Privatisation: a process with cracks

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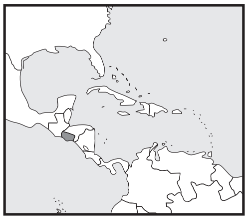

The privatisation discourse promised to reduce the size of the State, reduce the deficit, provide better services and supply the State with immediate resources, which would be used to cancel the short-term debt and be invested in infrastructure or social expenditure. However, even the private sector has recognised that there has been a lack of transparency in decision making. In fact, the implementation of privatisation has involved many sacrifices, including privatisation of banking and de-nationalisation of the public assets.

The siren's song of the privatisation discourse

During the 1990s, the Salvadorean economic context was oriented towards strengthening the market, reducing and modifying the State's role, reforming taxes, liberalising the economy, privatising part of the State's assets[2] and modernising and opening up to global markets. These objectives are based on the programmes for Stabilisation and Structural Adjustment, determining an increase in the price of services, in tax collection and a restrictive monetary and tax policy.[3]

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During the past three five-year periods, big business has been favoured to the detriment of the quality of life of the majority. For example, tax reform has been regressive: to replace the loss of income from privatisations, the Cristiani administration introduced a 10% value added tax (VAT); the Calderón Sol administration increased it to 13%, and the present Flores Pérez administration eliminated exceptions to VAT applied to drugs, grains and other food staples. Reports indicate that each week the treasury does not collect USD 654,500 VAT paid by consumers due to tax evasion by Salvadorian businesses.[5]

The rules of the game indicate that the country has adopted the rationale of a concentrated and exclusionary model, responding to a traditional neo-liberal conception, applied uncompromisingly.[6] According to an editorial entitled «Privatisation: the economic fanatism of modernization» published by the Magazine of Central American Studies,[7] the most scandalous privatisation was that of banking due to its lack of transparency. Even though the law was openly broken to enable twenty-three family groups to take over banking, no public body has been willing to investigate this egregious criminal operation. Undoubtedly, private banking is more efficient now after privatisation, but the orientation of its credits and high interest rates have not encouraged national production nor strengthened the weaker areas of the economy.

TABLE 1

Programme of neo-liberal measures in El Salvador

ADMINISTRATION	YEAR	MEASURES HAVING A NEO-LIBERAL CONTENT
President Alfredo Cristiani (1989-1994)	1989	-Privatisation of coffee and sugar exports
	1990	-Privatisation of the Hotel Presidente
	1991	-Privatisation of banking, oil imports and external consultations of the health care system -Closing of the Supply Regulation Institute (Instituto Regulador de Abastecimientos - IRA) and the Urban Housing Institute Instituto de Vivienda Urbana - IVU) -Implementation of Value Added Tax -Reduction in tariffs
	1992	-Privatisation of the National Agricultural College
President Armando Calderón Sol (1994-1999)	1995	-Privatisation of the sugar mills
	1998	-Privatisation of electricity distribution, telecommunications, pension system and some public hospital services
	1999	-Privatisation of the car licensing system
President Francisco Flores Pérez (1999- 2004)	2000	- Dollarisation
	2002	-Concession of security and boarding for Social Security, Port and health services

Source: Social Watch El Salvador

The privatisation of telecommunications is indicative of the process as a whole. Various studies showed that the National Telecommunication Administration (ANTEL) was a profitable public institution which did not need to be privatised, when the true solution was modernisation.[8]

The pension fund and the distribution of electricity now faces a high concentration of wealth in a few hands. Not coincidentally, the same business groups buying shares are the same as those holding political power. In addition to controlling the financial and banking systems, these family and business groups control the companies related to them, coffee exports, the distribution of fertilisers, the production of cement, beer, non-alcoholic beverages, bottled water, new cars, air transport, shopping centres and hotels.[9]

Social security: neglect of wide vulnerable sectors

Before the reforms in El Salvador (1996-1998), the public pension system certainly had some serious problems, such as the population coverage, the cost of social security, and employer evasion and default. The State used the problems with social security to justify privatisation, arguing that the paying population would reap enormous benefits.

1 The authors appreciate the collaboration of César Villalona, researcher and economist; Francisco Javier Ibisate, University chairholder; and Action for Health in El Salvador, APSAL.

2 Privatisation is defined as transferring State assets to private business groups, that is, with «the transfer of goods and services from the public sector to the private sector». M.I. Guerra et al., «La privatización, sus formas y su proceso», *Realidad*, No. 49, January-February 1996, p. 26.

3 Assessment of the World Summit of Social Development, 1995-2000, p. 19.

4 National Meeting of Private Enterprise (ENADE) 2001, p. 10.

5 *El Diario de Hoy*. Business section, 7 September 2002.

6 Assessment of the World Summit of Social Development, 1995-2000, p. 19.

7 Revista de Estudios Centroamericanos (ECA), March 1998.

8 Interview with Father Francisco Javier Ibizate, an economist and professor at the Central American University, UCA.

9 Revista de Estudios Centroamericanos (ECA), July-August, 2002, p. 595.

Five years have passed since the privatisation of the pension system was launched, and the results show that the future regarding social security for workers is uncertain and discouraging.[10] In spite of the fact that the coverage increased between 1997 and 1999, going from 10.6% to 31% of the EAP, the system still has problems: wide segments of the population, such as those undertaking informal activities or under-employed, agricultural workers and people providing services in the domestic area, are left out.

The costs of such a system have fallen on a population whose minimum wage has not changed in the past four years. Before the reform, the workers' contribution to the social security system represented 1.5% of their salary. In 1998 this amount increased to 4.5%, representing a 300% increase in the cost, and by 2002, contributions represented 6.25% of the salary, an increase of 417%.

The data indicate that in spite of the increase in contributions, workers are still not guaranteed an adequate pension upon retirement. Additional factors are negatively affecting the amount of such a pension: commissions collected by the pension fund administrators, presently 36% per year for the management of such individual funds, which can be increased according to the free will of the pension administrators.

Linking this modus operandi with the inequity existing regarding men's participation (61%) and that of women (39%) in the formal labour sector, a labour structure based on sexual division of work becomes obvious, in which women are excluded from the present pension system.

Electric energy: higher costs and worse service

The UCA submitted an analysis showing that the administration of Calderón Sol had become trapped between the promise of not increasing the price of electricity and the legal conditions under which the operation was sold to private enterprise. The government hoped that, in the short term, the price of distributing electric energy would drop and the service would improve. However, this did not happen and the problem persists.

Presently, the main disagreement is over the absence of a balance between the quality and the cost of the service. Between 2000 and 2002, electricity was cut 44,000 times, and the public made over half a million complaints. The companies and officials attributed this to the damage suffered by the network because of the war and the earthquakes in 2001. Furthermore, the main electric energy distributor in the country's central zone receives one complaint per three users, in part because of the loss of the subsidy, which the government eliminated in 2000.[11]

Hence, the companies' recent announcement that they are revising the charge for distribution or use of the network, representing 25% of the monthly rate paid by users, has generated controversy. Over the past five years, the price of client service has constantly risen. According to the distributor, the increases may reach as much as 81%. Of the total cost of the invoice, only 61% corresponds to energy consumed; the remaining 39% is shared between network use and client service.[12]

10 According to ILO/2000 report, the situation of pension funds throughout the world indicates that 90% of the world's workers never receive any type of old age benefit or pension, either because the funds for such a purpose are insufficient or non-existent or because the funds record increasingly larger deficits as the population ages and the cost of pension benefits rise.

11 *Enfoques. La Prensa Gráfica*. 6 October 2002, p. 3c-7c.

12 *Enfoques, op. cit.*

Health: more expensive services and dwindling accesibility

The predominance of the market rationale for health services has become a serious problem when complying with the right to health. The first crisis of the public sector took place between April and May 1998. At that time, the Salvadorean Medical Association (CMES) promoted a trade union movement demanding improvements in national public health:[13] termination of the purely governmental procedure to reform the health system; reactivation of the search for a viable solution to the health sector reform; the ratification of the loss of credibility in the Ministry of Public Health and Social Welfare as an institution able to promote the necessary changes; and recognition of CMES leadership in the health sector.

For two years now, health care policy has dropped from public view. However, the process of change has not halted, and structural reforms to facilitate the sale of some basic health care services have been carried out from the top down. Recently, a proposal made during the Third National Meeting of Private Enterprise (ENADE 2002) on the urgent need to modernise the Salvadorean Social Security Institute (ISSS) renewed the awareness of a crisis in the public health sector. The proposal consisted of establishing modalities for concession, purchase of services and free choice, which always involve privatisation.

Facing the different forms of medical service sales, the interruption of dialogue and other orchestrated forms, the ISSS workers decided to suspend their tasks progressively and gradually hand over the various hospitals to the insurance authorities.

Privatisation of social security and other public health network services will not only make services more expensive, but access to health services will depend on families' financial conditions. According to the Housing Survey on Multiple Purposes for 2002, presently 60% of the total expenditure on health comes directly from users. That is, sustainability of expenditure on health depends on the population's payments, either through taxes or in direct investment.

Conclusion: the facts belie the theory

Clearly, privatisation is not a synonym of efficiency and even less a necessary condition for achieving the sustainable national development of a country.

In El Salvador, the privatisation process has raised fears and hopes. Official sources are presenting free trade as a means to strengthen the country's economy. However, concern arises when the large countries that support this hypothesis, do not fulfil their own commitments towards the countries of the South. The contradiction is strengthened when wealth is concentrated among the national business groups, when government deficit grows, when the foreign debt reaches 32.6% of the GDP in 2001 and when the State fails to ensure constitutional functions such as free basic social services. Ultimately, we can conclude that the theory of privatisation has not fulfilled its promises. ■

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13 Citizen Proposal for Health, Salvadorean Medical Association, July, 1999.