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Panama's Social Security Collapsing, But Population Rejects Reforms

by LADB Staff

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Panama's President Martin Torrijos told his country in May that the Caja de Seguro Social (CSS) is in deep deficit and will collapse by the year 2012 unless strong measures are taken.

Speaking to a crowd in Darien, he gave assurances that the social security system would not be privatized but that his government "would not permit the system to fall by inaction or by hidden interests." Torrijos took office Sept. 1, 2004, and inherited the problem from previous administrations (see Noticen, 2000-09-21). Experts have been saying for some time that the CSS urgently needs deep structural reforms to avoid a financial crisis and that without the reforms retirement security is in jeopardy. An unusually wide spectrum of the Panamanian population, however, wants none of it.

CSS is the largest institution in the country, larger even than the Autoridad del Canal de Panama (ACP). It has an annual budget of US\$1.5 billion, equivalent to 25% of the state budget. About 3.1 million Panamanians get their medical coverage from the CSS. The figures in general use in public discussion put the current deficit, which varies with different estimates, between US\$3 billion and US\$4.5 billion, growing at the rate of US\$700,000 daily. The public discourse has been anything but genteel from the outset. Workers quickly announced they would take strong measures including strikes if the government proposed an increase in the retirement age, currently 63 years for men and 57 for women.

Torrijos did not immediately detail his plans, except to emphasize the importance of the entity and to say, "To do nothing or to say that everything is fine and the solution will come out of the government's pocket would mean not to assume responsibility." He framed the problem as the most important facing his administration, cautioning against the hope of "magic solutions." He appeared to know there is no easy way out of this for him either.

One of his major options at the time of his announcement was the bump in the retirement age. Others included higher worker contributions and reducing medical services. The CSS pays both for retirement and medical coverage.

Workers do not like any of these options. They want the government to go after businesses that are avoiding paying their CSS taxes. Soon after these position statements, the government announced that a reform package was ready for discussion in the Cabinet, the fruit of debates among various sectors almost from the beginning of its tenure.

The slow unveiling of the plan began May 18, with Second Vice President Ruben Arosemena sending out a press release saying, "The government has taken time to prepare the least traumatic

proposal possible....The Asamblea Nacional (AN) will continue with the process of consultation but under the concept that the sacrifice has to be shared and that we cannot delay decisions indefinitely." Arosemena also let workers know that another of their proposals, that the shortfall be made up with Canal funds and funds from privatizations of state enterprises, was not going to happen. "It is a formula that would [further] impoverish the poorest Panamanians," he said.

Workers responded with more warnings that they would take to the streets if they did not like the package. To this, the Policia Nacional (PN) responded that they were beefing up forces in the provinces of Bocas del Toro, Cocolé, Chiriquí, Herrera, Los Santos, and Veraguas.

Police prepare

The PN, too, had been preparing for the reforms. PN director Gustavo Perez said the Unidades de Control de Multitudes had been training for this at the police academy and were on semi-alert status. They had assembled an arsenal of weapons left over from the defunct Fuerzas de Defensa (FFDD) and had some new ones, too. The AN tightened its own security as well, including implementing measures to inspect reporters and anyone else entering the premises. The simmering working public soon learned that the reforms would cost them.

For 2006, salaried workers and contributing businesses would ante up an additional US\$98 million, meaning businesses would see their contributions rise from 18% to 20.75% of gross payroll. In 2010, that would rise to 22.25%. Workers in the informal sector would be required to pay 13% of income to the CSS, even higher than the 9% now paid by workers in the formal sectors. Evasion would become a crime.

People claiming business expenses would be hit hard. Their costs could rise 147% over the next five years as exemptions tumbled from grace. The unions and grassroots organizations did not like what they heard. On May 21, they announced mobilizations beginning with street closures, marches, and rallies and leading to a general strike. Actions would be coordinated with the stages of progress as the package made its way through the AN.

Andres Rodriguez, director of the ad hoc Frente Nacional por la Defensa del Seguro Social (FRENADSS), said his organization had called the reforms the proyecto de muerte (death bill). The government was impressed and appeared to have softened the legislation.

Retirement age would rise, but gradually. It would remain unchanged until January 2007, when it would creep up to 58 years for women and 63 for men. After 2009, it would rise again until, in 2015, it would reach 62 for women and 65 for men. The minimum number of monthly contribution payments into the CSS would rise from the present 180 to 240 starting in 2007 and then rise gradually until it hit 300 by 2010. This amounts to an increase from 15 years of contributions to 25 years. The reforms are limited to the retirement functions of the CSS. Medical coverage and use have not been touched.

Experts consulted by the newspaper La Prensa have said that to determine the efficacy of the reforms an analysis would have to include external factors including economic growth, income

and employment demographics, and others. Also to be considered are the particulars of the CSS investment program, banking practices, and the projected effects of sanctions such as deferments, under-reporting, and noncompliance on the part of employers. The organizations were not impressed.

On May 23, the first of the promised actions occurred as about a thousand people marched on the AN. Workers, public employees, university students, and employees of the CSS took part. The demonstration was mostly peaceful, but the PN's Perez said his forces dispersed masked vandals throwing Molotov cocktails and firecrackers and doing some damage to property. There were some injuries to police and to demonstrators. About 70 students were arrested.

Inside the AN, leaders of the Consejo Nacional de Trabajadores Organizados (CONATO) explained their specific objections to the reforms to deputies, mostly centering on the increases to the retirement age and to the number of contribution payments. CONATO is characterized in the media as a moderate group that prefers dialogue with the legislature to street action. FRENADSS forces provided the latter.

Near universal rejection

Objection to the package is not limited to the usual suspects, the popular sectors that mount the familiar demonstrations. The reforms impact groups not covered by the CSS. Educators, for example, have their own retirement system, which they self-finance, but they are protesting the reforms because, having started their system during the last administration, they are in a transitional stage with respect to the two systems, and the new retirement age does not coordinate with their system.

Other nontraditional protesters are women's groups. Despite the earlier retirement age they enjoy with respect to men, representatives of the Foro Mujer y Desarrollo say the reform violates international agreements. Furthermore, said representative Urania Ungo, "here is a typical case of the establishment of economic policies without taking into account the consequences on social policy." The Asociacion de Medicos Odontologos y Profesionales Afines de la Caja de Seguro Social (AMOACSS) denounced the reforms, claiming they were based on biased data.

An ex-member of the board of directors of the CSS, Cesar Tribaldos, criticized the reform because it did not go far enough. He said what was needed were structural adjustments that would reduce costs and augment income, but "they didn't dare make those changes for fear of the political costs." Among such changes might have been limits on benefits, limits on the number of eligible dependents, modifications to the formulae for calculating pensions, and privatization of retirement accounts.

With rejection near universal, Torrijos called for "ideas and debate, and not violence" as he stands firm in the belief that "what is required is a contribution from all to save Social Security." He said on May 24 he still thought that "there exists the will of business people, workers, and students to take advantage of the moment to think of the future...and not regress to dark arrangements where what

rules is violence, intolerance, and the lack of ideas." But even as he spoke, the situation was receding further from his grasp.

Universities announced closures. Minister of Education Juan Bosco Bernal announced the shutdown of schools for an indefinite period in the capital and elsewhere in anticipation of violent protests. Torrijos seems to be paying a heavy political price. Again on May 25, some 10,000 workers and students packed the streets. Riot police dispersed the crowds with tear gas and gunfire. Media have lost count of the numbers arrested, but some 240 workers are known to have been detained. The government made clear its intention not to back down regarding the reforms.

Vice President and Foreign Minister Samuel Lewis Navarro seized the moment to announce, "To speak of withdrawal [of the reforms] does not correspond to reality."

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