Adjustments, debt and privatisations: what will become of our rights?

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The sale of state companies required by the IMF, the scaling down of the State through mass dismissal of workers, reduction in government spending, the elimination of subsidies to basic services and fuel, cutbacks in wages and salaries, the protection of international creditors through FEIREP and the intensification of the extractive model of overexploiting resources–these are characteristics of the public policy implemented by the national government, following the guidelines of international bodies.

An unprecedented economic and financial crisis

In 1999, Ecuador suffered an unprecedented economic and financial crisis that led to a 7% drop in real GDP, a 200% devaluation of the Sucre (the national currency), a moratorium on the foreign debt, and an increase in poverty to 70% of the population. Official protection of corrupt bankers, freezing of bank accounts, and the implementation of «dollarisation» (adopting the dollar as currency) led to an indigenous uprising, followed on 21 January 2002, by the removal from office of President Jamil Mahuad and installation of his Vice-President, Gustavo Noboa.

The International Monetary Fund's «support» of the «new» Ecuadorian government resulted in the imposition of new structural adjustment measures in the negotiation of the Tenth Letter of Intent. The IMF also posed as a mediator and surety before the international creditors in the renegotiation of the private foreign debt, through the exchange of Brady Bonds for Global Bonds, valued at USD 5 billion and agreed upon at interest rates of 12% and 10% (up to three times higher than the Libor rate in force on the international market). This renegotiation has not led to a drop in the heavy debt burden on the State's General Budget (Presupuesto General del Estado or PGE), as payment of public foreign and domestic debt service[1] represents over 35% of the PGE, vis-à-vis 19% assigned to fulfilling State obligations regarding economic and social rights (education, health, generation of employment and support to production).

Although dollarisation has led to a certain economic stability following the 1999 crisis, this has not generated a substantial improvement of the Ecuadorian economy, but a serious weakening of the country's productive and social structure. The adoption of the dollar as currency is causing non-traditional export products and even those aimed at the domestic market (which are very vulnerable to imports from neighbouring countries that have suffered devaluation) to lose competitiveness. This problem becomes more serious as the interest rate for loans[2] remains high in a dollarised economy.

This can be observed in the considerable growth of imports and in the contraction of exports, contributing toward a trade deficit of USD 600 million during the first half of 2002, estimated to rise to USD 1.6 billion by the end of the year. This figure represents approximately 8% of the estimated GDP for 2003.

The possibility of solving this recession in the productive apparatus depends on an improvement in competitiveness, which would have three components: an increase in productivity (hard to achieve without considerable investment in technology, not forthcoming in the short-term), a drop in internal production costs (particularly labour and tax costs), and particularly important, government support to these sectors (which, in the present context of free trade discourse, seems hard to achieve).

1 Debt service in the budget is approximately USD 2 billion in 2002.

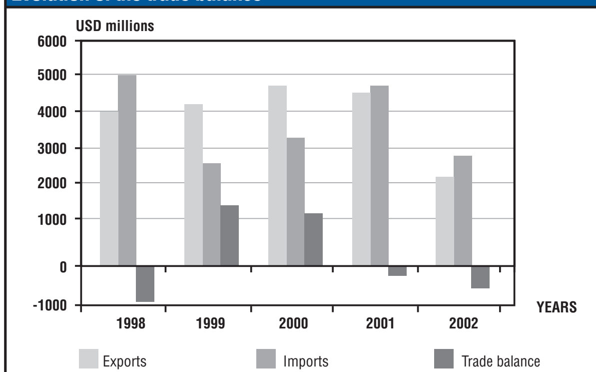
2 The active rate of interest fluctuates between 15% and 20%.

Social impact and perverse priorities

Within this economic context, 40% of the Economically Active Population (EAP) is under-employed, and almost one million Ecuadorians, or 8% of the population, have migrated, most to Spain, Italy and the United States.[3]

CHART 1

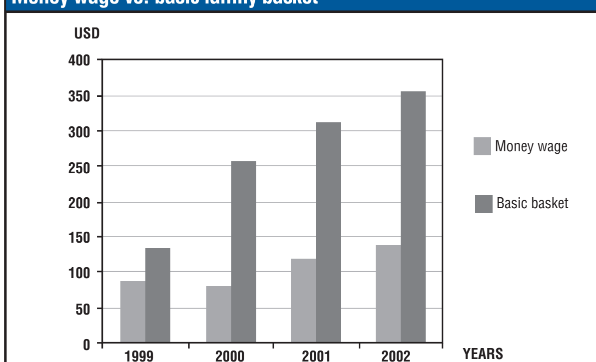
Evolution of the trade balance



Source: Monthly Bulletins of the Ecuadorian Central Bank

CHART 2

Money wage vs. basic family basket



Source: National Statistics and Census Institute (INEC)

3 According to the Migrations Office, 504,203 Ecuadorians left the country between 1999 and 2000. Paradoxically, these migrants generate the second item in the country's income, by sending monthly remittals amounting to approximately USD 1.4 billion in 2001 and are the true pillars of dollarisation.

Furthermore, there is a consumer gap among families, because the average monthly salary in 2002 – USD 140 – is not enough to cover half the cost of the basic family basket, priced in August 2001, at USD 330.

Since 45% of fiscal income within the PGE depends on the sale of oil and its by-products, the State has proposed to increase oil exploitation substantially using private capital, through the construction of the Pipeline for Heavy Crude Oil (Oleoducto de Crudos Pesados - OCP), calling for bids for new oil fields in the Ecuadorian Amazon and the extension of contracts with current oil companies.

In this context, the IMF required promulgation of the Organic Law for Fiscal Responsibility, Stabilisation and Transparency (4 June 2002). This law establishes a limit of 3.5% in real terms of Public Expenditure growth, except for the payment of public debt, and considers the creation of a Stabilisation, Social and Productive Investment and Reduction of Public Indebtedness Fund (Fondo de Estabilización, Inversión Social y Productiva y Reducción del Endeudamiento Público - FEIREP) with tax income generated by OCP as from 2004. These resources will be allocated as follows: 70% to buy back the public debt and to pay the debt with the Ecuadorian Social Security Institute (Instituto Ecuatoriano de Seguridad Social - IESS), 20% to stabilise oil income and 10% for investment in health and education. This clearly shows that the priority of government policies in the use of public funds and natural resources is to pay the debt over social investment.

Furthermore, tax policies are not aimed at creating an equitable system. The weight of value added tax (VAT), an indirect and regressive tax, has increased over the past years, from 1.4% of the GDP in 1983/84 to 8% in 2001, representing over 25% of the State's total income and 51% of the total non-oil income in 2002. Income tax, which is a direct and progressive tax, grew little during the same period and represented 3.2% of the GDP in 2001, equal to 20% of non-oil income and 11% of total income.

Considering that 70% of the population is in a situation of poverty, these figures show a tax system that favours the richer classes and is detrimental to the majority of the population.

Adjusting up to strangulation?

Based on the instability of international oil prices, the restriction in monetary policy imposed by dollarisation, and the tax surplus required by the IMF, the State has justified the sale or concession of public companies (electricity and telecommunications) to generate alternative sources of government income in addition to oil by reducing government spending, increasing oil prices, cutting or freezing wages and reducing the operating costs of ministries. They hope thus to sustain the national budget.

However, this course has a very narrow intention: the government must generate other sources of income to cover the budget and generate a surplus, because oil income is pledged and will be used to pay the debt.

Privatisation of public companies in Ecuador has met with problems: the opposition of trade unions and social organisations and the public perception of corruption and lack of transparency in these processes.

In an attempt to carry out a public auction of the electric companies in April 2002—despite an intensive campaign to convince the people of the advantages of privatisation, the arrival of fresh capital and the benefits of «free» competition—the government was unable to achieve the sale. Despite efforts to implement laws for greater flexibility of the labour market (prohibition of the right to join trade unions, work by the hour, mass dismissals, sub-contracting, etc.), public rates for basic services (Table 1) were increased. Debt was transferred from companies that could be privatised to the Ecuadorian State (as in the case of the electric companies, where the State took on a debt of USD 300 million to «increase» market value). The State changed laws to ensure control of the company by foreign capital (sale of 75% of the public company's shares instead of 51%).

To facilitate the privatisation process, the State was obliged to give «guarantees» to the companies, ensuring profitability through the authorisation to raise the rates of basic services, allowing the establishment of private monopolies, providing tax exemptions (particularly of VAT and taxes on imports of machinery and equipment), relaxing environmental regulations and granting permission for the companies to repatriate unlimited amounts of profits.

The recurring argument of the State that it is necessary for public companies to be efficient and competitive has led to a substantial increase in the rates for basic services over the past years, in an attempt to make them more appealing for sale. Water, gas and electricity rates have increased by 40% per year over the past three years, causing a consequent escalation in prices of goods and services,[4] resulting in very high rates of inflation: 61% in 1999, 97% in 2000 and 23% in 2001. Increasingly fewer Ecuadorians are able to have access to these basic services and to the products of the basic family basket, showing a clear deterioration in the population's quality of life.

TABLE 1

Increase in the price of basic services (energy, gas and water)	
December 1999	34%
December 2000	42%
December 2001	49%
June 2002	28%

Source: Monthly Bulletins of the Ecuadorian Central Bank

The Letter of Intent being discussed with the IMF will seriously fetter the new president, who is to take office in January 2003. Under the premise of government discipline and adjustment of accounts, the out-going government has committed itself to having a primary surplus[5] by 2003 of 6.9% of the 2003 GDP (approximately USD 1.4 billion). This means that the new government will have to «save» 23% of the State's total budget, cutting back on social and productive investment, increasing the rates of basic social services (electricity, water, telephone), and selling public companies. These «savings», according to the law adopted for Government Transparency, will serve to guarantee payment of the foreign debt. By decision of the IMF, negotiations with the out-going government have been suspended and will be continued with the newly elected President.

However, while the business community is pressing for a cutback in production costs, and more assistance and incentives for the exportation of their products and the importation of raw material, most of the population is trapped by an unceasing dollarised inflation and a lack of employment that is obliging more and more Ecuadorians to leave the country.

The privatisation process, the shrinking of the State through dismissal of workers, and the sale of state companies required by the IMF, together with mandated cutbacks in government expenditure, the elimination of subsidies to basic services and fuel, the reduction of wages and salaries, the protection of international creditors through FEIREP and the intensification of the extractive model of over-exploitation of resources—these are characteristics of the public policy implemented by the national government under the guidelines of international organisations like the IMF.

This model, favouring macroeconomic variables, violates systematically and with impunity the economic, social, cultural, and environmental rights of millions of Ecuadorians to a decent life, health, education, a healthy environment and fair and dignified employment. These rights are protected by the Political Constitution of the Republic and by international conventions and agreements that the government of Ecuador and international organisations are obliged to consider, protect, respect and fulfil. ■

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4 The items of water, energy and gas represent 11.1% of the Consumer Price Index (CPI); however, they represent 17.3% of the Producer Price Index (PPI).

5 The primary surplus corresponds to the total government expenditure, minus interest on public debt.