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## Guatemala Adds Tax Revolt to Ongoing Crisis

by LADB Staff

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Guatemala is now in a state of almost unrelieved crisis. Besides the state of emergency called to deal with the recent prison break (see NotiCen, 2001-07-19), the country has been continuously buffeted by bank problems, corruption, impunity, and now a bitterly contested increase in the regressive value-added tax (impuesto al valor agregado, IVA).

President Alfonso Portillo and his governing Frente Republicano Guatemalteco (FRG) had pushed for broad tax reforms since last January, although the president promised not to raise the IVA without a compensatory wage increase. Both he and his predecessor were under pressure from the international community to comply with the 1996 peace accords, which called for an increase in tax-collection rates from 8% of GDP to 12% by 2000. Guatemala has one of the lowest rates of tax collection in Latin America.

UN Secretary General Kofi Annan said he was disturbed that the government would not even increase taxes on alcoholic beverages to help reach the 12% goal (see EcoCentral, 1998-10-29). When the FRG-dominated legislature finally moved on a beverage-tax bill, its leadership caused a national scandal by altering the final bill after it had passed. Adding to the climate of crisis, a court dismissed all charges against Congress president Efraín Ríos Montt relating to the beverage-tax scandal (see NotiCen, 2001-04-26).

Private sector and civil groups formed a Pacto Fiscal and set up a committee to monitor the government's progress on tax reform, forcing the Portillo administration into open dialogue on the shape of the tax bill. The first tax bill approved last year avoided the controversial increase in the IVA. Pacto groups, including organized labor, generally supported an IVA increase but demanded heavier taxes on high-income earners, wage adjustments, and transparency in government spending particularly in tax breaks for business. The effort to reach the 12% target collapsed in mid-2000 when the private sector refused to support a 4% wage increase (see NotiCen, 2000-10-19). As the vote on this year's tax bill approached in late July, Portillo canceled his travel plans and put the army on alert.

On July 26, the FRG congressional majority pushed through an increase in the IVA from the current 10% to 12%, and on July 29 added the final touches to the tax bill by granting a US\$32.21 bonus to public- and private-sector workers to help offset the tax hike. The bonus did not meet labor's demands for an across-the-board wage increase. Critics pointed out that the bonus would add to inflationary pressures and put some workers at risk of dismissal if employers decided to cut the cost of paying the bonus. Along with the IVA increase, the bill raises taxes on certain business and agricultural activities, on imported vehicles and fuels, and on air and maritime transportation. It also requires fiscal stamps on tobacco products, alcoholic beverages, and soft drinks. The bill gives tax collectors greater authority to crack down on tax evasion with penalties including prison terms and the closing of businesses evading tax payments.

Economist Anahi Herrera told the Inter Press Service that the reforms amounted to "tax terrorism." Herrera said the popular opposition to the reforms was not so much because of the tax increase as the lack of transparency in spending government revenues. Within days of the bill's passage, the new taxes were blamed for a jump in consumer prices. Guillermo Salazar, president of the Fundacion para la Investigacion Economica (FIE), predicted that inflation for this year would reach 10%, well ahead of the official projection of 4% to 6%. Private sector at odds with administration  
The influential business association *Comite Coordinador de Asociaciones Agricolas, Comerciales, Industriales y Financieras (CACIF)* organized a national "day of dignity" (*Dia de la Dignidad*) Aug. 1 to protest the tax reforms. Protestors burned a US flag at the US Embassy to call attention to the role played in Guatemala's economic crisis by the US-dominated International Monetary Fund (IMF) and World Bank.

In May, the IMF had urged the administration to go ahead with the IVA increase. An IMF statement said that the persistence of poverty in Guatemala and the uneven distribution of income showed the need for more effective tax collection. A CACIF spokesperson said the day of dignity protest had received broad support nationwide with 95% of businesses shutting down for the day. Some 20,000 people demonstrated in the capital. There and in other cities demonstrations resulted in violent encounters with police and the military.

Police arrested more than 200 demonstrators and 58 were reported injured. Portillo declared a 30-day state of siege in the western department of Totonicapan after protestors demolished several houses, one of them belonging to a local FRG congressional deputy and another belonging to the director of the *Fondo de Inversion Social (FIS)*. Protestors also destroyed the local office of the Ministry of Natural Resources and Environment, and damaged the municipal and departmental government buildings and several businesses. Twenty demonstrators were arrested and three injured. The state of siege permitted the suspension of several constitutional guarantees. Local residents could be stopped, searched, and imprisoned without a warrant.

Human rights organizations and the UN human rights verification team in Guatemala (MINUGUA), among other groups, condemned the declaration and called on Portillo to lift the state of siege. Helen Mack, head of the *Fundacion Myrna Mack*, said, "It seems the government knows no other way to stop protests except through force and restrictions on constitutional guarantees." Portillo appeared to back down under the heavy barrage of criticism and almost immediately reduced the military presence in Totonicapan by 30%. After five days, Portillo ordered the army to withdraw from Totonicapan department. The army gave a marimba-band concert in a local park and withdrew to its base in Quetzaltenango. Presidential spokesman Jorge Perez said the constitutional guarantees would be restored by Aug. 7.

Other protests, some of them violent, erupted in Copan, 215 km north of Guatemala City, where protestors burned down the Copan department government building, a radio station, and various businesses and houses. In confrontations with the military, 45 people were arrested and 85 hurt. Jorge Briz, president of the *Camara de Comercio*, said at a news conference that, during the Aug. 1 protest, "the paralysis of activities was total all over the country, and the signs of repudiation are clear everywhere in the Republic." Briz said Portillo was "inept, corrupt, and incompetent," and was "leading the country toward collapse." He called on the president to resign. Briz told the

Spanish News Service EFE that the Camara de Comercio was analyzing the legal options it might take against the reforms.

CACIF attorneys are preparing briefs to petition the courts to suspend the tax reforms and to ask the Corte de Constitucionalidad to find the law unconstitutional. Briz said the lawsuits would be filed by mid-August. Commenting on the day of protest, Portillo said he would not back down on the tax reforms, and he attacked opposition parties and the private sector for their reaction to the bill.

The daily Prensa Libre criticized Portillo for suggesting his election gave him a popular mandate to carry out the reforms, ignoring the obvious loss of confidence shown in his administration by the Aug. 1 protests. The newspaper noted that Portillo avoided any mention of how he would guarantee that new tax revenues would be used with transparency or what he would do about official corruption. The FRG gained power through democratic means, said a Prensa Libre editorial, "but today they are doing everything to destroy that democracy."

In a Siglo Veintiuno editorial, the daily called the FRG's success in ramming the reform bill through Congress an exercise in political "self-flagellation" because the party failed to listen to the dissent. "There was no victory. The strategy did not work for the politicians in power," the editorial said. "Accepting international pressures, and paying off national debts, they have reached the point of not being able to control government spending, which greatly exceeds revenue. The budget deficit grows, and that insane practice must stop." The newspaper predicted that the natural outcome of the tax bill, besides more protests, would be growth in the informal, non-tax-paying economy, more tax evasion, and ultimately less revenue than under the old tax structure.

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