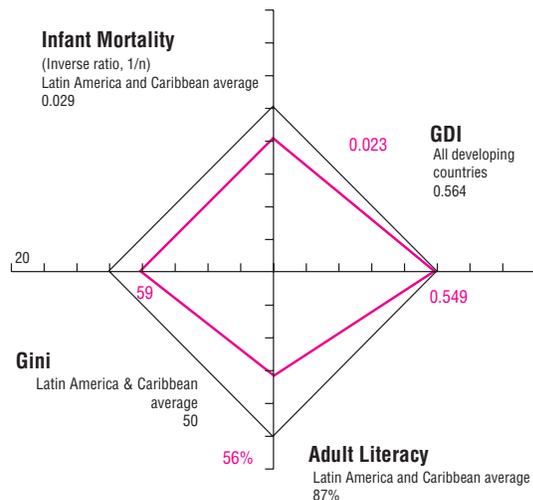


• FERNANDO VALDÉZ



The Equity Diamond: National values in terracotta compared to regional ones in blue.
 Source: **Infant mortality:** UNICEF, *The State of the World's Children, 1998*; **Adult literacy:** UNICEF, *The State of the World's Children, 1998*; **GDI** (Gender Development index): UNDP, *Human Development Report 1998*; **GINI:** World Bank, *World Development indicators 1998*. (The regional average for this indicator was calculated by *Social Watch*).

The most complete information ever gathered on the distribution of income on a world level reveals the inequality that characterises the region. In the nineties, the lowest quintile of salary-earners received only 4.5% of regional income, while the highest quintile received 52.9%. These figures concerning distribution of income are the lowest and the highest, respectively, of all the regions in the world (UNDP, 1998a: p.98).

WHAT IS THE TASTE OF ECONOMIC GROWTH?

The devastating effects of Hurricane Mitch and the tropical depression that followed reconfirm what is already well-known: conditions of extreme poverty hinder the implementation of massive prevention programmes, while the worst damage tends to be concentrated in the vast sectors of the population living in poverty.

In addition to monitoring the Beijing and Copenhagen Commitments, *Iniciativa Social* (Social Initiative) also follows up on the peace agreements signed in 1996 between the guerrilla organisations and the government of President Alvaro Arzú. Although important sectors of the country were not involved in their negotiation, the agreements are, *de facto*, a new political agenda for the consolidation of democracy. The most strategic items on that agenda deal with poverty and discrimination. These must remain on the list of issues of national interest. In an election year, political parties and social organisations must take on these substantive issues to ensure that, whatever the result of elections, they become an integral part of State policies.

In view of their dynamics, the peace agreements cast a shadow over the profile of the Copenhagen and Beijing meetings. Officials interviewed at the First Central American Seminar of Social Watch¹ organisations agreed that attention centres on the peace agreements, but that these are linked to the Copenhagen and Beijing commitments in their content. For this reason it is extremely important to re-launch the Copenhagen and Beijing commitments in 1999 and to seek to associate them with a single social agenda.

SOCIAL SPENDING

Iniciativa Social (IS) monitors the commitments on the establishment of *real* fora for «participation», on social spending for health and education, and on gender education and equity. The government has committed to increasing spending for both education and health by 50% between 1995 and 2000. The peace agreements estimated that GDP would grow by about 6% by 1999, a

1 The Seminar was held in September 1998, thanks to Christian Aid and the Third World Institute.

figure that authorities have already ruled out. The investment goal for education in 1999 was 3,753.8 million Quetzales (approx. USD 1 = Q 6.60), while the allocation is Q3,312.0 million, -11.8% *vis-à-vis* the goal that had been agreed on. The government's commitment for health in 1999 was Q1,923.8 million and, with Q1,934.6 million has been allocated, the goal will have been exceeded by 0.6%.²

Scheduled social spending for 1999 rose ten per cent over 1998, globally representing 45% of the total budget of expenditures and 6.4% of GDP. In 1990 it was only 3.5%, which implies a significant increase. The quality of spending, a key question in itself, does not fall within the scope of this report.³

PARTICIPATION AND REPRESENTATION OF THE INDIGENOUS PEOPLES

As part of the peace agreements, Congress approved a set of constitutional reforms in 1998.⁴ Article 1 of the Constitution, on ethnic issues, was redrafted. The original stated: «The State of Guatemala is organised to protect the individual and the family; its supreme aim is the achievement of common benefits.» The new version became: «The State of Guatemala is organised to protect human people and the family; its supreme aim is the achievement of common benefits. The Guatemalan nation is one and *solidaria*; within its unity and the integrity of its territory, it is pluricultural, multiethnic and multilingual.»

Article 70 was also changed to read: «A law will regulate matters in this section. When administrative measures that may directly affect indigenous peoples are foreseen, these peoples shall be consulted by mechanisms established in another specific law.»

GENDER

In 1998, discriminatory legal provisions were eliminated from the Civil Code and eight articles were revised (109, 110, 115, 131, 132, 133 and 255 were revised; 114 was eliminated). Now they read as follows:

- «Conjugal representation shall be the same for both spouses and not only pertain to the husband.» «Both spouses also have the responsibility for caring for their children»;

- «Conjugal representation may be assumed by either of the parties»;
- «Both spouses shall administer their community property»;
- «Either of the spouses may oppose the other spouse's carrying out actions detrimental to their community property»;
- «Both parents will have patria potestas over minors or the handicapped»;
- Article 114 has been eliminated. This article established that a husband could prevent his wife from carrying out activities outside the home.⁵

ACHILLES' HEEL

Regarding social development, the government's and the system's Achilles' heel continues to be the issue of taxation. The need for a tax pact and a broad national agreement is pressing. **The government of president Arzú has recognised that it will not be able to raise taxes to 12% of the product by the year 2000, in accordance with the very important commitment made in 1996, and hopes that the next government will be able to do so in 2002.**

Evasion represents over 37% of expected income from value-added taxes (VAT) and 56% from income tax. To decrease this rate the government has set up the Superintendency for Tax Administration (SAT), made tax fraud a crime, and eliminated exemptions and exonerations. All of these constitute positive steps forward for the country.

These positive steps contrast with the government's inability to close the gaps that facilitate tax evasion by changing the Income Tax Law. Disagreement between the ruling party and executive and congressional officials obliged the government to withdraw the bill and to support highly questionable peremptory «solutions».

UNDP considers that, in Guatemala, «there is a long history of failed attempts at tax reform... [There is] opposition by unions... lack of State autonomy *vis-à-vis* these interests... an administration of justice finding it hard to apply sanctions, and... an inadequate constitutional framework regulating and severely limiting the State's tax power» (UNDP, 1998a: p. 87).

The subject is serious since «in the words of the Interamerican Development Bank (IDB)» «income is very concentrated», (in this respect, Guatemala is surpassed only by Brazil), and «the size of the government is insufficient to carry out necessary redistribution tasks» (América Latina Frente a la Desigualdad 1998, p.201).

² This data was presented prior to budgetary adjustments imposed by regional natural phenomena. Beforehand, a fall in GDP was foreseen.

³ Between 1986 and 1996, implemented investment was close to 75%. The weakest implementation was in the ministries of the social area. According to UNDP. (1998a, 80) «...the World Bank found that between 1980 and 1995, public expenditure... did not favour basic infrastructure and social sectors. ... investment in health between 1980 and 1990 were an average 58% of those that had been budgeted, and in education 67%, between 1980 and 1995.»

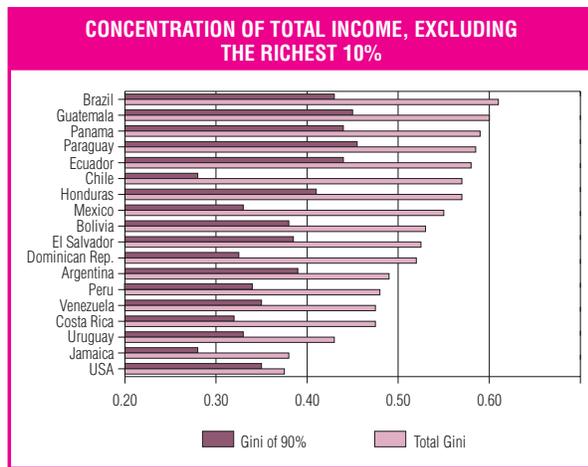
⁴ Subject to ratification by popular consultation.

⁵ Source: *Prensa Libre*, November 1998, P. 6, Guatemala.

In spite of these diagnoses, a pragmatic State reform has been launched that involves voluntary retirement and crude privatisation. The reform is grounded in a short-term vision of the country and a quasi-entrepreneurial philosophy.

IDB recalls that in developed countries, central government expenditure «typically» represents 40% of GDP, while in Latin America «it is around 20%» and it is much lower in Guatemala. The Bank states that:

Distribution of income in Latin American countries in the next century will crucially depend on government action. Governments will not be able to change historical or geographical conditions... or... suddenly alter resource allocations within their economies... But the government can contribute... to changing the channels through which inequality is reproduced (ibid).



Source: IDB based on household surveys.

CHANGES IN FORM OR IN SUBSTANCE?

The world financial crisis and social statistics are making international organisations think. The World Bank states that, in spite of structural adjustments, «the inability to lessen poverty in a quicker and more uniform manner in most of the countries of the region» in the nineties, «would seem to indicate that various factors are affecting the economic growth-reduction of poverty relation-

ship....» And, as if this were a novelty, the World Bank states that «[a] probable factor, increasingly discussed over the past years, is inequality. In simple words, this region is notoriously unequal in terms of income.»

Data supporting this statement is impressive. The most complete information ever gathered on income distribution on a world level reveals the inequality that characterises the region. In the nineties, the lowest quintile of salary-earners received only 4.5% of regional income, while the highest quintile received 52.9%. These figures concerning distribution of income are the lowest and the highest, respectively, of all the regions in the world (UNDP, 1998a: p.98).

The so-called «Washington Consensus»—a sort of general agreement on economic policy—is also under review: «Policies prescribed in the framework of the Consensus... are bearing their fruits.»⁶ «However» the WB recognises, «not only was it hoped that globalisation and “first generation” reforms would increase the rate of economic growth, but that they would also significantly lessen poverty and inequity.»

«It was trusted that capital flow and export growth would promote development of labour-intensive sectors. This did not occur. Worse still, economic insecurity for the poor and the middle class, linked to labour instability and volatility of income, have shown a trend towards growth” (UNDP 1998b, 1).

In the document «*El Pacto Fiscal*», however, ECLAC (Economic Commission for Latin America and the Caribbean) shows that countries in the region are increasingly seeking income through VAT as an indirect tax and less and less from income tax. Marginal individual rates dropped from an average 47% to 28%, and company rates were cut from 43.3% to 35.5%.

For ECLAC, «setting aside of direct tax collection mechanisms has progressed more than is desirable in Latin America. ...In the OECD, 65% of tax collection corresponds to direct taxes (four-fifths from personal income tax), while in Latin America, taxes are only 25% of collections (mostly from company income)» (p.1-13).

In light of the gross concentration of income in the region, the IDB has every reason to ask itself, as it did in its 1997 report: «Was the (structural) adjustment worthwhile? ... The whole region is now questioning the effectiveness of the reforms» (1997, pp.35-37). But are these institutions really changing?

The 1998 Nobel Prizewinner for Economics, Amartya Sen, a prolific Harvard professor, recently wrote that the existing correlation should be sought between economic productivity and education, food and health, that is to say, economic policies should be correlated to social policies:

...Some of the effects of social consumption, including education and health care, go beyond economic productivity and immediate welfare... Education and remunerated

6 These consensus, in the sense that they had been applied in a more or less comprehensive manner in all the countries, refer to tax discipline, prioritization of public expenditure on education and health, tax reform, positive interest rates established by the markets, competitive exchange rates, free trade, opening up to foreign investment, privatization, de-regulation and to a lesser extent, protection of private property.

jobs for women may specially affect the reduction of inequality... a central element of underdevelopment in many places... School training (particularly that of women) and basic health care may significantly affect fecundity and mortality rates...in addition to having considerable potential effects on the welfare and freedom of individuals during their life.

WHAT IS THE TASTE OF ECONOMIC GROWTH?

It is time for our peoples to taste its fruits.

In the name of the «trickling down» of benefits theory—at the end of the Twentieth Century, Guatemala has experienced no «trickling down» yet—economic, social and tax policies were imposed. The people of Guatemala did not taste the announced fruits of these policies, which only deepened poverty. We hope that, as the century draws to a close, and in view of overwhelming international evidence, internal socio-political environments will be promoted that are favourable to development—with—equity.

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- **INICIATIVA SOCIAL** comprises **AVANCSO, ASINDES, CECMA, BEIJING COMMITTEE, FACULTY OF ECONOMICS, USAC and IN-IAP**