

## Between stagnation and inequity

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Economic stagnation, tax deficit, scant public investment and inequitable and inefficient social expenditure are conjoined in a context of increasing poverty, unemployment and underemployment and persistent gender inequality.

### A recesive scenario

For the third year running, Paraguay's economic growth will be approximately 0.5%, far below the population growth rate of (2.5-3%) and below the 2% growth rate projected at the beginning of 2001.

This lack of dynamism in the economy stems from a decline in importance of traditional crops and from a drastic reduction in triangulation trade. Only 2% of Paraguayan exports are rated as high or medium technology products. Fully 85% of exports come from the primary sector with little or no added value.

According to the Central Bank of Paraguay, the GDP in 2000 was PYG 26,920,974 million (current currency), equivalent to USD 7,727 million. The *per capita* GDP, which had decreased gradually since 1998, was USD 1,406, one of the lowest in the region.<sup>1</sup>

In 1999, Paraguay devoted 8.2% of GDP, or 28.9% of total public expenditure, to social services. The amount going to basic social services was only 2.4% of GDP. In the period 1995-98, GDP devoted to basic social services (education, health and sanitation) represented 2.12%. Of this total expenditure, 79.1% went to basic education (USD 33 *per capita*), 18.8% to public health (USD 8 *per capita*) and the remaining 2.1% to drinking water and basic sanitation (USD 1 *per capita*).<sup>2</sup>

### Employment and under-employment on the rise

In 2000, of an economically active population (EAP) of 2,560,608 people, 35.2% was employed in agriculture, animal husbandry, hunting and fishing.<sup>3</sup> This shows a relative importance of the work force in the primary sector.<sup>4</sup> Fifty-two per cent of the EAP works in the service sector, representing 52% of the GDP.

The Paraguayan economy depends largely on independent labour, in which self-employed workers predominate (36%), followed by non-remunerated family workers (15%) and employers or bosses (6%).<sup>5</sup>

1 Central Bank of Paraguay. *Boletín de Cuentas Nacionales*. Asuncion. 2001.

2 United Nations System. *Visión Conjunta de la Situación Paraguay 2001*. Asuncion, 2001. p. 19. USD equivalents are calculated in 1996 exchange rates.

3 General Statistics, Surveys and Census Office (DGEEC), *Encuesta Integrada de Hogares 2000/2001*, Fernando de la Mora, 2001.

4 *Ibid.*

5 Gladis, Benegas. "Derecho al empleo". In *Informe Derechos Humanos en Paraguay 2001*. Asuncion, CODEHUPY, 2001. p. 366.

The unemployment rate for the EAP was 7.3% in 2000. This was an increase from 1999, when it was 6.8%. Broken down by sex, the unemployment rate is 6.6% for men and 8.4% for women. The rate of participation in economic activity is significantly higher for men (79.1%) than for women (49.0%). This indicates gender inequity in the labour force: fewer women participating in economic activity and a greater proportion of unemployed women.

According to the DGEEC (General Statistics, Surveys and Census Office), underemployment grew from 17.6% in 1999 to 21.6% in 2000, reflecting the economic stagnation that has prevailed in the country since 1996. Underemployment in the urban area increased due to the increase in the unemployed by income and hours worked, and in the rural area due to an increase in the unemployed by income, as seen in Table 1.

TABLE 1

	1999		2000	
	URBAN	RURAL	URBAN	RURAL
Visible underemployment (%)	5.3	7.1	8.2	9.9
Invisible underemployment (%)	12.2	10.5	15.1	9.6
Total underemployment (%)	17.6	17.6	23.3	19.5

Source: General Statistics, Surveys and Census Office (DGEEC, 2001).

### Women's participation in the labour market

The Integrated Household Survey for 1997-98 data show a greater participation of men in the labour market: 74.4% versus 41.4% for women. This trend is maintained in urban and rural areas: 73.5% versus 48.6% in urban areas and 75.6% versus 31.4% in rural areas.

In Paraguay, the rate of employment doubles among workers with a higher education relative to those who do not have education. This effect is greater for women as they pass from secondary to higher education: in urban areas, employment among educated women increases from 53.5% to 80.4% and in rural areas, it increases from 37.6% to 85.3%.

EAP classification by occupational groups shows the difference between men and women regarding behaviour of the labour market. In urban areas, women are concentrated in personal services (domestic help: gardeners, maids, cooks, nannies, etc.), trades, sales and similar occupations and men are distributed over a wider spectrum of labour options. This confirms that professional segregation exists in Paraguay.

Unequal income favouring men is shown more clearly in urban areas, where women earn on average 74% of what men earn. The income gap varies according to type of activity. In personal and communal services, where 43% of women workers are concentrated, women earn on average 61% of what men earn.

### Gender inequality

Regarding access to power, there are serious conditions of discrimination. Women hold only 15.8% of government posts. Women hold only 8% of parliamentary seats, 12% of leadership posts in political parties and 9.7% in social organisations.

Progress has been made in the participation of women in school enrolment, but the illiteracy rate for people age 10 and above continues to be higher for women (10.7%) than for men (7%). The average number of years of study for people age 25 and over is almost equal at 6 and 6.5 years respectively.<sup>6</sup>

### Public expenditure, social expenditure and tax deficit

Between January and November of 2001, the government collected taxes amounting to USD 554 million. Over the same period, it allocated a total of USD 655 million for payments to active and retired civil servants. Taxes covered 84% of these payments, with the remainder paid by funds from trade and royalties from the bi-national hydroelectric companies (Itaipú and Yacyreta).

Defence spending in 2001 was PYG 262,493 million (approx. USD 57 million) of which 83.1% was allocated to Personal Services (salaries, allowances, bonuses, etc.). The budget for the armed forces increased by over 400% between 1989 and 2001.<sup>7</sup>

The consolidated non-financial public sector had a 20% share of the *economic pie* in 1989. This share increased to approximately 30% in 1997, showing the accelerated growth of the public sector participation in the economy over the past decade.

In 1999, government operating costs including wages, salaries, compensations, and daily expense allowances grew in real terms by 15%, while the GDP grew by only 1%. The state pension system collapsed from lack of funding. In 1998, the deficit was approximately USD 100 million and in 1999, it was PYG 381 billion (USD 110 million).

Royalties from the Itaipu hydro-electric power project have had to be allocated to the government's fixed running costs (such as salaries and pensions), to the detriment of investment. Public investment always suffers when funds are in short supply. Sixty-three per cent of public investment is financed by foreign savings, 19% by company savings, 17% by government savings and 1% by family savings.

The capacity to generate domestic savings as a source of Gross Domestic Investment has deteriorated since 1989. Foreign savings in 1999 amounted to 16% of the GDP while domestic savings for the same year were -2% of the GDP. This implies that over that period, Paraguayan homes became indebted in order to consume. This is a serious matter and a major effort will have to be made to reverse the process.

In terms of income, a decreasing trend is observed. In 1998, the deficit was approximately PYG 500 billion (USD 178.6 million), which was covered by issuing treasury bonds and increasing domestic indebtedness. In 1999, the central government's deficit represented 3.5% of the GDP.

Current income is 14.8% of GDP and public debt is 2.1% of GDP. Current expenditure rose by 8% over the last three years in relation to the GDP and tax income fell by 6%.

In 2002, salary payments to civil servants and payments on foreign debt capital and service will amount to 95% of state income for that business year.

### Foreign debt and public expenditure

Paraguay's foreign indebtedness is lower than in the rest of Latin American and lower than in other developing countries in general.

Foreign debt, amounting to 32% of the GDP in 1990, was reduced to 28% in 1999. In 2000, the public debt balance of USD 2,223 million increased by USD 52.9 million. Royalties from Itaipu and Yacyreta were used to pay 99% of the public debt service.<sup>8</sup>

### Rural poverty and children's poverty

According to data from the Permanent Household Survey for 1999,<sup>9</sup> 33.7% of the population (1.9 million people) lives with an income under the poverty level. Of this number, 876,000 individuals (46%) live in extreme poverty, *ie*, their income is not sufficient to cover their basic food needs.

Poverty is distributed differentially among the urban and rural zones: six out of ten poor people live in rural areas. Poverty particularly affects children and adolescents: 937,000 boys and girls, 42% of the total population between the ages of 0 and 14, lives in poverty, that is to say a greater proportion than the total poor population of the country (33.7%). Furthermore, 63.2% of Paraguay's children between 0 and 6 years of age show at least one unsatisfied basic need.

Finally, regarding aspects of efficiency and equity in social expenditure, despite efforts to assign more resources, neither of these aspects has improved regarding basic social services. ■

**We decide, Campaign for Citizen Expression**  
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6 Technical Planning Secretariat, *Diagnóstico Sociodemográfico del Paraguay*, Asuncion, 2000.

7 Newspaper *ABC Color*, Asuncion. 30 May 2001, p. 14.

8 *Noticias El Diario*, Asuncion, 17 September 2001, p. 23.

9 DGEEC, *Encuesta Permanente de Hogares 1999*, Fernando de la Mora, 2000.