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Salvadoran President Mauricio Funes Shifts Attention to Stagnant Economy

by Benjamin Witte-Lebhar
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Since assuming office in the midst of a global financial crisis, President Mauricio Funes has taken a mostly wait-and-see approach to El Salvador’s economy, opting to ride out the storm while focusing his energies on areas such as public security and foreign policy.

The new year, however, appears to have brought with it a shift in priorities for the popular Salvadoran leader, who is now promising a series of measures to breath some life into the stagnant economy.

After contracting by 3.5% in 2009, El Salvador’s economy rebounded last year—though not by much. Despite a significant spike in export earnings, up nearly 18%, and an increase in remittances sent home by Salvadorans living abroad, up 2% to roughly US$3.54 billion, the economy grew less than 1% in 2010, according to the Banco Central de Reserva (BCR).

Analysts attribute the "turnaround" not to anything the Funes government said or did but rather to a gradual economic recovery in the US, on which the Salvadoran economy is highly dependent. The US alone buys approximately 48% of the Central America country’s total exports. It is also home to an estimated 2.5 million Salvadorans whose combined remittances (as much as US$4 billion annually before the recession) are El Salvador’s number-one source of revenue, accounting for roughly 17% of GDP.

For 2011, however, El Salvador’s second-year president—rather than wait for good economic news to filter down from the north—plans to provide some stimulus at home with more than US$1 billion in promised public investments.

In January the country’s unicameral Asamblea Legislativa (AL) approved a US$90 million government plan to strengthen the export sector. Traditional Salvadoran exports include coffee, sugar, and shrimp, while newer, nontraditional products include underwear, plastic packaging, and some medications. The plan looks to boost production and sales by easing red tape, promoting Salvadoran products, and expanding markets.

President Funes, a political moderate whose election in 2009 marked a major shift toward the left for El Salvador, announced Jan. 20 that his government is also looking to create a development fund and thus spur growth by extending credit to would-be investors.

"Friends, we’re going to inject sufficient funds into the market to strongly stimulate agriculture, industry, and certain strategic activities such as tourism," Funes said. "It’s necessary that we improve our productive fabric, because the abandonment of the countryside and the decline of industry and services have made for an economy that’s totally dependent on the US market, on remittances, and debt."
An upside down-world

By all accounts, the Salvadoran economy can use all the help it can get. Despite last year’s modest gains, the economy has yet to return to its pre-recession levels. Even at that relative high point, El Salvador struggled mightily, with a per capita GDP in 2008 of just US$3,605. Nearby Costa Rica, in contrast, had a 2008 per capita GDP of US$6,599.

According to the UN Development Programme (UNDP), the Salvadoran economy’s average annual growth rate during the past half century was 2.76%, second only to Nicaragua as the lowest in Central America. During that same period (1960-2009), per capita GDP rose by an average of just 1.1% annually. At that rate, El Salvador would need 29 years to reach the current level of development in Costa Rica and 47 years to match Chile, UNDP explained in a recent report entitled "De la pobreza y el consumismo al bienestar de la gente: Propuestas para un nuevo modelo de desarrollo."

The report, launched Jan. 18, notes that El Salvador’s fiscal deficit in 2009 (5.6% of GDP) was higher than in 1989 (4.5%) when the country was in a civil war. The tiny Central American nation also has an extremely high rate of consumption (as measured in relation to GDP), spending on average US $102.4 for every US$100 it produces.

"One of the central elements is to encourage savings," UNDP representative Richard Barathe told the Spanish news service EFE. "El Salvador is the third-most-consumerist country in the world after Lesotho and Liberia."

Hardly a recent phenomenon, El Salvador’s money woes are the product of failed economic models stretching back at least two centuries, the UNDP report argues. After favoring a coffee-driven agroexport model (1821-1950), El Salvador experimented with import-substitution-based industrialization (1950-1988) before embracing the "Washington consensus" neoliberal model still en vogue throughout much of Latin America. All three systems relied heavily on cheap labor and are alike in that they failed to provide El Salvador with a solid macroeconomic structure, UNDP researchers concluded.

"There was never any benefit derived from this abundant labor pool, because the large majority of workers have gone to other countries to seek better opportunities," UNDP coordinator William Pleitez explained during the report’s official launch in San Salvador.

Another legacy of El Salvador’s flawed economic models are wide income and development gaps separating rich and poor, urban and rural residents, and men and women. The richest 20% of the population earns 52% of the country’s total income while the bottom 20% takes home just 4.2% of total earnings. The report also notes that only 47.6% of women are part of El Salvador’s economically active population (EAP), compared to 81% of men. The difference is particularly stark considering that, in El Salvador, women outnumber men (100 women for every 89 men).

"Residents in the municipality of Antiguo Cuscatlán [La Libertad] enjoy an HDI (human development index) similar to [people] in a country like Portugal, while in communities like Jutiapa [Cabañas] and Lislique [La Unión], levels are along the lines found in the impoverished countries of sub-Saharan Africa," the report reads.

Paradoxically, El Salvador’s wealthy receive a greater share of government subsidies. Only 6.2% of transportation, electricity, and natural-gas subsidies go to the poorest 10% of the population,

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while 11.2% of those state benefits reach El Salvador’s richest 10%, the study found. Part of the problem is that, in many cases, the isolated rural poor do not use gas cookers, are not connected to the electricity grid, and travel very little.

"This society demonstrates tremendous paradoxes. It’s like people are living in an upside-down world that invests in and subsidizes the rich more than the poor," said UNDP El Salvador representative Ricardo Valent.

To turn things right-side up, the UNDP urges El Salvador to consider a new social-oriented economic development model that considers people as the centerpiece of the development process. Calling for increased investment in social programs and education, the agency recommends a forced-savings scheme and calls for widespread job creation. "We need to begin investing in the people of this country, practically starting at birth," said Pletez.

**A new economic model?**

Unlike his predecessors from the conservative Alianza Republicana Nacionalista (ARENA) party, Funes—a former journalist who won the 2009 election with backing from the leftist Frente Farabundo Marti para la Liberación Nacional (FMLN)—was on hand Jan. 18 to receive the UNDP report personally. Agreeing in principle with many of its assessments and recommendations, he promised to double social spending, from US$482 million in 2010 to US$818 million this year.

"We know that social spending is not a waste of money," Funes said. "It’s the best investment we can make because it looks to improve the dramatic reality in which we live by minimizing exclusion and inequality."

Calling such spending "a real motor of growth," Funes promised a "new economic model" for El Salvador. The president admitted, nevertheless, that fiscal constraints prevent him from spending more.

"We can’t think about economic growth or increases in productivity and competitiveness if we can’t improve living conditions for the people, if we can’t break down the obstacles that exclude people, if we can’t guarantee education, health, and security for everyone," he said.

In spirit, Funes’ analysis of El Salvador’s economic needs marks a dramatic change of course after two decades of ARENA-controlled governments. How far the moderate president is willing—or able—to go in realizing this new economic model, however, remains very much to be seen. As Funes acknowledged, fiscal realities limit how much he can invest in the country’s human capital. He faces political limitations as well.

While Funes continues to enjoy a solid approval rating, among the highest of any Latin American leader (NotiCen, Jan. 6, 2011), he still faces stiff opposition from ARENA and other conservative rivals reluctant to give the president free rein in dismantling an economic system they helped create.

Funes also has a complicated relationship with the FMLN, a former guerilla alliance he represented in the 2009 election but has since kept at arms length. US Embassy reports filtered to the press via the nonprofit group Wikileaks paint the tenuous Funes-FMLN relationship as a marriage of convenience that may be headed toward outright divorce.

Both the FMLN and Funes administration have downplayed the leaked reports, which were nevertheless taken seriously enough by Standard & Poor to downgrade El Salvador’s risk rating.
last month to BB-. Funes’ perceived difficulties with the FMLN are "expected to continue to impede progress on a number of crucial reforms and ultimately weaken fiscal flexibility and economic growth prospects," analyst Olga Kalinina told the Dow Jones wire service.

Reports like that add fuel to the fire for an opposition that—looking toward the 2012 parliamentary and 2014 presidential elections—is keen to discredit the popular leader. Citing the S&P rating, a recent opinion piece in the daily La Prensa Grafica argues that Funes has created economic "chaos."

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