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Ecuador Accused of Boosting Taxes to Cover Costs of Earthquake Damage
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Ecuador has a pro-forma 2016 budget of approximately US$25 billion and a fiscal shortfall of some US$8 billion, caused mainly by a dependence on oil exports that have suffered falling prices in the last two years (NotiSur, March 20, 2015). Now, the government has decided to deal with the economic crisis by creating new and unexpected taxes, arguing that more funds are needed to face the damage caused by the April 16 earthquake on its northern coast.

Since the beginning of the year, faced with criticism from political opponents, the government has defended its 2016 budget, arguing that most allocations were for social investments in education, health, housing, and similar areas—items not considered public spending and therefore not to be reduced. As a show of sensitivity, the government said it would review some budget items that are considered expenditures, such as travel and per diem expenses of high-level officials, the expenditures of some government ministries, and non-urgent public works. It did not touch the publicity budget.

The right-wing opposition insists government spending is too high, and includes in this assessment the salaries of teachers, doctors, and other professionals working in fields related to social investment.

Whether things are considered expenses or investments, the debate became increasingly tense when the government announced a hike on taxes on cigarettes, carbonated beverages, alcoholic beverages, and sweetened products, saying the move was intended to protect public health, since the tax increase would discourage consumption of those products. The opposition saw these new taxes as an attempt to bridge the fiscal gap, rejecting the government’s reasoning, especially since the tax increase came along with the decision to authorize bars and night clubs to remain open two hours longer on weekdays and to open on Sundays. These hours had been restricted, according to the government, to protect the financial well-being of Ecuadoran families.

The National Assembly was considering the taxes when an earthquake struck Manabí province and the southern part of Esmeraldas province on April 16, resulting in 659 deaths, 40 missing people and more than 16,600 injured. According to official information, 29,067 people are staying in temporary shelters and 6,998 buildings (houses, hotels and schools) have been destroyed.

President Rafael Correa initially estimated economic losses from the catastrophe between US$3 and US$5 billion. The sum of the losses and the budget needed to rebuild the affected population centers was finally settled at US$3 billion.

The People’s Republic of China, the Andean Development Corporation, the International Monetary Fund and other multilateral agencies made available emergency credit lines that could have covered the cost of reconstruction. However, Correa preferred to opt for a new fiscal reform and the privatization of public assets.
Correa sent the Assembly a new fiscal reform packet that includes five economic measures to pay for the costs of rebuilding after the earthquake:

- An increase in the value-added tax (IVA) from 12% to 14% for one year.
- A special one-time contribution of an additional 3% tax on net business profits.
- A contribution by individuals with holdings over a million dollars equivalent to 0.9% of those holdings.
- A single payment of one day’s wages for individuals who earn more than US$1,000 a month; of two days’ wages for those who earn more than $2,000; of three days’ wages if they earn more than $3,000; of four days’ wages for incomes of $4,000; and of five days’ wages for people with monthly salaries above $5,000.
- A privatization process that put on the market holdings the government considers unproductive, including the hydroelectric company Sopladora, the airline TAME, and the shipping company FLOPEC.

The right-wing opposition—such as the CREO and Social Cristiano parties—have protested against the taxes, insisting they had been in the works before the earthquake and that the natural disaster had given Correa an ideal excuse to put them in place.

The opposition from the left—more than rejecting the new taxes, has focused its attention on the privatization process. The Confederación de Nacionalidades Indígenas del Ecuador (Confederation of Indigenous Nationalities of Ecuador, CONAIE), said in a statement that the Correa administration had finally revealed itself for what it was, a neoliberal government.

**Pac-Man voracity**

The government’s need for resources has led it to reduce its social security responsibilities, eliminating its obligation to contribute 40% of the retirement pensions for workers and appropriating private funds from different unions, such as the teachers association, whose assets to cover retirement pensions for teachers had climbed to US$405 million. These funds were transferred to the Banco del Instituto Ecuatoriano de Seguridad Social (Bank of the Ecuadoran Social Security Institute), to which the government has access via the obligatory purchase of state bonds.

The government has had a confrontation with the military on this same issue. It demanded a return of US$41 million from the Armed Forces Social Security Institute (Instituto de Seguridad Social de las Fuerzas Armadas, ISSFA)––money the government said ISSFA had overpaid in a land purchase contract. The decision was made without a ruling from a competent judge. The government simply ordered the Ministry of Finance to discount this amount from its allocations to ISSFA, leaving that institution without liquidity, so that it had to temporarily suspend credits to its members.

The government also took advantage of the fact that Ecuadorans were focused on the earthquake at the time it approved a package of labor reforms that make the workday more flexible and put some types of work contracts in danger. It also decreed that employers in the area affected by the earthquake could lay off workers.

The voracity of the government’s actions has caused people to label it “Government Pac-Man,” in reference to the famous video game in which a rapidly moving Pac-Man gobbles up dots. Not even the help that Ecuadorans gave for earthquake victims escaped that voracity.
Solidarity despite it all

Following the earthquake, Ecuadorans showed their solidarity in many ways: various public and private entities, especially municipalities, managed to collect major quantities of food, clothing, water, and even money. They organized to take the supplies to the earthquake areas, but they came up against government officials who decided the government would take charge of distribution.

Public concern about the government’s decision to take control of citizens’ initiatives did not diminish the Ecuadorans’ desire to help the victims of the earthquake. Neither did the new taxes imposed on them. But they made their voices heard in the media, demanding transparency in the use of the funds from the new taxes, a transparency that could be guaranteed by the creation of a closed trust that would have the sole objective of investing in the reconstruction of the earthquake zone. Nevertheless, the government has refused to create the trust, once again reinforcing the notion that the tax revenue could be used to cover the 2016 budget deficit, or to make debt payments to China, which are now coming due.

The coming months will tell whether the solidarity of the Ecuadoran citizens really translates into help for the victims of the earthquake, or if it will continue to satisfy the voracity of the Correa administration.

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