

Macroeconomic growth and social exclusion



More than half the people are still living in poverty, but what the State invests in poverty alleviation programmes amounts to less than private remittances from Peruvians living abroad. There has been macroeconomic growth but no significant increase in development, and inequality, violence, destitution and discontent are rife. Tax policy favours the big enterprises since the main burden falls on production and consumption.

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Héctor Béjar

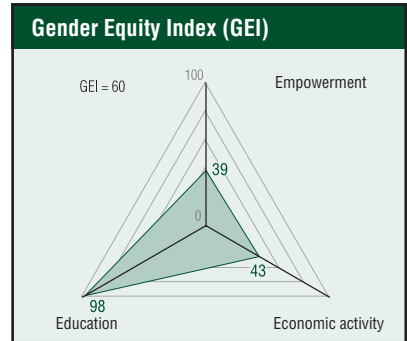
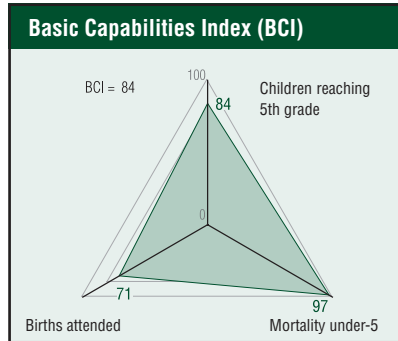
On the face of it Peru enjoyed excellent macroeconomic performance between 2001 and 2006, the period of President Alejandro Toledo's administration. Average annual growth in these years was 6%, which has raised GDP to USD 75 billion, while the annual inflation rate was less than 4%. The country's currency reserves increased from USD 8.2 billion in 2001 to USD 15 billion in 2005, and exports rose to USD 14 billion in 2005, creating a surplus in the balance of trade of USD 2.7 billion¹ in that year.

Although the economy grew 14% between 2001 and 2004, poverty only decreased by 2.7 percentage points, from 54.3% to 51.6%. Official sources show that extreme poverty fell by only 4.9 points, from 24.1% in 2001 to 19.2% in 2005 (INEI, 2006), but even this slight decrease has been called into doubt as independent research does not bear out the Government's estimates.² But even if we accept these figures, and even if the improvement continues at the same rhythm, there would have to be at least 50 years of sustained economic growth – fuelled by big increases in the prices of Peruvian raw materials on the international market (as is happening now) before poverty disappeared.

While Peru does have good macroeconomic indicators, the other side of the coin is that the country is almost overwhelmed by social problems. The cities and rural areas are plagued by under-employment, insecurity, violent crime, drug abuse, corruption at all levels, a chaotic transport system, environmental pollution and other symptoms of a deteriorating society, and this is damaging people's quality of life and their rights.

The reasons for this paradox

Why is it that a country that is apparently enjoying good macroeconomic growth should at the same time be suffering a fall in the level of people's well-



being? The explanation for this paradox can be traced directly to the nature of Peru's growth and how it is organized in the country's economy.

First, there has been an increase in speculation in international prices and the production of raw materials like gold and copper. These are sold in bulk by transnational corporations that give almost nothing in exchange, a system that has been in operation for centuries. The price of gold has soared from USD 250 an ounce (24 grams) in October 2000 to more than USD 500 an ounce today, and the price of copper has risen to USD 2.64 per pound (460 grams), which amounts to an increase of 77% in the last twelve months. Every year Peru exports 2 million ounces of gold.

The enterprises that exploit these minerals have tax privileges. According to an estimate by the National Tax Administration Superintendent's Office, in 2002 the Government did not collect some USD 300 million as a result of tax stability conventions, asset depreciation allowances and discounts on future tax payments. Taxes on production and consumption yield three times as much as the amount of profits tax that, according to their own estimates, the big enterprises have to pay. In Peru, the tax rate on income for private citizens is higher than that for legal entities. In 2004 the mining enterprises paid only PEN 989 (USD 300 million), in taxes on their income. In the 2000-2003 period, the hydrocarbon sector, which is rated in the third income tax category, paid an average of PEN 9.7 per PEN 100 of production (measured by GDP), while mining enterprises paid only PEN 3.5 per PEN 100 of production (SUNAT, 2002).

Tax stability contracts can in some cases reduce taxable income by 80%, allow profits to be sent abroad untaxed, exempt products from the

general sales tax, and allow the double depreciation of assets and currency, which means that less tax is actually paid. Remittances of profits to foreign enterprises (income from capital) came to USD 3.2 billion in 2005 (Campodónico, 2005).

While the corporations suck resources out of the country and send them to their head offices, people who have emigrated send money home to their families in Peru to alleviate their economic plight. Around three million Peruvians out of a total population of 27 million live abroad, and they help their families financially. The total of these remittances is far more than the State invests in poverty alleviation programmes. An annual average of USD 2.5 billion flows into the country, and it goes to 10% of the population. This figure is equal to 10% of exports, or 1.7% of GDP. On average, each family receives USD 166 nine times a year (Fomin, 2005).

Why Peru is in debt

The State has a permanent deficit, and this will continue unless there is a reform in the tax system to annul the privileges that are an important part of the so-called neo-liberal model. According to the 2006 public sector budget, the accounting deficit fluctuates around 1% of GDP, but the real deficit, that is to say the difference between what is collected in taxes (USD 10.3 billion) and expenditure (USD 15.9 billion) comes to nearly USD 6 billion (MEF, 2006).

This shortfall is covered by increasing public indebtedness. Peru is a debt addict. Foreign indebtedness to multilateral bodies (the International Monetary Fund, the World Bank, the Inter-American Development Bank) is saturated and cannot be re-financed, so in 2001 the country started acquiring domestic debt through so-called 'sovereign

1 Ministry of the Economy and Finance, Presidency of Council of Ministers.

2 If, instead of measuring the capacity of homes to buy the basic basket of foods, the apparent consumption of calories per household is measured directly, it emerges that the proportion of the population in the capital city with an insufficient intake of calories jumped from 18.7% in 2001 to 29.8% in 2003 (Herrera, 2004).

bonds' (treasury bonds), that are bought on the domestic stock market by the private pension funds (AFPs). These organizations use money that savers are legally obliged to deposit with them as a percentage of wages or salaries, but the savers themselves have no control over how their contributions are used. In 2005 public debt stood at USD 31 billion, or 39% of GDP, and debt servicing payments exceeded USD 3.4 billion, or 26.7% of the public sector budget. In 2000 total foreign debt was USD 24.3 billion, so between 2000 and 2005 it increased by USD 6.7 billion, or 27.6%.

The neo-liberal economic model has been very good business indeed for the international corporations, but it has been very bad business for the country.

Between 2001 and 2006 Peru allowed USD 3.2 billion to be sent abroad to tax-free enterprises, and another USD 3.4 billion went in foreign debt service payments. In exchange the country received USD 908 million in credits (foreign indebtedness acquired in 2006), and much of this new credit was conditional on compliance with the neo-liberal programme. To make matters worse, the country has also had to incur domestic debt at the same time.

The rise in public spending might have been expected to translate into increased social investment, but this has not been the case. In 2005, some 45% of the budget went on current expenditure, 26% on servicing the foreign debt and 14% to the pension fund that the State had to pay to ensure that the AFPs would be able to make use of the savings of future pensioners without having to pay current pensioners. Only 15% was allocated to education, 7.9% to health and sewage facilities (in both cases a large part of the total went on current expenditure, salaries and wages) and 13% to capital costs, that is to say public investment. Social expenditure did not increase in line with the growth in public sector spending, in fact it remained almost unchanged in the 2001 to 2006 period. The same applies to poverty alleviation programmes, which were allocated only USD 361 million out of a total budget of USD 15 billion.

An unjust model

In 1992 President Alberto Fujimori tightened his grip on power in a so-called "self-coup" and his new administration closed Congress, suspended civil rights and imposed a new Constitution tailor-made for the big enterprises. The resulting economic model allowed these enterprises to buy up large slices of the country's assets at laughable prices and seize monopoly positions in the only profitable areas of the economy, namely the distribution and sale of electrical energy, telephones and communications, and the mineral extraction industries, above all copper and gold. Since then these enterprises have all operated with total disregard for environmental protection standards, they pay almost no taxes and they take their profits out of the country without any kind of control. The Free Trade Treaty with the United States will entrench this situation and rule out any kind of future call for redress.

The government is in deficit because it is unable to levy effective taxes, so it has had to resort to

indebtedness. Tax pressure is not heavy, it amounts to only 14% of GDP (the average in Latin America is 18%), and it is mainly exerted through the General Sales Tax. This is an indirect levy so it is consumers who have to finance the government. Thus the government is putting the tax burden on the public while at the same time it openly defends the high rates charged by private providers of public services such as telecommunications and electricity. Besides this, enterprises are currently putting heavy pressure on the Government to privatize the provision of potable water as well.

The country is borrowing funds from multilateral bodies, which are taking advantage of their role as lenders to reinforce the conditions of the neo-liberal economic model by promoting privatization and tax exemption policies. Domestic indebtedness is effected through treasury bonds that are bought by the AFPs with money deposited by savers. In this way the AFPs have now accumulated USD 8,000 million, and the total is increasing every month thanks to forced saving. This money is used by domestic and foreign enterprises, and the "investors" have no say at all in how it is managed and no share in the profits.

The Toledo government has legalized a practice that was employed by the Fujimori administration; it has granted the Peruvian Chamber of Construction – the association of private construction companies – control over the National Housing Fund, which amounts to USD 500 million in public and private employees' savings. This money is used to build housing for the middle and working classes, and these housing units, whose average construction cost is USD 8,000, are sold by private banks and construction companies at an average price of USD 50,000.

Sweeping it under the carpet

There is no debate in the media about the neoliberal programme; it is simply accepted as the only possible way to do things. The mass media point to GDP growth and talk of economic progress, but what is really growing are export prices and business profits. This growth does not rebound to the benefit of the majority of Peruvians or improve their quality of life.

The press also trumpets the defence of democracy, but more and more people are coming to see Congress merely as a lobby for enterprises, and ministers are seen to be promoting business interests instead of pursuing the well-being of the population as a whole. The media seem to have been captured by economic power and it is conducting an ongoing campaign to demonize any opinion that challenges the prevailing neo-liberal economic doctrine. This underpins a situation that is unbearable for more than half the population of the country and which openly benefits consumption by the minority that controls the wealth.

Where are the resources? How can they be mobilized?

With this panorama there is no prospect of any real reduction in poverty unless there is a radical change in economic policy. Changing the model would involve implementing tax reform so that the large en-

terprises actually pay taxes, and these resources could be used to support small urban enterprises and agriculture, which are the main generators of employment. Government finance should be based more on direct taxes on wealth than on indirect taxes on consumption. The public sector budget ought to be thoroughly reformed to give priority to investment in education and health, and a universal social security programme should be set up so that the benefits that the State "so generously pays" would become rights that the State satisfies in the form of social programmes. The different health services ought to be coordinated into one single organization, and the service could be improved and its coverage widened through use of the Public Health Fund, which should be based on a reformed tax system. Lastly, there should be a reform of the State so as to open the door for citizens' organizations to participate in local and regional government.

Civil action

Over the last few years civil society organizations have been trying to bring these questions to the fore under the banner of "putting the economy at the service of the people". Some progress has been made. There is now a National Agreement involving enterprises, churches, unions and political parties that has resulted in the formulation of 31 State policies that respond to a shared concern for social policy. Through the technique of participative taxation, important sectors of civil society have gained access to formulating priorities for public investment. There are now more than a thousand coordination committees for the fight against poverty that bring together representatives from the Government, the churches and civil society in all parts of the country to plan local public investment in social development. But the struggle is complex and there is still a long way to go before there can be any hope of real change. Grass-roots social organizations ought to muster their strength in order to lead the way in building a real democracy from the bottom upwards.

Outside the political parties, there have been many instances in recent years of people mobilizing against different manifestations of the neo-liberal programme, and sometimes these have managed to put the Government in check and paralyze the timetable for privatization, at least for a while. In the last presidential and congressional elections there were two candidates campaigning for economic and political change and they received massive popular support.

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PERU

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But the road ahead is still long and difficult. There has been some progress and there is a climate of rejection for the economic and political system, but the movements for concerted action that have sprung up are lightweight compared to the whole framework of economic, coercive and symbolic power that perpetuates a system that is unjust and intolerable for the majority of Peruvians. ■

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PHILIPPINES

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Additional sources of financing

Social Watch Philippines does not limit itself to exposing problems in financing for social development. It has analyzed the budget rigorously and has identified specific expenditure items which can be utilized for social development, such as the special purpose funds of the President, the unprogrammed funds in the budget, and the pork barrel allocations to legislators. It has also proposed revenue sources other than regressive taxes, as well as measures to improve revenue administration. At present, it is working closely with selected legislators towards a more people-oriented budget. It continues to monitor the country's debt and works with the UNDP on feasible solutions.

The Philippines' financial problems are formidable. Social Watch Philippines continues to campaign for the interests of poor Filipinos through mass actions, information campaigns, rigorous research and the formulation of viable alternatives. ■

ROMANIA

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Since 2005, NGOs have been involved in the process of developing a Romanian platform of non-governmental development organizations (NGDOs), within the framework of TRIALOG, a project of the European NGDO platform CONCORD (the European NGO Confederation for Relief and Development). Throughout 2005 and 2006, NGOs were involved in the elaboration of the National Strategy for Development Cooperation drafted by the Ministry of Foreign Affairs (MFA).

The priorities for NGOs in this respect are to ensure that the Government meets its commitments with regard to ODA expenditure levels, and that ODA spending is based on genuine partnership with communities in the beneficiary countries, addressing their specific needs and respecting their concerns. Another focus is on building capacity for civil society to become more aware and to engage more actively in the field of international development and humanitarian aid. Due to the lack of previous interest in this area, a considerable amount of effort has to be dedicated to increasing public awareness through development education campaigns. ■

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SPAIN

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It is clear that Spanish trade policy is still operating exclusively to promote the interests of Spanish enterprises and strategic sectors, and this leaves little room for manoeuvre when it comes to adopting policies to support the Southern countries in line with agreed plans for international cooperation. Probably the biggest challenge facing the Spanish government in this sphere is how to change this trade policy, but it has to be changed because this is the only way Spain can progress from cooperating in development to actively fostering development.

Conclusions

The Spanish government has made an economic contribution to international cooperation for development, and it is increasingly showing signs that it will back up its declared political intention to help the countries of the South. This is certainly an improvement on the policies of previous governments and it is a good sign, but not enough is being done.

What is needed is a courageous and far-reaching reform in foreign policy so that the extremely urgent needs of developing countries will no longer be subordinated to Spanish economic interests, and this involves a lot more than mere political posturing or a percentage increase in the development cooperation budget.

The present government has raised high hopes not only among civil organizations in Spain but also on the international stage. Now it is time to move on from gestures and take real effective action. If development is to be fostered, there is still a lot to be done in spheres like agricultural, investment, trade and development policies. And this applies not only inside the country but also in the international ambit, where Spain has the opportunity to follow through on her commitments and pull her European partners in the same direction. This is the least we might expect from one of the members of the Quintet Against Hunger and Poverty.² ■

2 A joint initiative on the part of Brazil, Chile, Spain, France and the United Nations aimed at cutting poverty indicators by half before 2015.

THAILAND

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Civil society's proposals

There should be public participation in the budget process at all levels. People must be provided with more information and increasingly take part in national financial management. At the same time, horizontal networks of financial management for public welfare must be expanded in earnest.

Every effort should be made to promote a widespread and effective social welfare system, as well as the passage of the National Health Security Act to ensure that all Thai people will be equally entitled to health services. ■