The neo-liberal State: debt, inequality and poverty

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The faithful compliance with the economic recipes imposed by international financial bodies has been carried out through the transformation of the State's role. The result has been more expensive services, weakened agricultural, livestock and industrial productive sectors, the deterioration of living conditions, a widening inequality gap and the acceleration of the debt spiral.

Over the past fifty years, the economy has closely followed the world economic cycle, since its form of international insertion has been based mostly on transport, trade and services. However, it was at the end of the 1980s and beginning of the 1990s that a process of sweeping changes began, in which the State was to be the main actor. Economic performance reflects the strong impulses toward globalisation and liberalisation on a world level and the adjustment policy context that accompany them. These pursue three basic objectives: the privatisation of public companies and services, the elimination of tariff barriers to open up markets, and the increased flexibility of the labour force. At the time, such policies were defined as the only way to overcome poverty and the increasing unemployment manifested during that period. Paradoxically, faithful compliance with these economic recipes, imposed by international financial bodies, has made services more expensive, weakened the agricultural, livestock and industrial sectors, caused a deterioration of living conditions, and significantly widened the gap between those who have more and those who have less.

The State's role in the economic transformation

In fact, six months after the 1989 invasion by the United States and the installation of the government of former president Guillermo Endara, a process of transition from an entrepreneurial State to a free market was initiated. Contrary to the opinions that predicted the State would be weakened or eliminated with the progress of globalisation, this process has made the State more important and has placed it at the service of major transnational companies that need it to maintain the conditions of accumulation and competitiveness, to preserve labour discipline and to increase capital mobility while blocking labour mobility. The so-called «neo-liberalism» means more than the withdrawal of the State from social security, that is to say, the elimination of public expenditure on programmes of social interest and the simultaneous privatisation of social services the State traditionally provided. It is a set of active policies, a new form of state intervention, aimed at increasing profitability of capital in a global internal market and at guaranteeing punctual payment of the foreign debt.

Under this perspective, the plan of the Vice President of the reconstruction government, Guillermo Ford, was implemented, with the objective of transforming the State's function and enabling the free play of supply and demand. The so-called «National Strategy for Development and Modernisation of the Economy: Policies of Restoration, Sustained Growth and Creation of Employment» maintained that the main problem for the Panamanian economy was the excessive intervention of the State. It added, «Panama's economic problems were a product of economic policies developing a philosophy of an 'activist state' instead of a free market philosophy. A productive state was developed, showing itself to be inefficient in investment projects as production operations, while it maintained an antagonistic position towards private enterprise, occupying its natural space. Public expenditure was used for various employment problems, to improve the distribution of income and to promote development through national investment by external funding, increasing taxes on the private productive sector—an economic policy of inward growth was developed to the detriment of exports.»

The document continued, «the economic policy proposed here has the central aim of reactivating the national economy and launching a period of sustained growth that will significantly improve the standard of living of the Panamanian people. Its general objectives are: 1) to increase the levels of employment and productivity; 2) self-sustainable growth; 3) the creation of a system generating more equitable opportunities.» These objectives were to be achieved through the application of three fundamental points: privatisation of public companies and services; opening up markets and labour flexibility.[1]

The privatisation programme is considered a «strategic component of the economic policy» and it comprises several objectives: a) to reduce the number of state entities; b) to transfer public sector activities to the private sector; c) to sell some companies or assets. Specific privatization criteria were also set forth: a) unprofitable companies; b) non-strategic activities; c) activities that are not being efficiently developed; d) activities that could be managed as trusts; e) those with possibilities for partial privatisation.

However, with the political erosion of the so-called «occupation regime» (a result not only of political contradictions, but also of the deterioration of the economy between 1988 and 1989 caused by economic sanctions), Panama suffered a loss in production reaching USD 2,334 million, and a further USD 1,246 million in capital flight, which prevented the regime, during its four and a half years in office, from fulfilling the privatisation programme. Nevertheless, as from 1984, the state economic policy was increasingly adjusted to neo-liberal conceptions and obligations.[2]

The Chapman Plan

Subsequently and with the same philosophical conception, the strategy known as «Public Policies for Comprehensive Development: Social Development with Economic Efficiency» was formulated. It was also known under the name of the Minister of Finance of the Pérez Balladares government, which took power in 1994. The Chapman Plan had the manifest objective of reducing poverty and extreme poverty, in addition to ensuring economic growth through efficiency and productivity. It was during this period that privatisation aspirations materialised, and nearly all the adjustments and privatisation plans were accomplished.[3]

1 Flexibility mainly refers to the adaptation of the organisation of production to market conditions.

2 Enoch Adames Mayorga, «La reforma del Estado en Panamá: procesos y tendencias» in *Acción y Reflexión Educativa,* No. 23, September 2000, Instituto Centroamericano de Administración y Supervisión de la Educación (ICASE), University of Panama.

3 So far the exception is Instituto de Acueductos y Alcantarillados Nacionales (IDAAN), which is still under national debate as it has generated increasing opposition in the light of the ill-fated experience in privatisation of electricity and telephony which have become notoriously more expensive, without achieving greater efficiency in the service, as was argued when they were being privatised.

Regarding the policy for restructuring public companies, the Chapman Plan held that «one of the limitations preventing enhancement and competitiveness of the economy is the inefficiency, unreliability and high costs of public services. To these factors should be added a historical deficiency of public services: expensive and unreliable electricity, scarce safe drinking water supply, deficient telephone services, expensive and inefficient ports, and poor public facilities.» To solve these problems in providing public services, the plan advocated administrative restructuring, the granting of concessions, service contracts with the private sector and outright privatisation.

As from the second half of the 1990s, the government imposed severe structural adjustment measures, overriding the opposition of the majority of the people. A tax and labour reform was introduced that favoured the highest income groups in the country. Legislation was passed to make the work force more flexible and the privatisation of public services was authorised, which immediately resulted in the near dissolution of the national economy and the progressive growth of poverty.

Almost five years after the publication of the document at the end of 1994, several important privatisations have occurred:

- Forty-nine percent of the Telecommunications Institute shares were sold to the Cable & Wireless Panama S.A. Company; the workers kept 2% of the shares and the state retained the rest.
- Law No. 6 of 3 February 1997 was promulgated, in which the institutional regulatory framework was set out for the provision of the public electricity service, permitting private generation and marketing of electricity. This framework enabled the splitting up of Institute of Hydraulic Resources and Electrification (IRHE) into seven private electric energy generating and distributing companies.
- The concession of the ports of Balboa and Cristóbal was granted to the Hutchinson company, and the development of new port sites located on the Atlantic, one to the north of the Port of Cristóbal at the exit of the Canal, and the other in the Province of Bocas del Toro, was granted to the Evergreen and Petroterminales de Panama companies.
- A reform of the Labour Code in force since 1972 was made in 1995. This code, which had been the result of worker struggles, was considered by the business community to be a «very advanced code for the Panamanian situation». The reforms were legitimised by a minority sector of organised workers, while for most of them it was seen to be damaging to the interests of the population as a whole and, on its approval, major demonstrations took place, triggering very violent street disorder.

Proceeds from privatisations generated a Development Trust Fund (FFD), which, by mid-2001 amounted to some USD 1,200 million (16.3% of the GDP and 26.6% of the state budget for the year 2002), generating USD 56.6 million in interest during 2001. The FFD was conceived as a means to struggle against poverty by funding policies and programmes of a social nature. Although by law the principal fund cannot be used, Panamanian society has an important decision pending about its most appropriate potential use from the standpoint of national development.

4 For a more detailed report on this point, see Iván Quinteros and William R. Hughes *Who owns Panama*, Panama, 2000.

5 Marco A. Gandásegui. *Socioeconomic Profile of Panama*, Panama, 2001.

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All these measures, together with others over the period indicated, gave rise to a strong transfer of purchasing power towards the richer sectors to the detriment of the income of the poorer sectors of the population. The structural adjustment measures tended to favour the traditionally strongest economic sector of Panama that was linked to the financial sector and major international corporations.[4] While 68% of the economy in 1980 was concentrated in the service sector, in 2000 the figure had reached 82%. The secondary sector (manufacturing) had dropped from 18% to 10% over this 20-year span. The primary sector (agriculture and stock-raising) dropped from 16% to 8% between 1980 and 2000.[5]

These measures have sharpened inequality. Today Panama is considered one of the most unequal countries in the world; the poorest are very poor and the richest are very rich. Thus, while the lowest quintile (20% of the population) is responsible for 3.6% of the total consumption, the highest quintile consumes 53%. The poorest quintile receives 1.5% of the total income, while the richest quintile receives 63%.[6]

In spite of the relatively high per capita GDP (USD 3,080 in 1997), over one million people (37% of the population) live under the poverty line[7] and of these, over half a million (19% of the population) live in conditions of extreme poverty.[8] In general, poverty mirrors the regional average for Latin America and the Caribbean (37%), but extreme poverty is higher in Panama[9] (16% in LAC).

Half of all Panamanian children live in conditions of poverty and it is among the poor that the highest birth rates are recorded. Fifty-three percent of children under five years of age (over 160,000) and 48% of all minors under 18 years of age (over 500,000) live under the poverty line. Nearly one third live in conditions of extreme poverty. On the other hand, 27% of senior citizens (over 60 years of age) live in conditions of poverty, and 12% in extreme poverty. This smaller proportion of poor old people (compared to 37% of the total national population), points to a lower life expectancy among the poor than among the average population.[10] If we add aging of the population to the increasing pauperisation, the trend is towards an increase in the number of old poor people who lack social security coverage and therefore a considerable drop in the life expectancy of the population as a whole.

Furthermore, the debt has represented a very high percentage of the GDP over the last two decades and amounted to 58.3% in 1999, becoming an extraordinary drain on the state's budget (22.1% in 1999). This drain on the country's finances appears even clearer on considering absolute figures. At the beginning of the 1990s, foreign debt amounted to USD 3,500 million; near the end of the decade (1999) it was some USD 5,568 million The country has paid debt service amounting to USD 5,536 million between 1990 and 1999; that is to say, over the decade it paid up the amount of the initial debt plus USD 2,000 million in interest. However, the debt was not paid nor did it drop. On the contrary, it has grown considerably. ■

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6 World Bank. *Panama: Study on Poverty*. Washington, 2000.

7 The general poverty line is defined as the line of extreme poverty, plus an allocation for non-food items. This allocation is calculated as a proportion of the budget not assigned to food by those individuals having a total consumption near the extreme poverty line.

8 The extreme poverty line is defined as an annual per capital level of consumption necessary to satisfy the average daily minimum calories requisite of 2,280 (estimated by the Institute of Nutrition of Central America and Panama, INCAP, and the Ministry of Health, this minimum represents a weighted average based on the assumption of moderate activity). The annual cost of this minimum calorie requirement amounts to an extreme poverty line of USD 519.

9 World Bank, *op. cit.*

10 *Ibid.*