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President Moscoso Asks For Tax Reform

by LADB Staff

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In her report opening the current session of the Legislative Assembly, President Mireya Moscoso addressed the issue of tax reform, which she regards as a crucial measure if the legislature is to correct one of Panama's chief economic problems: the uneven distribution of wealth. But few in the opposition or the private sector are keen to support new taxes. Moscoso wants the Assembly to pass a tax-reform package as the best way to achieve a more equitable distribution of wealth. Quoting government figures, she said wage earners carry 61% of the tax burden. Other sectors of the taxpaying public do not contribute in proportion to their income because of "distortions in fiscal policy," she said.

The tax-simplification plan, which Moscoso has circulated in an attempt to secure a consensus, would increase coverage of the 5% Impuesto de Transferencia de Bienes Muebles (ITBM) and make adjustments in the income and other taxes. Deputy Balbina Herrera of the Partido Revolucionario Democrático (PRD) and Ricardo Arias Calderon of the Partido Demócrata Cristiano (PDC) immediately attacked Moscoso's address. The general criticism was that Moscoso spoke of a positive economic outlook, while the opposition insists that the country is in economic trouble. Statistics support both views.

Government figures show GDP grew last year by 4%, while on the negative side, unemployment hovered around 13%. However, the UN's Economic Commission for Latin America and the Caribbean (ECLAC) reported only a 2.5% growth rate and 15.2% unemployment in 2000 (see NotiCen, 2001-02-01). Nevertheless, Moscoso is basing her economic approach on the assumption that the economy is on the upswing after a period of recession. She says her opponents base their skepticism about her priorities on the pessimistic view that the country is in crisis. By focusing on a negative picture, the opposition is able to say the proposed reforms are inadequate.

Opposition leaders say the president lacks a clear agenda and that her economic proposals will not alter the negative economic indicators. Herrera complained that administration officials did not clearly explain their policies. She said the PDC would oppose the tax plan because it was "insufficiently explained." Arias Calderon said Moscoso's proposals were the wrong approach because unemployment is not reduced by collecting more taxes. The first priority, he said, should be a government plan to increase investment and stimulate growth. He called on Moscoso to present the Assembly with a comprehensive economic strategy instead of focusing on details.

PDC president Ruben Arosemena went further, accusing Moscoso of hypocrisy. He said that she has maintained all along that her main interest was poverty reduction, but in her report to the Assembly, she shifted to a preoccupation with neoliberal macroeconomic goals. Moscoso had adopted the same neoliberal ideas as her predecessor Ernesto Perez Balladares, said Arosemena. Debt reduction had taken the place of poverty reduction, he said. An agreement signed with the International Monetary

Fund (IMF) last year requires the government to broaden the coverage of the ITBM. Medical and legal services, among other things, would be taxed under the reform plan.

Organized labor vehemently opposed the tax-simplification plan that Moscoso says will benefit them. The construction workers union (Sindicato Unico de Trabajadores de la Construccion, SUNTRACS) threatened to take their fight to the streets if she went ahead with the proposal. The administration later informed the IMF that her administration would have to postpone the tax increase. The PRD and the business community have come out against tax reform.

In February, the PRD leadership said the party's Assembly delegation would not support any tax reform unless Moscoso had a consensus from all sectors and "rationalized" government spending. Herrera described government spending as excessive and wasteful. The Camara de Comercio also rejected the new tax plan. The chamber as well as Assembly president Laurentino Cortizo of the Partido Solidaridad agreed that the economic climate was not conducive to any tax reform that would increase the tax burden. President drops in polls The president's critics point to her low approval ratings as proof that the administration is not meeting the expectations of Panamanians on taxes or anything else. Polls have shown a downward trend almost from the start of her presidency in September 1999.

In a CID-Gallup poll in February, only 23% rated her performance as "good" or "very good," while 38% said it was "bad" or "very bad." The Cabinet came off even worse, with 59% saying Moscoso should change it. Beginning her presidency with high public expectations, Moscoso now finds that only 14% of respondents support her Partido Arnulfista (PA), while the PRD the party the PA ousted is preferred by 25%. Furthermore, Martin Torrijos, the PRD candidate she defeated in the May 1999 presidential election, was rated as the most important political figure in Panama, followed by PRD president Herrera.

Of direct relevance to Moscoso's economic program, the same poll indicated that 81% of Panamanians shared the pessimistic view of the economy held by the opposition. A majority thinks unemployment is the single most important national issue, not the need for tax reform. Moscoso refused to comment on the latest poll results, but presidential advisor George Weeden said they were caused by negative press reports.

Besides tax reform, Moscoso has a full agenda for the current Assembly session, including financing a second bridge over the canal, electoral reform, and restructuring the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN).

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