SOEs by adding internal audit and reporting requirements. The government

⁵⁸ IMF (2021), p.16.

committed to a target for its debt of 60 percent of GDP and a path for the primary balance consistent with getting there by 2034 (delayed for two years by COVID-related financial disruptions – see Parliament of Barbados 2023). These fiscal rules complemented and reinforced the existing social partnership agreement.

Barbados appears to be emulating the Jamaican model by forming a committee, with the participation of private sector business associations and labor unions, to monitor implementation of its 2018 Barbados Economic Reform and Transformation Plan (or BERT) – this is known as the BERT Monitoring Committee, and establishing an independent fiscal council to monitor and advise on fiscal policy implementation.⁵⁹

One difference between the Barbadian and Jamaican cases is that Barbados undertook a comprehensive debt restructuring in 2018-19 that entailed significant present-value reductions and encompassed external as well as internal debt. A new government initiated the restructuring in its first week in office, immediately ahead of a large external payment and leveraging its ability to blame its predecessor for the need for exceptional measures. The authorities were anxious to reach a loan agreement with the IMF, and the IMF, not allowed to lend to a government with an unsustainable debt, required the restructuring as a condition.

Barbados had the advantage that its global bonds contained collective action clauses (unlike Jamaica's some years earlier), the global campaign to encourage their inclusion having gained traction over time. Compared to Jamaica, its external debt thus could be restructured more quickly, given less scope for free-riding and litigation. Domestic debt was far and away the most important component of the government's obligations, however, and domestic debt securities did not include collective action clauses. But because the bonds were governed by domestic law, these provisions could be retrofitted by an act of Parliament.

The resulting net present value loss for the creditors (and gain for the government) was as much as 44 percent on external debt and 43 percent on domestic debt (Anthony, Impavido and van Selm 2020). Recall how in Jamaica there had been a reluctance to impose restructuring-related losses on the banks for fear of causing financial instability. In Barbados, a substantial share of domestic debt (more than 40 percent) was again held by the banks.⁶⁰ But all five Barbadian banks were foreign owned (three big ones by AAA-rated Canadian financial institutions, two smaller ones by banks headquartered in oil-rich Trinidad and Tobago). All five banks were strongly capitalized, had healthy parents, and could absorb losses. Again, the message – which emanates also from Jamaica's contrasting experiences in the 1990s and after 2009 – is that a sound financial system is important for successful debt reduction.

Ireland and Barbados, like Jamaica, are small economies, consistent with the idea that consensus building is easier where there is a limited number of agents.⁶¹ They are sectorally-specialized, open economies highly exposed to exogenous shocks, consistent with the argument that achieving this kind of adjustment-facilitating consensus is especially urgent in a shock-prone environment. Ireland is more ethnically and socioeconomically homogenous than Jamaica,

⁵⁹ This makes Barbados and Jamaica the only two Caribbean countries with independent fiscal councils. Like its Jamaican counterpart, the BERT Monitoring Committee (BERT MC) continues to issue regular public reports.

⁶⁰ Excluded from this calculation is debt held by the public sector itself (principally the National Insurance Scheme and the central bank).

⁶¹ That they are all island economies is probably a coincidence, although access to shipping lanes makes for openness, which can heighten the urgency of economic policy reform.

consistent with the literature suggesting that a neocorporatist approach to consensus building is easier where when cooperation is not complicated by ethnic divisions (Katzenstein 1985, Gavrilets, Auerbach and Vugt 2016). Jamaica, as a society with more income and wealth inequality, and more racially and ethnically diverse historical roots, had to work for decades to construct an economic and social consensus in favor of debt reduction.

It is not clear that large countries can easily follow the small country strategy of partnership and engagement to reduce political polarization and build consensus. But neither is it clear that they will be able to reduce their debts without it.

6. Conclusion

There is no questioning the desirability of bringing down high public-debt-to-GDP ratios. Heavy debts prevent governments from increasing expenditure and cutting taxes in recessions and emergencies (Romer and Romer 2019). Debt-service burdens limit the scope for productive public spending (Jalles and Medas 2022). Especially when they are short in term or denominated in foreign currency, large debts are a source of financial fragility.

Given the magnitude of inherited debts, meaningful debt reduction can be achieved only by running substantial primary budget surpluses for extended periods. $r-g$ differentials have turned less favorable, given upward pressure on real interest rates – reflecting investors’ higher required return to hold additional government securities – and the troubled outlook for global growth.⁶² Debt restructuring, never a panacea, has grown more fraught and complex with the substitution of market finance for official finance and the emergence of nontraditional creditors.⁶³

Yet only a small handful of countries have succeeded in running the requisite large primary surpluses for extended periods. Jamaica, having cut its debt/GDP ratio from nearly 150 percent of GDP in 2012 to just 72 percent in 2023 and on course to reduce that debt to less than 60 percent by 2028, is a prime case in point. This makes it important to understand the Jamaica exception.

Meaningful debt reduction was accomplished only when Jamaica put in place two prerequisites: (1) a set of rules anchoring fiscal policy, which allowed investors and others to monitor government policies and assess their conformance with projections; and (2) a series of partnership agreements creating confidence that the burden of adjustment would be widely and fairly shared. Both elements were needed. Jamaica had experimented previously with partnership agreements, but these alone did not prevent debt from exploding. Jamaica adopted fiscal rules three years before the start of its debt reduction process, but these rules did not prevent debt from continuing to rise.⁶⁴ Together, however, the two elements launched Jamaica on a debt reduction course whose success few countries have been able to match.

⁶² Kose and Ohnsorge (2023) forecast a further slowdown in trend growth in emerging markets and developing economies over the next five years. There is of course no agreement on by how much growth will slow and real interest rates will rise. These issues are discussed in Arslanalp and Eichengreen (2023).

⁶³ The failure of more than a small handful of governments to reach restructuring agreements under the G20’s Common Framework for Debt Treatments illustrates the point.

⁶⁴ And even before that the country had been subject to IMF-negotiated fiscal targets.

The question is how many other economies might adopt this recipe. The lessons from Jamaica's experience with fiscal rules, we suggest, generalize to other countries. Jamaican officials adopted simple numerical targets for the debt-to-GDP ratio, with dates attached. The finance minister was tasked with formulating a multi-year budget detailing how the debt ratio would get from here to there. Parliament strengthened the governance of state-owned enterprises and public bodies to avoid cost overruns. The fiscal rules included a state-of-the-art escape clause that balanced flexibility with credibility. And an auditor general whose independence was constitutionally guaranteed provided outside verification of the government's claims. These lessons can be adopted elsewhere.

The other element of the recipe, encompassing partnership agreements, is more difficult to replicate. EPOC and the Partnership for Jamaica Agreement that launched and kept Jamaica on the path of debt reduction were products of a distinctive national learning process that began a third of a century earlier with the Electoral Advisory Commission, whose structures and processes were transferred to other domains, including, eventually, the budgetary. The decision to start down this road reflected the country's history of race and class division and political violence, away from which leaders and society turned at the end of the 1970s when the country reached the political brink. Other heavily-indebted countries have different political histories. They do not all face the same dire political circumstances. Nor is there any guarantee that their leaders and publics will respond in the same way.

Our analysis and the literature on democratic corporatism suggest that encompassing partnership agreements such as Jamaica's are most prevalent in smaller countries, where it is easiest to get the stakeholders around a table. They are most prevalent in small, open, sectorally-specialized economies where vulnerability to external shocks is high and cooperation on adjustment is urgent. They are most prevalent where interest group negotiations are relatively structured and centralized. They are easiest to reach in relatively homogeneous societies not riven by class or racial divisions.

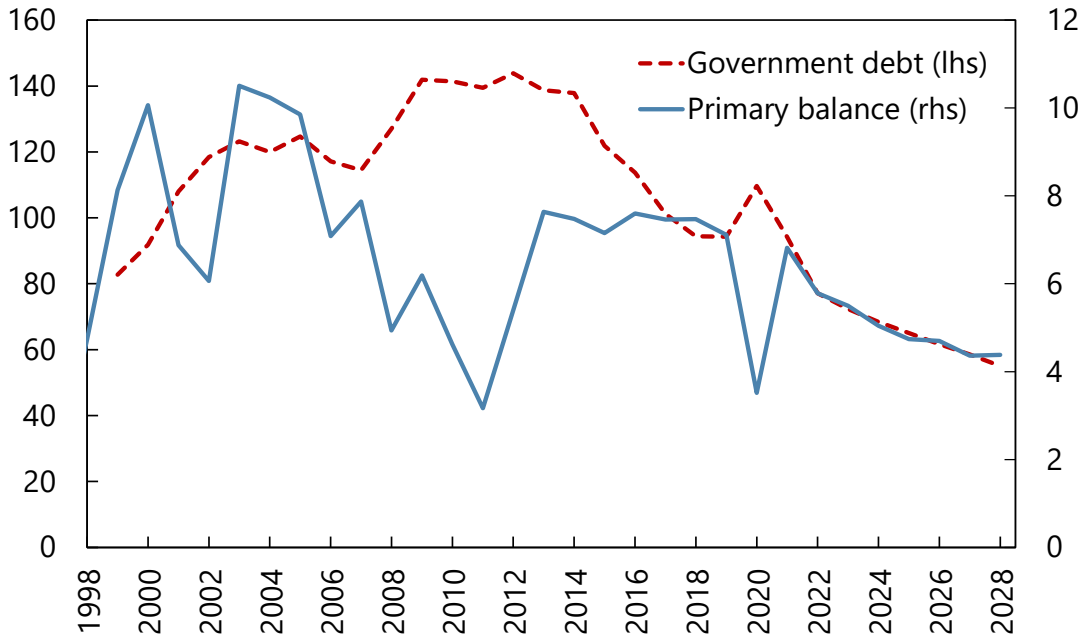
These observations leave us relatively pessimistic about the efficacy of fiscal rules in countries such as Germany, whose provisions lack flexibility. They leave us skeptical about the enforceability of the EU's revised fiscal rules, which lack simplicity to accompany flexibility, and where their imposition from outside raises questions about ownership and enforceability (Eyraud et al. 2018). And they leave us concerned about the scope for sustained debt reduction in large countries like the United States with high levels of political polarization.

At the same time, Jamaica's experience suggests that societal divisions are endogenous. They can be modified over time, not least through the creation and operation of encompassing institutional partnerships. And these partnerships can be deployed to create fiscal rules with the simplicity, flexibility, and acceptance needed to be enforceable and effective.

What it takes to modify societal divisions and to usefully deploy, during crises, the increase in social capital that flows from a more cohesive society brings us to the final lesson from Jamaica's experience: the importance of leadership. Our discussion of the earlier period emphasized the critical role of Prime Minister Manley's intellectual shift in favor of economic and fiscal pragmatism. In terms of more recent experience, one could similarly point to the strong leadership of Finance Minister Peter Phillips before 2016 and Prime Minister Andrew Holness and Finance Minister Nigel Clarke thereafter. Economists prefer to ground their arguments in institutions and market forces rather than personalities. But such institutions

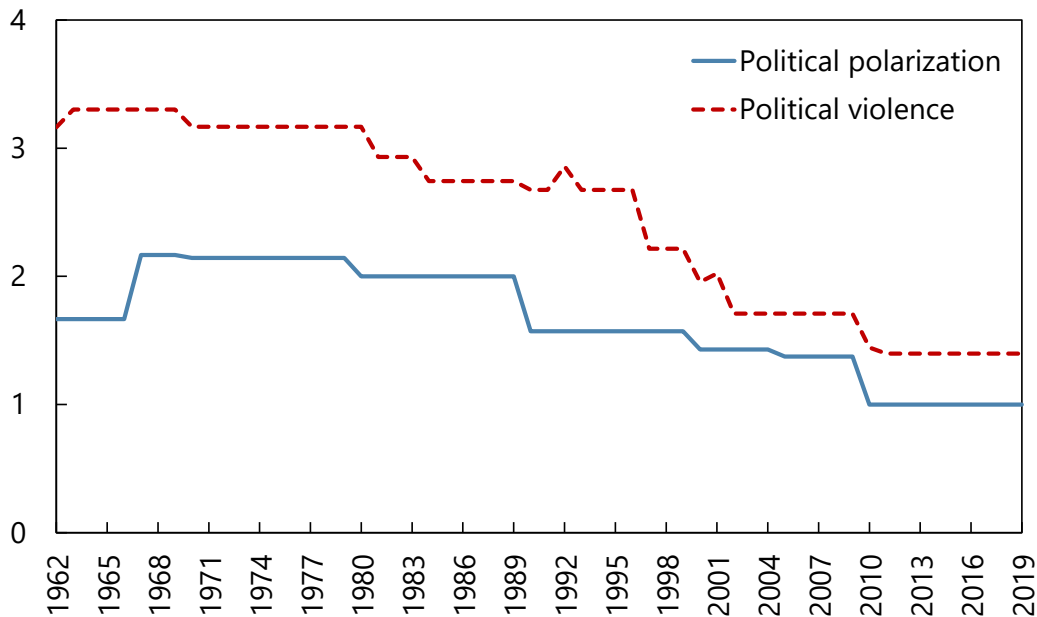
presuppose leaders with the vision and character to use them for the good of the country. Without leadership, there is no broad acceptance to accompany credibility and solidify ownership. The World Bank's Growth Commission (Brady and Spence 2010) identified leadership as one of the five common traits of countries with sustained high growth in the post-World War II period. The same might be said of public debt reduction – for small and large countries, alike.

Figure 1. Jamaica: Government Debt and Fiscal Balance, 1998-2028
(Percent of GDP)



Sources: IMF, World Economic Outlook (October 2023).
Note: In fiscal years. Fiscal years run from April 1 to March 31. Figures for 2023-28 are projections.

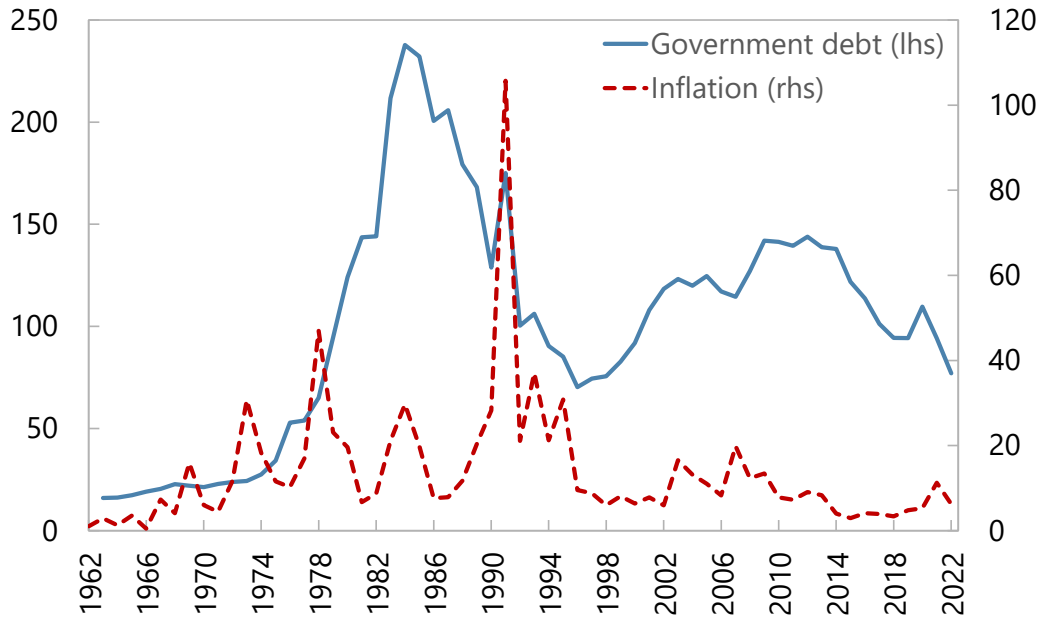
Figure 2. Jamaica: Political Polarization and Political Violence
(Average Rating (0-4); lower figure indicates less polarization/violence)



Source: Varieties of Democracy (V-Dem) Dataset, Version 13.

Figure 3. Jamaica: Government Debt and Inflation, 1962-2022

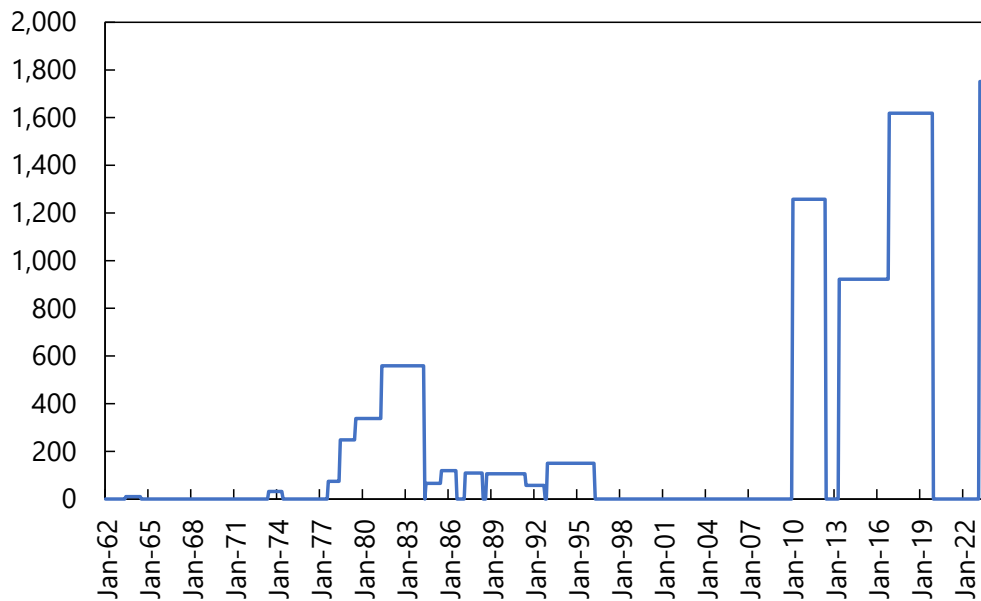
(Percent of GDP (lhs); Percent (rhs))



Sources: IMF, Global Debt Database; International Financial Statistics; World Economic Outlook.
 Note: In fiscal years. Fiscal years run from April 1 to March 31. Inflation is as of end of period.

Figure 4. Jamaica: Financial Arrangements with the IMF

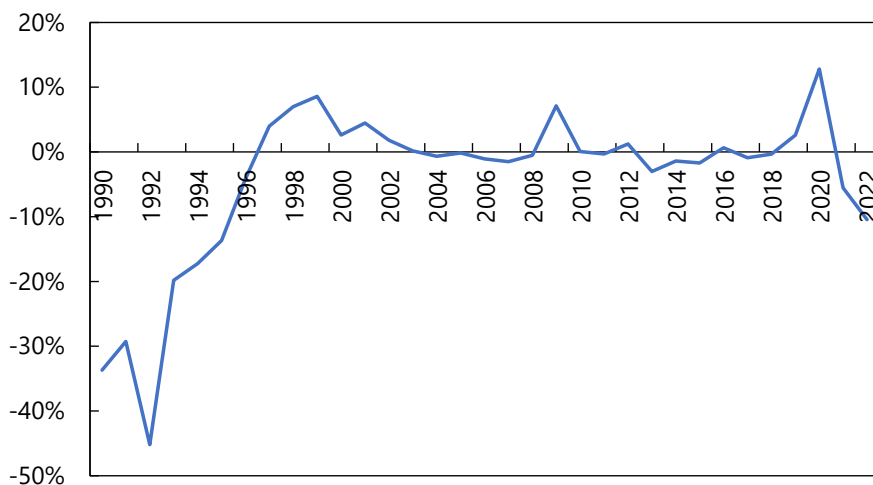
(Amount Approved; million USD)



Source: International Monetary Fund (IMF).

Figure 5. Jamaica: r-g Differential, 1990-2022

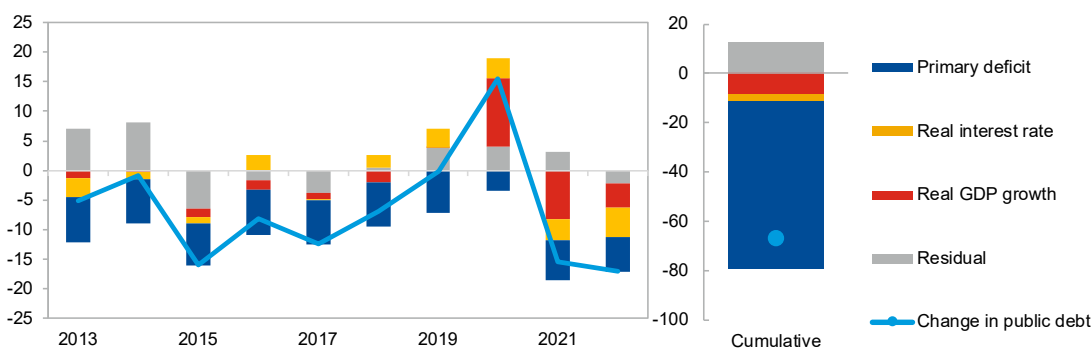
(Percent)



Sources: IMF, Global Debt Database and World Economic Outlook.

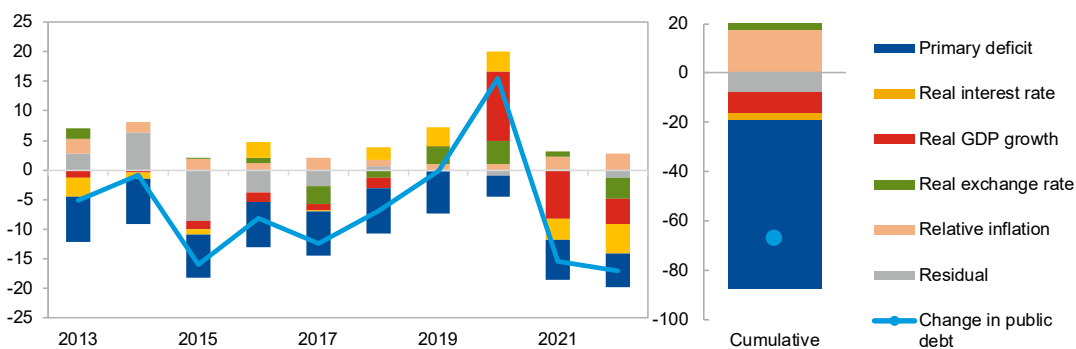
Note: r is calculated as the effective interest rate on government debt deflated by the GDP deflator. g is the real GDP growth rate.

Figure 6. Jamaica: Drivers of Debt-GDP Dynamics, 2013-22



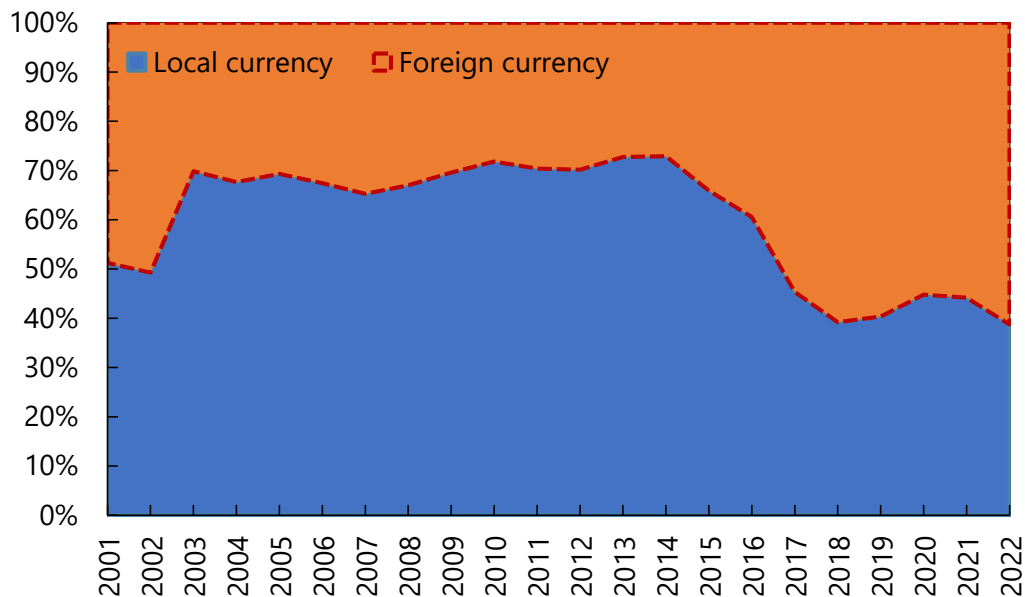
Note: In fiscal years. Fiscal years run from April 1 to March 31.

Figure 7. Jamaica: Drivers of Debt-GDP Dynamics Accounting for Real Exchange Rate and Relative Inflation Effects, 2013-22



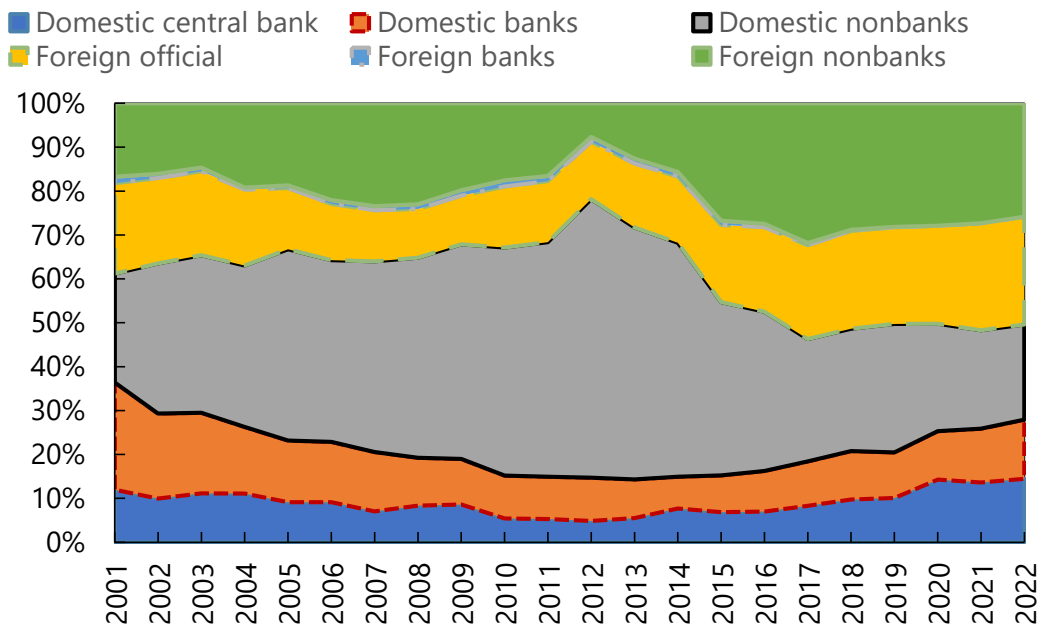
Note: In fiscal years. Fiscal years run from April 1 to March 31.

Figure 8. Jamaica: Currency Composition of Government Debt
(Percent of total)



Source: International Monetary Fund (IMF).
Note: In fiscal years. Fiscal years run from April 1 to March 31.

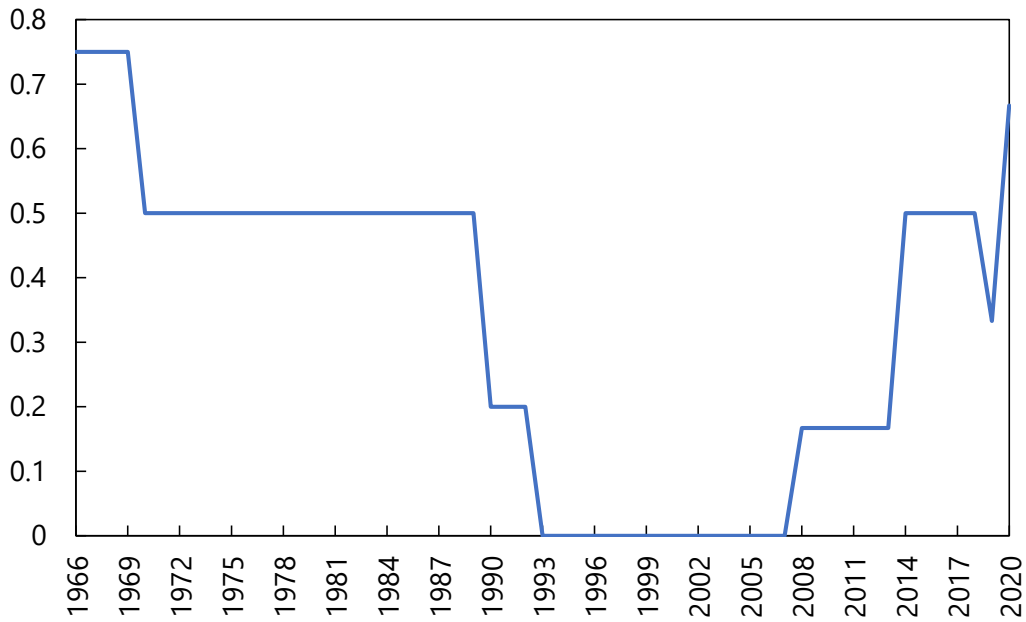
Figure 9. Jamaica: Holders of Government Debt, 2001-22
(Percent of total)



Source: Arslanalp and Tsuda (2014, updated).

Figure 10. Ireland: Measure of Political Polarization

(Average of survey responses between 0 and 4; Lower figure indicates less polarization)

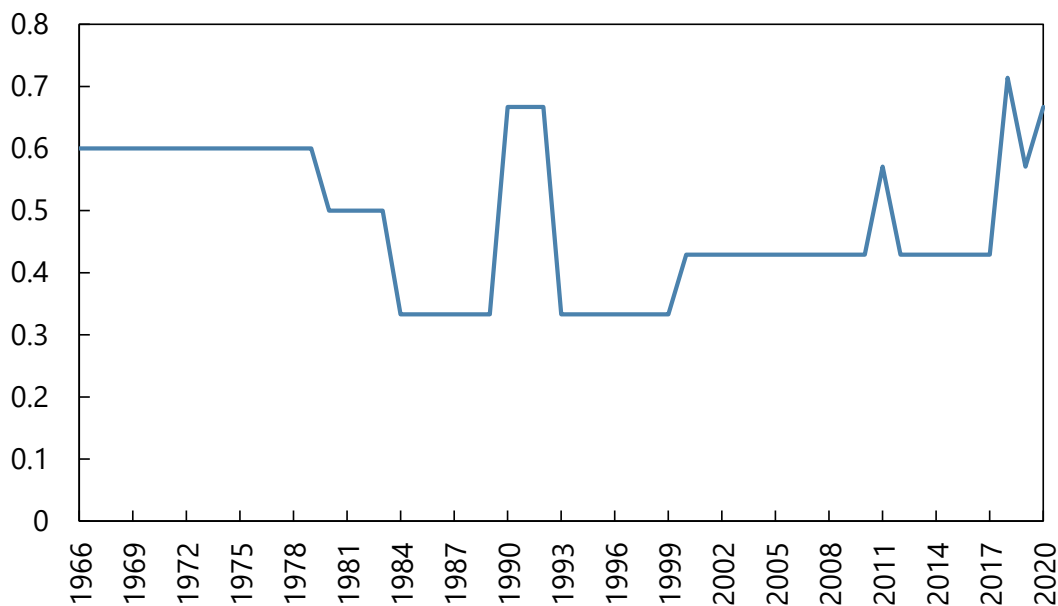


Source: Varieties of Democracy (V-Dem) Dataset, Version 13.

Figure 11. Barbados: Measure of Political Polarization

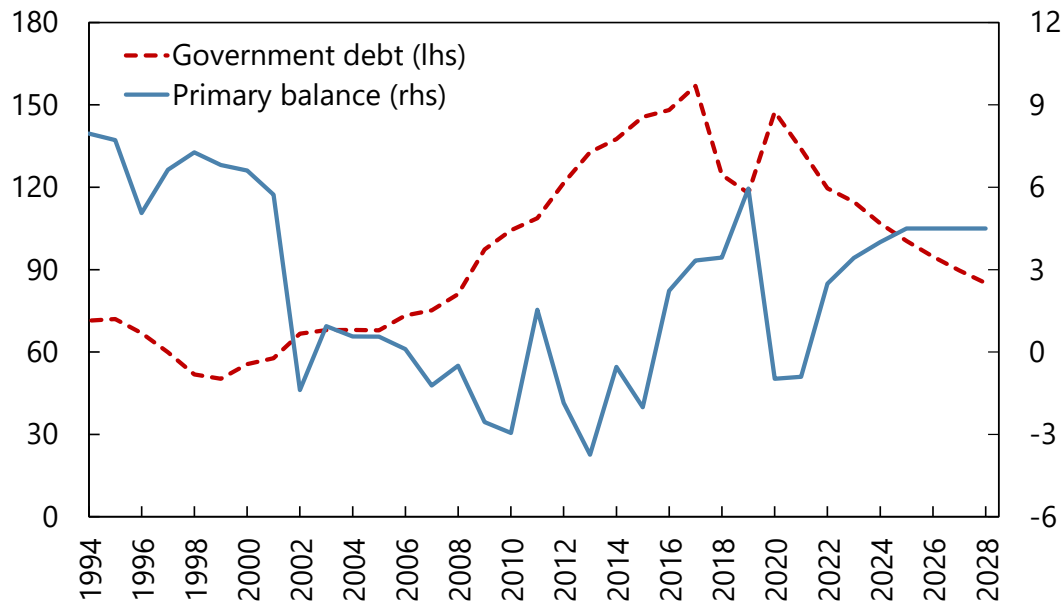
The largest increase in political polarization occurs around the 1991 public sector wage cut.

(Average of survey responses between 0 and 4; Lower figure indicates less polarization)



Source: Varieties of Democracy (V-Dem) Dataset, Version 13.

Figure 12. Barbados: Government Debt and Fiscal Balance, 1994-2028
(Percent of GDP)



Sources: IMF, World Economic Outlook (October 2023) and IMF staff projections.

Note: In fiscal years. Fiscal years run from April 1 to March 31. Figures for 2023-28 are projections from the 2023 Article IV report (December 2023). Government debt on a net basis.

Table 1. Emerging Markets and Developing Economies: Large Sustained (5-Year) Government Debt Reductions, 2000-22

20% of GDP or more		30% of GDP or more		40% of GDP or more	
PAN, 2005-10	21.2 (14.3)	EGY, 2003-08	30.3 (-9.3)	BUL 2000-05	42.5 (12.2)
MUS, 2003-08	21.4 (-0.4)	PRY, 2002-07	30.9 (10.9)	GEO 2002-07	42.6 (14.9)
PHL, 2003-08	21.4 (16.7)	TUR, 2002-07	33.7 (19.8)	JAM 2013-18	44.4 (37.2)
PER, 2003-08	22.3 (15.7)	JOR, 2003-08	34.5 (-7.3)	IDN 2000-05	44.8 (13.7)
ARM, 2002-07	24.0 (-7.6)	BUL 2000-05	42.5 (12.2)	LBN 2006-11	48.9 (12.2)
EGY, 2003-08	30.3 (-9.3)	GEO 2002-07	42.6 (14.9)		
PRY, 2002-07	30.9 (10.9)	JAM 2013-18	44.4 (37.2)		
TUR, 2002-07	33.7 (19.8)	IDN 2000-05	44.8 (13.7)		
JOR, 2003-08	34.5 (-7.3)	LBN 2006-11	48.9 (12.2)		
BUL 2000-05	42.5 (12.2)				
GEO 2002-07	42.6 (14.9)				
JAM 2013-18	44.4 (37.2)				
IDN 2000-05	44.8 (13.7)				
LBN 2006-11	48.9 (12.2)				
Average	33.1 (10.2)		39.2 (11.6)		44.6 (18.0)
N. Episodes	14		9		5

Source: IMF, Global Debt Database.

Note: Excludes episodes associated with an external debt restructuring and major oil-exporters. The columns represent rising thresholds of debt reductions (i.e., more than 20%, 30% and 40%) and the amount of debt reduction (with corresponding cumulative primary balances shown in parentheses). The countries in blue are those that reduced their debt the “old fashioned” way (i.e., with primary balances contributing to most of the reduction). ARM=Armenia, BUL=Bulgaria, EGY=Egypt, GEO=Georgia, IDN=Indonesia, JAM=Jamaica, JOR=Jordan, LBN=Lebanon, MUS=Mauritius, PAN=Panama, PER=Peru, PHL=Philippines, PRY=Paraguay, TUR= Türkiye.

Table 2. History of Partnership Agreements

1979: Electoral Advisory Committee (EAC)

Nonpartisan body established to monitor elections, consisting of representatives of the Electoral Office of Jamaica, each of the two major political parties and civil society.

1989: National Planning Council

Multisector body established to advise government on issues related to national planning.

1997: ACORN

Social dialogue group led by members of civil society.

2003: Partnership for Progress

Initiated by the Private Sector Organization of Jamaica

2008: National Social Partnership Consultative Committee

Creation of National Social Partnership Consultative Committee including representatives of government, parliamentary opposition, private sector, trade unions and civil society groups

2009: National Partnership Council (NPC)

Creation of National Partnership Council consisting of representatives of the government, parliamentary opposition, and other stakeholder groups. NPC engages in respectful, constructive, and sustained dialogue and collaborates on critical national economic and social issues. Established under the operating rubric of **Partnership for Transformation**, the NPC, has operated across successive administrations. It led further to the creation of the following:

2011: Partnership Code of Conduct

2013: Partnership for Jamaica

2016: Partnership for a Prosperous Jamaica

2022: Partnership for Jamaica's Strong and Sustainable Recovery.

Source: Jamaica, Office of the Prime Minister (2024): <https://opm.gov.jm/national-partnership-council/>

Table 3. Events Surrounding Creation and Operation of the Economic Programme Oversight Committee

- 2010:** Jamaica Debt Exchange (January 14-February 3)
Stand-By Agreement with IMF begins (February 4)
Fiscal Responsibility Framework introduced (February 22)
- 2011:** Stand-By Agreement with IMF goes off track and is ended
Prime Minister Bruce Golding of JLP steps down (October)
Golding is succeeded by Andrew Holness of JLP
- 2012:** PNP wins general election in January
Debt/GDP ratio peaks at 144 percent
- 2013:** Economic Programme Oversight Committee (EPOC) created
National Debt Exchange (February 12)
IMF Extended Fund Facility agreement begins (May 1)
- 2014:** Fiscal Responsibility Framework augmented (April 1)
- 2016:** JLP wins election (February), continues with EPOC etc.
IMF Extended Fund Facility successfully completed (November 10)
Precautionary Stand-By Agreement with IMF begins (November 11)
- 2017:** IMF Managing Director hosts High Level IMF Caribbean Forum in Kingston
- 2018:** Independent Fiscal Commission Consultative Body announced
- 2019:** Precautionary SBA with IMF completed (no money drawn); Lagarde praises Jamaica's successful conclusion of program across two administrations and reducing Debt/GDP by 50 percentage points: <https://jis.gov.jm/former-imf-boss-praises-jamaica/>
- 2020:** COVID timeline for reducing Debt/GDP ratio to 60 percent extended from 2026 to 2028
- 2023:** Independent Fiscal Commission established to succeed EPOC (March 7)
Jamaica's debt rating upgraded by S&P to BB- (September)
Jamaica issues first international bond in local currency (November)

Source: present authors.

Appendix Figures. Drivers of Debt-GDP Dynamics for Ireland and Barbados

Figure A.1. Ireland: Drivers of Debt-GDP Dynamics, 1988-94

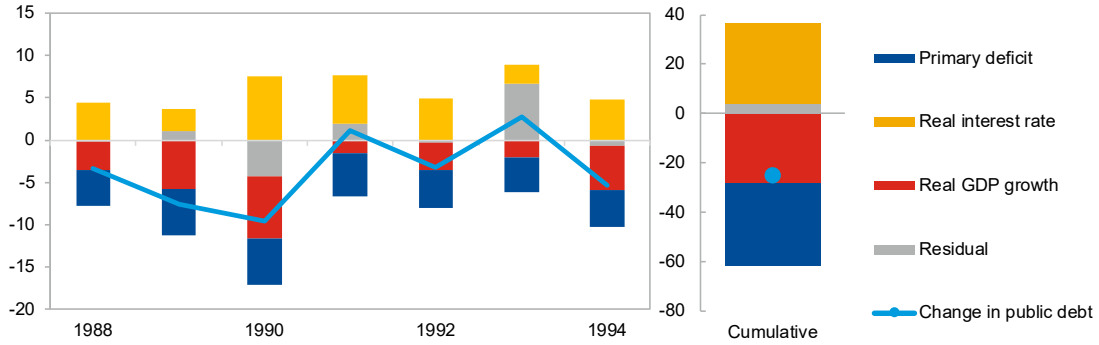


Figure A.2. Ireland: Drivers of Debt-GDP Dynamics Accounting for Real Exchange Rate and Relative Inflation Effects, 1988-94

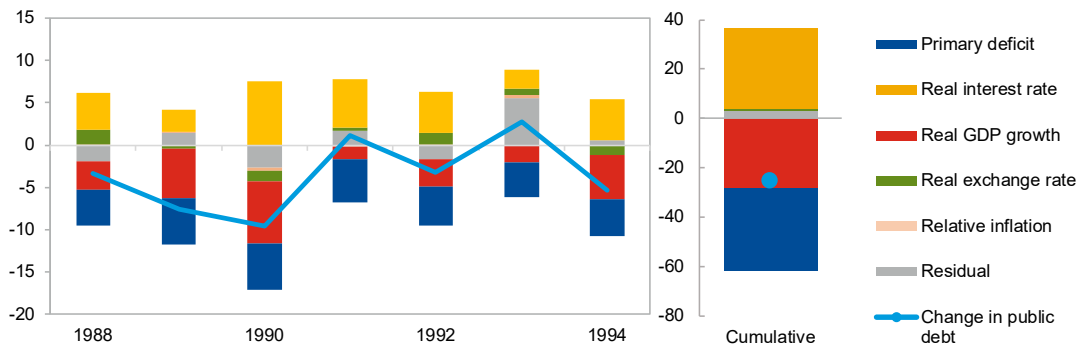


Figure A.3. Barbados: Drivers of Debt-GDP Dynamics, 1995-99

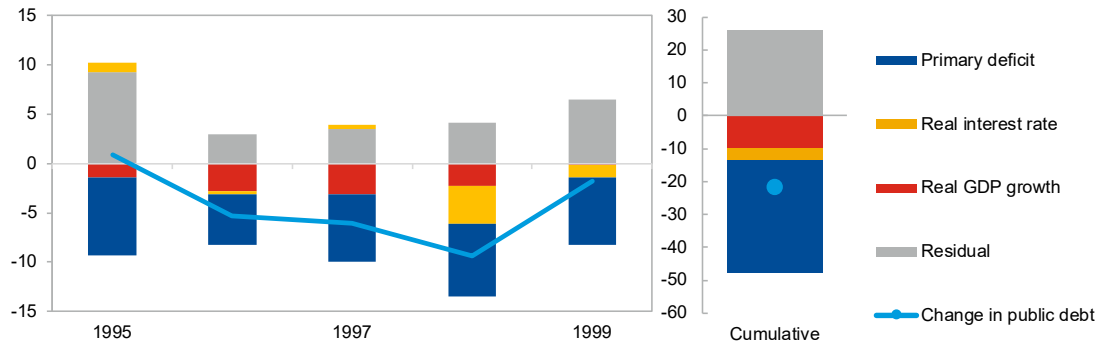
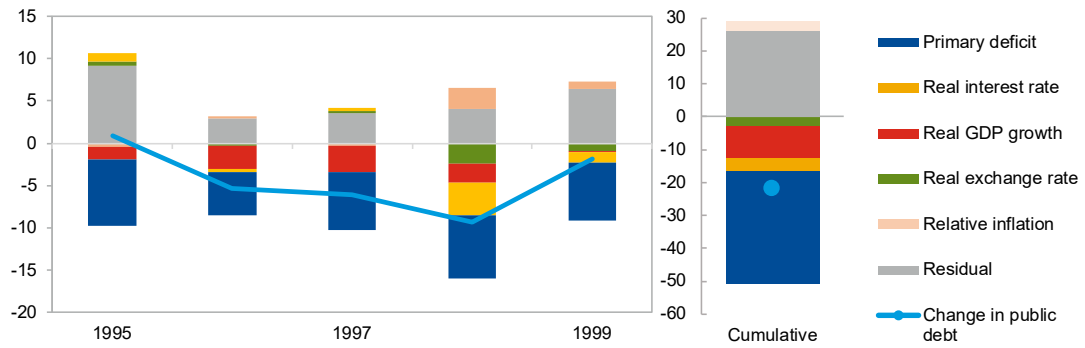


Figure A.4. Barbados: Drivers of Debt-GDP Dynamics Accounting for Real Exchange Rate and Relative Inflation Effects, 1995-99



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