2-9-2012

Tug of War between Costa Rican Government and Unions on Salary Increases: Administration Says There Is Not Enough Money, Workers Say There Is

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LADB Article Id: 78494
ISSN: 1089-1560

Tug of War between Costa Rican Government and Unions on Salary Increases: Administration Says There Is Not Enough Money, Workers Say There Is

by George Rodríguez
Category/Department: Costa Rica
Published: 2012-02-09

The tug of war between Costa Rica's government and unions regarding the recent US$10 a month public-sector salary raise for this year's first semester is picking up momentum. President Laura Chinchilla's administration decreed the adjustment last month, after both sides failed to reach a negotiated agreement, leading state-workers organizations to strongly question the government's salary and economic policies.

Each side blamed the other for the failure to discuss and agree on an adjustment acceptable for both, thus paving the way for the usual way out in such cases: a salary raise decreed by the government.

Unions expected an adjustment in the 3% to 7% range—the recent negotiation for the private sector resulted in a 2.17% improvement—but the government's figure was a disappointing 5,000 colones (around US$10).

Minimum monthly salaries range, on average, from 219,00 colones (US$440) in the public sector to 187,000 colones (US$370 dollars). However, according to union estimates, around 700,000 of the almost 2.2 million-strong Costa Rican work force do not earn the minimum.

With its population just over 4.3 million, this country saw poverty—stagnant at around 20% for the past two decades—rise in 2010-2011 from 21.3% to 21.6% and extreme poverty go up from 6.0% to 6.4%, while unemployment increased from 7.3% to 7.7%.

Government blames opponents of tax reform

Since the decree went into effect, Costa Rica's Labor Minister Sandra Piszk has repeatedly explained the government had no choice but to apply an amount of money rather than a percentage because of the country's dire financial situation, a consequence of opposition to the tax reform the Chinchilla administration is unsuccessfully pushing in the unicameral Asamblea Legislativa (AL).

The government says the reform—which, among other things, aims to increase existing taxes and create new ones—would provide it with the 500 billion colones (approximately US$1 billion) it now lacks.

Opponents to the tax bill counter, pointing out that instead of coming up with more and heavier duties it should improve collecting taxes to combat tax evasion, which they deem a key obstacle to healthy finances.

Opposition from political parties and other civil-society actors—unions and the private sector, among others—led to a change in the original text the administration presented to the legislature last year.

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The present—and third—version includes points proposed by the opposition center-left Partido Acción Ciudadana (PAC) and accepted by the government, such as a 2% to 3% tax on private education and health, a 20% tax on monthly salaries starting at four million colones (some US$8,000), and a duty—undefined, so far—on luxury vehicles. It also creates the fiscal figures of global and world income, the first comprising all income and the second made up of income generated abroad, in order to submit both to income tax.

On the salary raise for the first half of this year, Piszk said, in an article published Jan. 20—four days after a union assembly that decided to draw up a protest agenda—by the influential Costa Rica daily La Nación, "In an effort to fulfill the six-month salary adjustment starting Jan. 1, the government decreed a 5,000-colón (US$10) raise."

"This measure, which was taken within the context of the biggest fiscal crisis this country has faced in several decades, will have to be…paid through debt," Piszk explained. Governmental efforts in tax collection and limiting public spending "have allowed the fiscal deficit to drop from 5.2% of national production to 4.4% last year." However, such efforts "are insufficient to adequately cover the healthy funding of salaries," and "the government had to act with the prudence and the austerity the case demands."

Unions call for better tax collection to bring in needed funds

Two weeks later—and eight days after the first scheduled peaceful demonstration by state workers, a picket outside the Ministerio de Trabajo y Seguridad Social (MTSS) headquarters on Jan. 25—Costa Rican union leader Albino Vargas countered Piszk's article and other public statements along the same lines.

If tax evasion as well as tax-exemption mechanisms were corrected, the government would have 3 billion colones (around US$600 million), Vargas wrote in his weekly opinion article in the popular local daily newspaper Diario Extra.

"The Ministerio de Hacienda tells us that, for every two colones needed for the government to function, one [colon] must be obtained on loan," and this "seems to be true," added Vargas, secretary-general of the Asociación Nacional de Empleados Públicos y Privados (ANEP), one of Costa Rica's major workers organizations.

"But this is a point in which one begins to suspect that, for some very powerful sectors, especially financial-banking capital, it is better that the fiscal-deficit problem is not solved, because their money keeps growing—interest payments—thanks to the government's need for loans," the union leader warned. "And since this seems to be a 'juicy deal' for some financially strong sectors, suspicion increases, because there is no determined, categorical, hard political will to attack, from its roots, the problem that 'there's no money.'"

The latter point would be solved with the government having access to "fresh, healthy resources," Vargas added, going on to mention "annual figures of tax theft through diverse forms of tax evasion." He also referred to resources "the state does not obtain because of present tax-exemption mechanisms" and "institutional surpluses. All that, put together, produces 'fresh money' close to 3 billion colones," an amount several times larger than what the government aims to obtain via the much-criticized tax reform.

The next protest demonstration is scheduled for Feb. 15.

ISSN: 1089-1560

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