9-11-1991

Guatemala: Has Serrano "struck Out"?

Deborah Tyroler

LADB Article Id: 065100
ISSN: 1089-1560

Guatemala: Has Serrano "struck Out"?

by Deborah Tyroler
Category/Department: General
Published: Wednesday, September 11, 1991

[The following article is the first in a series of two. The second will appear in the 09/13/91 issue of the CAU.] . Robinson Three months after his inauguration on April 8, President Jorge Elias Serrano publicly presented his "Initiative for Total Peace in the Nation." The Initiative established four broad objectives for the new administration: ending the war with the insurgency, achieving economic and social equity, respect for the rule of law, and strengthening the democratization process. The Plan was called "propagandistic" by some, and overly ambitious by others. Yet all agreed that the goals accurately addressed Guatemala's most urgent issues: economic crisis, spiralling social and military conflict, and tenuous civilian administration of a militarized society. Six months into his term, Serrano has gone to bat earnestly on all four goals. He sought consensus by forming a government of "national unity," promulgated an ambitious economic package to address the fiscal crisis, convened "social pact" negotiations with trade unions and the private sector, sent teams to Geneva, Washington, European and Latin American capitals to promise before the international community that human rights and the rule of law were to be restored, and opened peace talks with the armed insurgency. But most of these initiatives have remained uncertain or ended in disappointing failures. If this were a baseball game, commented one local reporter, the new administration would have already "struck out." The economic front On the economic front, the government inherited a crisis which left it little room to maneuver. The new cabinet took over the reins of the economy with less than $3 million in the coffers, a fiscal deficit surpassing 5% of GDP, and spiralling inflation which produced a rate of 80% in 1990. The trade deficit was running at about $400 million per annum. A $2.5 billion foreign debt obligated debt service payments equal to nearly half of foreign exchange earnings. In mid-1990 President Vinicio Cerezo's government began accumulating arrears on foreign debt service. As a result, the International Monetary Fund, World Bank, and USAID suspended disbursements on earlier loans and negotiations on new lending. Within days of his inauguration, Serrano despatched a cabinet-level delegation to Washington, headed by Central Bank president Federico Linares, to negotiate payment of debt service arrears, and the release of undisbursed funds. Linares took with him the new government's economic program, drafted by the neo-liberal think tank, the Association of Research and Social Studies (ASIES). The program involved the standard neo-liberal adjustment measures, such as trade liberalization, privatization and economic restructuring. However, as Linares stressed, the program would be "unorthodox" (i.e., heterodox, in World Bank terminology), or gradualist. The "unorthodox" approach, the government hoped, would give it the flexibility to pursue its multifaceted social and political agenda. The grim state of the Guatemalan economy, however, led IMF officials in Washington to reject Linares' proposal for gradualist adjustment. The international financial officers insisted on economic "shock" measures. As applied in other countries, such measures involve mass public sector layoffs, credit restrictions, immediate price liberalization and currency devaluation. Typical results are recessionary stabilization via a sharp contraction of demand. Accordingly, the ASIES program was modified in February, when Serrano ordered all government ministries to draw up plans for a 10 percent across-the-board reduction in expenditures by the end of 1991, public sector layoffs, a wage freeze, the elimination of price controls on a "basic basket" of 12 consumer goods, and the lifting of urban rent controls. The

LADB Article Id: 065100
ISSN: 1089-1560

package also included a privatization process. In contrast to most Latin American economies, the state sector in Guatemala is tiny, with almost no involvement in production and mostly limited to infrastructure. Even so, the new government announced it was considering selling off such enterprises as the telecommunications institute GUATEL, the national railroads company FEGUA, the electricity institute INDE, and the nation's ports and airports. The fiscal crunch The flip side in reducing expenditures was increasing revenues through tax reform, not only to meet mid-term adjustment goals, but also to provide immediate relief from the fiscal crisis the government faced as it took office: an empty treasury, $350 million in foreign debt arrears, several hundred million in outstanding debt to government suppliers, and bankrupt ministries. This effort, however, ran up against stiff resistance from the business community, which for decades has vociferously resisted tax reform. Guatemala's tax base averages at about 7% of GDP, considered one of the lowest rates in the world, in a country where income is highly concentrated. In addition, sales taxes which are regressive in nature account for 34% of all tax revenue. Serrano proposed a broad tax reform package, which included several stop-gap measures, among them a reduction in tax evasion, simplification of the collection system, a 3% increase in sales taxes, and the sale of lucrative government bonds. The sales tax was quickly implemented, with the support of businesspersons, who also enthusiastically invested in the short-term bonds offered by the Central Bank, which carry up to 33% interest. The stop-gap measures brought in some $300 million in short-term revenue for the government, which saw the new administration through its first few months. The crux of the package, announced in June, was an emergency "one-time-only" tax on the private sector (to be applied on a sliding scale in accordance with business income levels), as well as the issue of obligatory "emergency bonds" to be purchased by businesspersons and wealthy individuals. The announcement, however, sparked angry protests from business, led by the powerful Coordinating Committee of Agriculture, Industry, Commerce, and Financial Associations (CACIF), which brings together much of the country's private sector. CACIF, which gave its energetic support to all the other adjustment and austerity measures, rejected the "one-time" tax out of hand, and then successfully negotiated new terms on the "emergency bonds." The repayment period was changed from 20 to 10 years, and the interest rate was increased from 2% to the prevailing commercial rate. Political "concertacion" and a social pact Serrano's economic woes have been compounded by the near breakdown of the "national unity" government and his inability to realize consensus with the country's political and social forces. Even with CACIF approval, the tax reforms have remained bogged down in the National Congress, which underscores another of the government's political Achilles heels. Serrano's tiny Solidarity Action Movement (MAS) has no social base of its own, and is a minority party in the legislature. MAS holds 18 seats in the Congress. Another 29 belong to four small parties with which it maintains tenuous alliances, 41 are held by the Union of the National Center (UCN), and 27 by the Christian Democratic Party (DCG). Serrano cobbled together a cabinet drawn from diverse parties and negotiated several political party pacts, including with the outgoing Christian Democrats. The DCG had been engulfed in endless scandals over corruption and graft in the state administration. When Serrano was inaugurated last January, he asserted that embezzlement among the outgoing officials was so extensive that his administration inherited a bankrupt treasury. After the DCG threatened to undermine the government's legislative initiatives, however, the new president changed his tune, and quickly negotiated a deal with the party. Thus, no investigations into corruption or legal action against Christian Democrat officials pertaining to the previous administration were exchanged for the party's commitment to "constructive support" for the new administration. In March, the new government announced plans for a nation-wide anti-corruption campaign, which sent shivers up the spines of many Christian Democratic officials.

LADB Article Id: 065100
ISSN: 1089-1560

The party withdrew from the pact with Serrano and entered into an alliance with the rightist UCN. With the demise of the pact, the DCG-UCN opposition alliance has to date blocked passage of the tax measures. While the DCG wants an end to the anti-corruption campaign, the UCN, which was Serrano's bitter opponent in the elections, and was left out of his "national unity" government, is seeking more influence over the administration's political and economic policies. Another defection from "national unity" came in April, when Raquel Zelaya, a leading ASIES official and confidant of Serrano, resigned from her post as Finance Minister, reportedly under pressure from CACIF. Social pact: doomed from the start By May, Serrano's "honeymoon" was clearly over: his "national unity" government was breaking up, and the fiscal crisis continued. Undeterred, Serrano turned to his next major goal: convening negotiations between the government, trade unions and business owners to work out a "social pact" on economic policy, and distribution of the costs of austerity. However, the undertaking seemed doomed from the start. According to a recent UN Children's Fund (UNICEF) report, 75% of Guatemalans live in poverty and lack access to basic health, education and sanitation services. Guatemalans, said the report, have been experiencing "a pauperization process involving many households which were never poor before." During the 1980s, impoverishment increased at an annual rate of 2.8%, despite positive GDP growth rates. Meanwhile, a belligerent private sector managed to strip the government's plan of all measures considered negative to its interests, while retaining others affecting workers (mass layoffs, wage freeze, elimination of price controls, etc.). Serrano convened negotiations with trade unions and private business owners from a very tenuous position. While CACIF enthusiastically took up the government's call, three of the country's five trade union federations opted to boycott the talks, charging that the government was simply seeking labor endorsement for a conservative, pro-business program of structural adjustment and austerity. The other two labor federations expressed reservations, but finally agreed to participate in the negotiations. The social pact talks commenced in May, and by July spokespersons were predicting that agreements might take months. Outside the realm of the talks, labor conflicts are on the rise, and some have turned violent. With its inability to address the soaring fiscal deficit and implement its tax reform program, and without labor union endorsement, the government has experienced difficulties in negotiations with the IMF and the World Bank, which were resumed in early August. Central Bank authorities say a stand-by agreement could be signed in September, which would allow the government to resolve the fiscal crunch and pay back debt arrears. Still, political variables may yet hamper such an agreement. Escalation of human rights abuses Beginning in early April, the human rights situation sharply deteriorated to such a point that Serrano's Interior Minister, Fernando Jurtado Prem, recently admitted that "the human rights situation in Guatemala has not ostensibly improved, as was hoped when President Serrano was inaugurated." The Catholic Church's Human Rights Office reported in July that 559 human rights violations were recorded in the first six months of 1991, including 301 extrajudicial executions, 99 forced disappearances, 37 attempted executions, 30 death threats, and two confirmed cases of torture. The report said such bleak statistics make it "difficult to give the benefit of the doubt" to the new government's promise to restore human rights, the rule of law and civilian authority. The government's Human Rights Ombudsman Ramiro de Leon Carpio was even more pessimistic. "Sometimes I sincerely believe that we are, little by little, returning to the era of terror we saw in the early 1980s," he said, after releasing in July his own report, which surpasses the Church's in the number of violations recorded. De Leon Carpio referred to the reign of terror imposed by the military dictatorships in the late 1970s and early 1980s. In this period, an estimated 100,000 political killings and 40,000 disappearances took place, most at the hands of security forces and paramilitary death squads, making Guatemala an international pariah. The escalation of violations since April is attributed, in part, to the opening

LADB Article Id: 065100
ISSN: 1089-1560

of peace talks between the government and the guerrilla insurgency. The dialogue has triggered opposition from extreme-right groups opposed to the negotiations who allegedly seek to create a climate of fear and tension, and close up the country's already limited political opening. The rising climate of terror evident in Guatemala is leading to the renewed isolation of Guatemala among the international community. It has also heightened tensions with Washington, which last December suspended all military aid to the regime. The US government is now threatening to condition economic aid on an improvement in the human rights situation. Serrano has sent high level delegations to Europe, Latin America, the US and Canada to buffer human rights criticisms and improve the country's deteriorating image. Government officials have had a difficult time making their case, given that dozens of trade unionists and political activists flee the country or go into hiding every month. Serrano's last card: playing the "peacemaker" Thus, as the Serrano government concluded the first six months in office, three of the four goals enunciated by the president economic and social equity, respect for the rule of law, and strengthening the democratic process seem to be false starts or disappointing failures. Promoting the peace process is the one area where Serrano can claim positive results. Serrano won the elections by presenting himself as the protagonist of the dialogue process and a "peacemaker" for Guatemala. At present, the banner of peace is Serrano's last card. His presidency, it would seem, is increasingly dependent on sustaining the "peacemaker" image, which in turn requires concrete progress at the negotiating table. The second article of this series will focus on the government-rebel negotiations process.

-- End --