■ COLOMBIA

Who benefits from adjustments, war and the free market?

ALBERTO YEPES P.[1]

For almost 60 years, Colombia had a positive economic growth rate and one of the most stable economies on the continent. The implementation of free market structural reforms, beginning in the early 1990s, led to the sharpest recession and greatest levels of social inequity of the entire 20th Century. These will surely grow even more with the Extended Powers Agreement and Plan Colombia.

Free market reforms

Beginning in the early 1990s, economic liberalisation led to a growing deficit in Colombia's trade balance. The subsequent influx of foreign resources to counter this process resulted in an enormous debt, which in turn created a financial and monetary crisis. The crisis was used by the IMF to justify imposing their control over the main macroeconomic variables through an Extended Powers Agreement, inaugurated at the end of 1999.

The decade concluded with the worst growth indicators of the century, with growth at –4.9% of the GDP in 1999. The average annual income, which in 1994 was USD 2,158, fell by more than USD 100 to USD 2,043 in 2000. The unemployment rate almost tripled in this period, going from 7.6% in 1994 to more than 21% at the beginning of 2000. For those still holding jobs, salaries and labour conditions deteriorated considerably. The imbalance between imports and exports generated a trade balance deficit and an external debt equal to 6.8% of the GDP.

In the decade of the 1990s, agricultural production was practically dismantled, and industrial production was significantly weakened. In August 1991, tariffs were reduced from an average of 38% to 12%. The effect was a drastic rise in agricultural imports, which grew from 700,000 to 7 million tons from 1991 to 1994. Because of this crisis, agriculture's share of the economy fell from 21.5% of GDP in 1991 to 18.7% in 1997. Also, massive imports of manufactured products generated a "de-industrialisation", which led to the closing of five thousand small industries in the short period between 1997 and 1998. Industry's share of GDP fell from 18.7% in 1990 to 16.2% in 1995.

Meanwhile, economic policy, which was oriented toward an "export" model, began to promote specialisation in mining and agricultural raw materials that could be produced at costs below those of competitors.

Redistributing to favour the banks: the Extended Powers Agreement

The external debt grew to USD 34.5 billion in 1999, five times greater than in 1980. In 1998, Colombia paid close to USD 4.6 billion in debt services. This amount is equivalent to 30% of Colombia's income from exports, three times greater than the entire healthcare budget, and more than the total sum spent on education.[2]

In 2000, debt servicing (interest and repayments) grew by 20% and further grew by 29.3% in 2001. The total sum of the debt represents 35% of GDP for 2001: 86% of tax income of 2001 is destined to debt services. This is equivalent to 41% of the national budget.[3]

To ensure continued payment of the debt, the agreement with the IMF establishes that the fiscal debt shall be reduced from 6.2% in 1999 to 1.5% in 2002. This requires that public spending as a percentage of GDP be reduced from 15.6% in 1999 to 13.4% in 2002.

The Extended Powers Agreement between the government and the IMF stipulates that "to help achieve its fiscal objectives, the central government shall exert a strict control over all expenditure other than interest payments." For this purpose, constitutional reforms have even been ordered. The agreement includes severe reduction of social public spending, increase and creation of new consumption taxes and a 4% reduction of income taxes. It also aims toward a reduction of salaries, a higher retirement age, larger pension fund payments, the dismantling of public service subsidies, a fuel price hike, the privatisation of the official bank and the state-owned energy, mining and communications enterprises, and massive dismissals in the public sector.

While imposing austerity on social spending, the central government has spent nearly USD 4 billion (almost twice the total budget for public investment in 2001) for "recovery" of the financial sector in the last two years.

Poverty and social inequalities

The number of people living in poverty by income grew from 51.7% of the total population in 1993 to 61.5% in the year 2000; this represents 4.5 million new poor people in only seven years. In 2000, 49.5% of people in urban areas and 84.9% of people in rural areas lived below the poverty line.

The richest 20% receive 61.5% of the annual income, while the poorest 20% survives with only 2.4% of the income. In 1991, the ratio between the incomes of the richest 10% and the poorest 10% was 52.1. By 1999, it was 80.[4]

Five financial groups control 92% of the assets in the financial sector, 50 economic groups dominate more than 60% of industrial, service, commercial, transportation and agricultural sectors; 1.3% of landowners possess 48% of the land, and just four economic groups possess 80% of the mass media.[5] As a consequence, the Gini index grew from 0.544 in 1996 to 0.571 in 2000.

1 Corporation Region. The author is also a member of the Coordinating Committee for the Colombian Platform of Human Rights, Democracy and Development.

2 Jubilee 2000. *An unscrupulous business.* Report on the Latin American and Caribbean debt, p. 17.

3 21.4 billion pesos (USD 9.5 billion).

4 Estimates of the National Planning Department DNP-UDS-DIOGS, with data from the National Department of Statistics– DANE, SISD. Bulletin No. 26.

5 Sarmiento A. Libardo. "El desplome colombiano" (The Colombian Collapse). In: *Ensayo y Error* Magazine. No. 5. October, 1998, p. 95.

Social and Economic Context – 1996-2000

YEAR	% OF GDP GROWTH	UNEMPLOYMENT RATE	GINI INDEX	POVERTY BY INCOME (%)			HUMAN DEVELOPMENT	
				TOTAL	URBAN	RURAL	HDI	HDI RANK
1996	2.0	11.9	0.544	52.8	42.8	77.4	0.840	49
1997	3.2	12.1	0.555	50.3	39.1	78.9	0.848	51
1998	0.6	15.7	0.563	51.5	41.2	75.8	0.850	53
1999	-4.8	19.5	0.556	56.3	47.2	79.6	0.768	57
2000	2.8	20.5	0.571	61.5	49.5	84.9	0.764	68

Source: DANE, UNDP and estimates from DNP-UDS-DIOGS, SISD. Bulletin Nº 26.

According to UNDP, inequity in Colombia is equivalent to retarding human development by more than ten years.[6] From 1996 to 2000, Colombia fell 19 places in the HDI, from number 49 to number 68. Perhaps most worrying is the stagnation and even deterioration of many of the basic social indicators. In education, for example, UNDP reveals that "Colombia ceased the struggle against illiteracy before it had finished, especially in the rural sector, where adults have the unacceptable rate of 19%."[7] In healthcare, the Human Development Report points out that not only has there been a reduction in basic healthcare spending as a percentage of GDP in 1998/1999, but the vaccination coverage index for children under one year of age has also fallen. In 1996/1999, coverage went from more than 90% to less than 70%.[8]

Plan Colombia: "made in USA"

Social and economic inequity has also favoured the emergence and persistence of an atmosphere of generalised violence. The social and political conflicts, and armed conflict, which the country has suffered for over 40 years, are deepening and widening. Everyday violence and armed conflict cause over 30,000 violent deaths each year. Since 1985, close to 2.5 million people, mainly peasants, have been violently displaced from their place of origin and stripped of their lands. Thousands of families fled to the jungles in the south of the country, where they have found, in the cultivation of tha coca plant, the only possibility for subsistence in the midst of economic disaster and escalation of the armed conflict.

In December 2000, the so-called "Plan Colombia" was put in effect. Plan Colombia was created by the United States government, originally in English, and subsequently supported by the Colombian government with no consultation of social organisations. The United States considers the escalation of conflict in Colombia as a matter of national security and, according to ex-President Clinton, Plan Colombia is a "vital anti-narcotics effort oriented toward keeping illegal drugs off [US] coasts."[9]

Plan Colombia aims to eliminate illegal farming in the south of Colombia in a period of six years at a cost of nearly USD 7.5 billion. The United States is contributing only UDS 1.3 billion of this sum. The Colombian government must obtain the remaining resources from the international community, but it has also "committed to contributing USD 4.5 billion of its own resources in order for Plan Colombia to conclude successfully."[10]

While preaching austerity for the poorest sectors of the population, the IMF supports a new cycle of indebtedness, this time to finance the complementary sum of USD 4.5 billion needed for Plan Colombia. The Colombian government, which does not have this money, has for its part committed to a severe reduction of public programs. According to ex-President Clinton: "Our bilateral aid to Colombia shall be supplemented by the multilateral agencies. The World Bank and the Interamerican Development Bank are considering loans to Colombia for hundreds of millions of dollars. The IMF has already committed to a funding service extending to USD 2.7 billion to help reactivate the economy. And we shall also keep requesting that our allies also help Colombia."[11]

The handing over of Colombian sovereignty to the international financial institutions, and the strengthening of US intervention in its political matters, has and shall continue to have a very high cost. Debt services will continue to grow, the war will escalate, and there will be more displacement of poor southern peasants. Programs for chemical eradication of the illicit crops will continue to destroy the Amazon forest, and the humanitarian crisis and suffering of the population will increase. The US government is determined, despite all its failures, to demonstrate that the consumption of drugs in its own territory can be eradicated by attacking the crops and the supply of illegal substances produced in Colombia. The people who produce these crops are excluded from an economic model that offers them no alternative to its conditions of unequal competition in the global economy in which the northern countries are the great beneficiaries. ■

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6 United Nations Development Program and the National Planning Department. *Human Development Report for Colombia*, 1999. p. XVI.

7 *Ibid.* p. XIX.

8 *Ibid.* p. XXI.

9 President Clinton's Statement on Assistance to Colombia. 11 January 2000. In www.usembassy.state.gov/colombia/wwwhpc05.html

10 *Op. cit,* Footnote 9.

11 Thomas Pickering, Subsecretary of State for Political Matters. Speech before the Andean Development Corporation. Seminar on Commerce in the Americas. 8 September 2000. In www.vialterna.com.co/tpickering.htm