Adjustment produces redistribution that favours the financial sector

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In December 1999 the Colombian government signed an "Extended Facilities Agreement" with the International Monetary Fund (IMF) to be implemented between 2000 and 2002. Although the public finance deficit is the result of financial debts, not of an increase in social spending, the adjustment programme focuses on increasing taxes and reducing social spending.

The Agreement aims to correct the macroeconomic imbalance affecting the Colombian economy, evident in the external sector deficit and the deterioration in the financial sector. These imbalances came to light when the Bank of the Republic proved unable to control the exchange rate and prevent the flight of private capital, which had been on the rise since mid-1997 owing to the financial crisis in South East Asia and the worryingly high level of indebtedness in the Colombian economy.

The Agreement consists of an IMF loan for USD 2,700 million, which will be released if and when a series of severe fiscal adjustment goals are met. Compliance with these goals is also a prerequisite for the approval of other loans from multilateral bodies, to a value of USD 4,200 million, which in turn have additional conditions attached.

Public debt: a dead weight in the budget

The national debt rose from USD 17,014 million in June 1997 to USD 21,890 million in June 2001. If we add to this the total private debt, Colombia's foreign debt reached USD 35,723 million,[2] double the 1991 figure, which was USD 17,335 million.

In 2002 the Colombian State will have to assign 37% of the national budget to paying interest on the public debt, as shown in Table 1. If payments on local government debt is included, more than half of spending goes to paying financial revenue, indicating that this, and not growth in public sector social spending, is the cause of the public financial deficit. Nonetheless, the adjustment programme focuses on increasing taxes and reducing social spending.

Social security transfers

Social security transfers in Colombia represented further income for the financial sector, since the reforms introduced by the 1993 Law No. 100 made financial intermediaries the receivers of state payments and of workers' and employers' contributions through the pension fund system and private health service providers.[3] According to a report submitted by the *Contraloría General de la República* (General Comptroller of the Republic) to the Health Ministry, these institutions appropriated 40% of the resources assigned by the government to the Subsidised Social Security System.[4] In addition, despite an increase in spending, the government has recognised that 43% of the population does not have any social security coverage.[5]

Public spending: banks first

The national government's spending plan[6] totals USD 28 billion, representing 29.2% of GDP. Its distribution, which is shown in Table 2, reflects the speculative nature of the economy, a public spending policy that prioritises income for national and foreign banks and a patriarchal conception in the management of the state. These tendencies in part explain the increase in poverty and social exclusion, the existence of huge social inequalities and the fact that Colombia has dropped several places further down on the United Nations Development Programme's human development scale. In addition, part of the spending assigned to social development goes towards paying the high salaries of the administrative technocracy, and a significant proportion is wasted through corruption. It is calculated that the losses generated by corruption are seventy-one times greater than the losses generated by the damage caused by Colombia's civil war.[7]

TABLE 1

National Government Expenditure 1991-2000: Share of Spending (%)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Debt service	19.5	18.7	19.8	25.8	18.1	23.2	27.0	30.7	33.4	33.6
Spending on National Security	15.7	14.3	22.9	17.8	21.0	18.9	19.0	17.9	17.5	18.7
Transfers to Social Security	4.4	4.0	6.0	5.9	7.5	4.3	11.7	13.0	11.7	11.2
Transfers to local governments	15.2	12.8	19.5	18.4	19.8	20.6	19.5	18.9	18.0	17.2
Other (investment and other spending)	45.2	50.2	31.7	32.1	33.6	33.0	22.8	19.5	19.4	19.3
TOTAL	100	100	100	100	100	100	100	100	100	100

Source: General Comptroller of the Republic, Budget Performance.

1 The author is member of the Coordinating Team of the Colombian Platform for Human Rights, Democracy and Development. In the analysis of the Agreement with the IMF, the author thanks the economists César Giraldo and Libardo Sarmiento for their analyses regarding the budget.

2 DNP-U. *Macro Indicadores de Coyuntura Económica*. October 2001.

3 The transfers paid by the country rose from 4% of spending at the beginning of the 1990s to more than 11% in 2001.

4 Report of the General Comptroller of the Republic to the Health Ministry.

5 Fourth Periodic Report of the Colombian State to the United Nations ESCR Committee.

TABLE 2

Distribution of the National Expenditure Budget 2002	TOTAL MILLIONS IN COP	PROPORTION (%) BUDGET	PROPORTION (%) GDP
National debt service	22,585,485	37.0	10.5
Regulation, control, national security and war costs	13,293,827	21.2	6.2
Capital Gearing	6,245,027	10.0	2.9
Social Development	20,388,871	31.5	9.5
Environment	170,340	0.3	0.1
TOTAL BUDGET EXPENDITURE 2002	62,683,550	100.0	29.2
GDP (million of COP) 2002	214,439,200		
GDP per capita 2002 (in COP)	4,873,618		
GDP per capita 2002 (in USD)	2,031		

Source: Calculations based on the General Budget Law, 2002

An agreement that protects creditors

The evidence that the fiscal deficit is caused by the financial burden imposed on the national budget by debt was not taken into account in the Adjustment Programme signed with the IMF. Instead of trying to check this tendency by imposing controls on financial speculation and dismantling the dynamics of indebtedness as a strategy for development, the Agreement promotes a deepening of financial deregulation, the elimination of controls on foreign investment and on capital flows, and the obligation to maintain open capital accounts. In this way, adjustment policies become a permanent dynamic in the face of the instability caused to the economy by the loss of control over the swings in capital flows and the shocks caused by speculative capital.

The USD 2,700 million worth of credit from the IMF is not for the country's development, nor is it intended to overcome any current or imminent exchange rate crisis. Rather it is a preventive loan, in the form of an overdraft facility, which assures creditors and investors that the country will have the capacity to pay back their loans in the event of an exchange rate crisis. It provides the financial sector with the additional guarantee that it can count on a cushion of funds loaned by the IMF if a future exchange rate crisis were to use up the country's foreign reserves. The IMF can withdraw its support at any time if the country does not comply with the conditions attached to the adjustment programme — which compliance is being monitored every three months — and moreover, will suspend the loan if the country "is in arrears with its foreign public sector payments" and if "it imposes or intensifies restrictions on payments and transfers of international current account transactions".[8] In other words, if the government takes any measure that threatens prompt payment of the debt service or imposes controls or even minimal restrictions on the free movement of international capital entering or leaving the country, the IMF can suspend the loan.

The Argentinian crisis of December 2001 clearly demonstrates the failure of these preventive formulas, which are being imposed on Latin America supposedly to avoid the region's being affected by financial crises like that which began in 1997 in South East Asia and which subsequently spread to Russia and Brazil.

Redistribution in favour of the financial sector

The Agreement establishes that to achieve fiscal cuts, "the National Government will exercise strict control over all spending other than interest payments". The government must reduce all expenditure other than interest payments or debt service, in order not to affect the profit margins of national and international financial capital. Basically this Agreement represents the formalisation of an agreement made between the Colombian government and the national and international banks to place the nation's resources at their service, with the IMF providing both mediation and pressure, and guaranteeing the interests of international capital.

For this very reason the Agreement with the IMF requires the privatisation of the nation's financial sector, a process which will be closely monitored, since it was expressly agreed that "progress in the implementation of the strategy to restructure the finance sector and privatise the national banks will be monitored in the weekly reviews of the programme".[9]

The misappropriation of social welfare resources

The backing of the IMF requires that the government substantially reduce all spending commitments that do not comprise revenue destined for the financial sector, which makes up more than 50% of the national budget. The Agreement has designed an adjustment programme that is severely contractionist and tax-centred, the primary aim of which is to decrease domestic demand. This programme was strictly applied in 2000 and 2001. Tax Law No. 633, passed in 2000, placed the burden of taxation on consumption, increased the number of persons who are liable for taxes and reduced taxes on capital income. Law No. 549 (on territorial pension funds) and Law No. 617 (on reduction of local and regional administrations' spending) have left tens of thousands of public employees out of work as a result of the restructuring that has taken place at all levels in public administration.

Several measures are awaiting passage in 2002: the reform of the pension system, which increases contributions and retirement age and reduces pension payments, the reorganisation of local taxes to increase local administrators' income, and the finalisation of the process of privatising state banks.

TABLE 3

Indicators of poverty and inequality (1995-2000)	1995	2000
Population below the poverty line (%)	55.0	59.8
GINI wealth concentration coefficient	0.556	0.591
Unemployment rate (%)	8.7	20.8
Human Development coefficient	0.836	0.764
Ranking on the Human Development index	57	68

Sources: Gini and poverty - National Planning Department and *Misión Social*, unemployment – National Department of Statistics; human development - UNDP 1995 and 2000 Reports on Human Development.

However, the adjustment measures have been most drastic with respect to the reduction in resources for health and education needs. To achieve this, the signatories of the Agreement proposed a constitutional reform, which stipulated that the resources allocated to health and education will not increase at the same rate as the nation's current revenues. This reform was passed and entails an annual cutback of COP 1.23 trillion to the year 2008. This means that 2.2 million poor Colombians – equivalent to 23% of current coverage – will be excluded from the Subsidised Health System. Expansion of places for children in public schools will be cut back by COP 1.25 million, with the result that the expected rate of coverage for the year 2010 will drop from 90% to 80%.[10] The IMF and the Colombian government are thus ensuring that two of the most important goals contained in the Declaration from the Millennium Summit, which they agreed to respect, will not be achieved in Colombia.

In the light of these circumstances, the Colombian government's continued claims in international arenas that drug trafficking is the principal cause of social conflicts in Colombia is clearly a crude strategy to postpone the social and economic reforms that the Colombian people have been seeking for several decades. The minority who control the country's political power and wealth are trying to block these reforms by appealing for foreign military intervention, as in the case of the Colombia Plan, or by resorting to an alliance with the international financial community mediated by the IMF. ■

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6 Calculations based on the General National Budget Law, 2002.

7 José Manuel Cepeda. "Nadie nos salvará", in *El Espectador*, 12 August 2000.

8 "Extended Facilities Agreement" signed by Colombia with the IMF.

9 *Ibid.*

10 Iván Jaramillo Pérez. "Recortando el Estado Social", in *Caja de Herramientas*, No. 78, June 2001.