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Retirees on Hunger Strike in Ecuador

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A hunger strike by dozens of retirees seeking an increase in pension payments from the national social security system took the center of Ecuador's political stage in July. The deaths of several elderly hunger strikers along with marches by hundreds to thousands of retirees put pressure on President Lucio Gutierrez and the Congress to find financing for an increase package, though controversy about how to raise sufficient revenue has slowed the process.

Retirees occupy IESS offices in Quito, Guayaquil In addition to conducting marches on the capital plaza and a hunger strike, retirees occupied the offices of the Instituto Ecuatoriano de Seguridad Social (IESS) in Quito and Guayaquil for more than a month. IESS workers complained that the protest was preventing them from sending out pension checks. The retirees are calling for an increase to US$135.50 per month, while 40% of pensioners are currently receiving less than US$100 per month. Retirees ended the hunger strike on July 27, but not until human rights activists from 16 countries called on the Organization of American States (OAS) to intervene in their favor.

Members of the Plataforma Interamericana de Derechos Humanos sent the OAS Inter-American Human Rights Commission (Comision Interamericana de Derechos Humanos, CIDH) a letter reporting the deaths of 16 elderly Ecuadorans in the two weeks the hunger strike had persisted.

The letter called on the OAS to "instruct the Ecuadoran government to take all the measures that would guarantee the fiscal integrity and the rapid and effective resolution of the social and economic demands of the retirees." After President Gutierrez visited IESS installations in Guayaquil, guaranteeing the payment of pensions with an increase beginning on Aug. 20, the Guayaquil strikers suspended their fast, though their press release said the occupation of the IESS installation would continue.

In Quito, 22 hunger strikers also ended their fast on July 27, but they also said they would maintain their occupation, which had lasted 40 days at that point. Financing: tax increase packages batted around President Gutierrez's original proposal to increase the value-added tax (impuesto al valor agregado, IVA) from 12% to 13% was roundly rejected by Congress, the public, and the retirees themselves. The next proposal included an increase in the special-consumption tax (impuesto a los consumos especiales, ICE), which would fall on consumers of cigarettes, beer, and other alcoholic drinks. The proposal met with similar disfavor, even as Gutierrez insisted that it was the only way to finance a pension increase.

A government commission set up to find methods to finance an increase in pensions proposed reducing interest paid on state bonds issued to cover obligations held by the banks that failed during the financial crisis of the past decade (see NotiSur, 1999-10-01, 1999-11-05). The commission also recommended an increase in employers' payments into the social security system and using money from a fund from petroleum exports currently used to pay off the external debt.
Gutierrez vetoed a financing package Congress sent him shortly after the Congress overrode the proposal he had sent to the body. He said on July 23 that the legislative project was unconstitutional since it tapped into funds destined for other social ends. He opposed the use of the Fondo de Solidaridad (Solidarity Fund), whose capital comes from the privatization and modernization of public electric and telephone companies. He called on legislators to defend "the interests of the retirees with patriotism and responsibility, not the interests of the beer companies."

Gutierrez claims that his increase in the ICE would result in beer costing only US$0.06 more per unit. The approach of local elections in October made the pension issue a prominent political issue for candidates seeking re-election and might have caused greater intransigence on the part of legislators seeking to impress their voter bases. Vicente Albornoz, general director of the Corporacion de Estudios para el Desarrollo (CORDES) in Ecuador, said costs produced by the increases in IESS expenditures would amount to US$160 million for next year, and he criticized the package Congress passed.

"It will generate less than US$40 million in revenue for the central government, creating a deficit of some US$120 million in 2005," said Albornoz.

The Ecuadoran state invested a total of US$1.2 billion this year in fuel subsidies, a bond for the most impoverished, and the payment of pensions, according to the Ecuadoran daily newspaper Hoy. The most costly subsidy is gasoline, which requires US$400 million annually, representing 1.5% of GDP.

Next comes payments to the IESS for retirement pensions, along with police and armed forces spending, which come to US$325 million. Subsidies to gas for domestic use reach US$237 million, allowing a 15-kg cylinder of gas to sell for US$1.60 when the unsubsidized price would be US$5.40. The World Bank has recommended that the price be raised to US$7.15 per 15-kg cylinder but that subsidies be established for the most impoverished sectors of the country. The government will also subsidize the "human-development bond," which goes to the poorest women in the country, with US$189 million.

The Economy Ministry said the latest increase in pensions for the more than 233,000 retirees dependent on the IESS would cost an additional US$68 million, though other estimates have placed the cost at over US$100 million.

**World Bank says dollarized economy uncertain**

A World Bank report says Ecuador has experienced an increase in urban poverty during the past decade as migration to cities from rural areas has persisted, even with the US dollar as the official currency. "Poverty has urbanized," says the document, "above all in the secondary cities," with 45% of the population living in poverty, according to 2001 figures. "The effects of dollarization over growth, consumption, and poverty in the mid- and long term are still uncertain," says the report, pointing to political and juridical instability as a cause of uncertainty. Nonetheless, it recognizes that the new monetary cycle allowed some strata of urban Ecuadoran society to improve their income.
Ecuador replaced the sucre, the national currency that had been in circulation for more than a century, with the dollar in 2000 (see NotiSur, 2000-01-14, 2000-09-15, 2002-01-25). The Reserva Monetaria de Libre Disponibilidad, which sustains Ecuador's dollarization program, closed on July 31 at US$1.3 billion, according to the Banco Central. The account ends July at one of its highest figures this year. It began the month with US$1.2 billion.

The government uses the account to pay interest and installments on the external debt, as well as covering imports for the public sector. It is funded by state income generated by petroleum exports, international credits to the country, and investments of the reserve made by the Banco Central. The currency assets that make up the reserve are also sustained by the circulation of dollars on the Ecuadoran market.

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