Panama: President Ricardo Martinelli Moves His Agenda Forward

Sean Mattson

Follow this and additional works at: https://digitalrepository.unm.edu/noticen

Recommended Citation

Panama: President Ricardo Martinelli Moves His Agenda Forward

by Sean Mattson
Category/Department: Panama
Published: 2010-03-18

For a country that was once one of the world's worst tax collectors, Panama has taken strides recently to boost government revenue to fund ambitious social and infrastructure programs and keep government deficits in check. Last week, President Ricardo Martinelli, who took office last July (NotiCen, July 02, 2009), pushed through Congress his second tax-raising reform in six months. Banks, casinos, airlines, and the Central American nation's large Caribbean free-trade zone all pay more tax under the reforms as will consumers who will soon pay 7% sales tax, a two-point increase. The speed and reach of the reforms have won accolades from abroad, trumping skepticism that Martinelli, a conservative multimillionaire supermarket magnate, would make Panama's undertaxed elite pay more.

At home, however, the reforms have met a mixed reaction and a spate of violent protests. While Panama's sales tax does not apply to many essentials like food and medicine, the two-point hike represents a 40% increase in the amount of sales tax people pay in Panama. "Yes, it worries us because the cost of living is going to increase," said Nubia Wion, an office administrator. "They say that food won't be taxed, but many of the materials used paper, aluminum will be. Things will be more expensive." Some analysts say the hike could lead to inflation that would hit Panama's poor the hardest, a charge the government denies. Officials say that the working classes' tax-burden increase will be minimal and that the neediest will be compensated as social spending expands with the increased revenue. "Until I don't see the actions, I won't be able to believe," said Wion, pointing to recent local media allegations that social-spending programs in past administrations were mismanaged. "The money doesn't always get to the neediest classes."

Better books; more spending
Panama's economy is the star of Latin America, and its growth rates in recent years have been among the highest in the world. In 2009, while economies around the world were contracting, Panama posted a 2.4% expansion of GDP. Trade through the Panama Canal, port activity, and construction fueled growth in recent years, though most areas of its diverse, service-based, and dollarized economy fared well. Billions of dollars in foreign investment poured into the country, as a US$5.25 billion expansion of the canal began and the government passed laws to attract multinational companies. During the boom years, unemployment fell to historic lows, improving the lot of many of Panama's poorest, but wealth is still poorly distributed. Poverty rates are above 30%, said Miguel Ramos, an economist at a Panamanian nongovernmental organization (NGO) that carries out social and economic studies. The government expects the reforms to contribute an additional US$450 million per year to its coffers, equivalent to close to 2% of Panama's US$24.3 billion GDP, not bad considering tax revenue before the reforms was equivalent to around 10% of GDP. The additional revenue will help Martinelli keep government books balanced, boosting Panama's bid for an investment-grade rating on its debt, which will provide the country with greater
access to credit and lower the cost of borrowing. Martinelli promises the extra funds will be used for scholarships and cash transfers to the elderly and needy families. He has also promised longer-term health-care improvements, a reform of Panama’s challenged public-education system, and a US$1.5 billion subway, which, if it will not make workers richer, will help shorten their torturous hours-long commutes, largely on cast-off school buses imported from the US.

But the new tax laws do not protect social-spending plans from budget strains or government whimsy, said Juan Jovane, a progressive economist at the Universidad de Panama. "The law does not establish the destination of the funds. Nothing is saying that the increases, for example in the sales tax, will go to education or health. It’s not in the law." Ramos said the sales tax increase will have a cascade effect, compounding through the various transactions from supplier to final consumer. "It will have an inflationary effect," said Ramos. The government says that reductions in income tax for low-wage earners will compensate price increases, but Ramos and Universidad de Panama economists said that most low-wage workers do not pay income tax presently and argue that social-spending plans still fall short. "While...giving a subsidy for people older than 70 and [giving] a universal scholarship to all students is a nice idea, these are insufficient," said Ramos. "Social spending in Panama still is not at the levels of international standards."

**Martinelli’s way**

Martinelli won the 2009 election with 60% of the vote (NotiCen, December 03, 2009). High popularity ratings and a pro-Martinelli majority alliance in Congress have been the backbone of his strong mandate. Opposition and ruling-party lawmakers openly predicted the tax hikes would pass before the bill was even presented for debate. Still, opposition lawmakers tried to put up a fight against the parts of the reform that they thought were unjust. Rony Arauz, of the Partido Revolucionario Democratico (PRD), held up a roll of toilet paper in the Asamblea Nacional (AN) during the final debate to protest sales tax on basic toiletry items. "This is the first country in the world where using what I have in my hand is a luxury," he said. Fellow PRD lawmaker Juan Carlos Arosemena brandished a study, which, he said, showed that high-wage earners would also see significant reductions in the tax. "This fiscal reform is taking away from people who earn a lot and giving it back to people who earn a lot," he said. "The more a person earns, the more the person is saving on taxes."

Street protests against the reform were small and uneventful until after Martinelli signed the reform into law this week. On March 16, on-site construction workers blocked avenues and threw rocks at riot police, leading to dozens of reported arrests. A smaller protest last week was personally broken up by Panamanian Interior Minister Jose Raul Mulino, who shook his finger and shouted at a few dozen hard-hat-wearing construction workers who were blocking a thoroughfare. "[The March reform] really did get by with pretty little resistance compared to what we’ve seen in countries like El Salvador and Guatemala," said Heather Berkman, a Washington-based analyst at Eurasia Group, a political-risk research firm. "It might be an indication of a much more mature political elite compared to what we have seen in the other countries, but also an indication that people are doing pretty well, the economy is doing relatively well. There was room for higher taxes here."

Martinelli’s tax reforms follow controversial appointments to the Corte Suprema de Justicia (CSJ) and the replacement of the attorney general with a political ally, moves that generated criticism...
for strengthening the president's influence over other branches of government even if he insists that they all remain independent. Fiscally, Martinelli's biggest challenges may still lie ahead. His administration, which concludes in 2014, is likely done with tax-code reforms but could improve tax collection or reduce energy subsidies. While unpopular, these changes could represent hundreds of millions of dollars in revenue. "Martinelli has really consolidated his power, he's gotten pretty much everything he's wanted so far. He hasn't lost a battle yet," said Berkman. "Obviously, there's going to be a point where he going to not get his way, but right now I think it bodes pretty well for his ability to make good on some of these social indicators. And we'll see."

-- End --