Lenín Moreno: Between Crisis and Crisis

By: Arnaldo Musa / Cubasí
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Of that popularity he had when he won the presidency, hardly remains a "gossip", assert surveys of entities which are not unfavorable to him, because they are mostly from the right, and Lenin Moreno has no problems with them.

That press, faithful enemy of the previous president, Rafael Correa, attempts to moderate Lenín's wrongdoings with the mishandling of the pandemic of the new coronavirus, the austerity policy imposed, the obedience to what the current North American administration orders, actions that prove the deep hatred to his former party colleagues, whom he betrayed, after securing the presidency, after which he void his promises to the Citizen Revolution and accepted all the measures given by the oligarchy and imperialism.

Now the pandemic is blamed for a neglected health policy, and a unstable economy, with 115,000 layoffs in a single day, corrupting an economy that only works for the wealthy and abandons those under.

In this very cruel framework, the government is trying to impose austerity measures to meet the agreement signed with the International Monetary Fund (IMF), which has already delivered 4.2 billion dollars in loans, with another 10 billion in times to come, therefore strict austerity measures are required.

**AUSTERITY THAT DOES NOT WORK**

Why is that austerity not working? To answer that, it’s necessary to steer away from any ideological and political element, and resort to an accounting entity, which starts from a primary indicator: the Gross National Product with a model that expresses the correspondence between global demand and global supply in a national economy.

This model allows us to understand the sectoral balances, that is, the relationships between the public sector, the private sector and the external sector. Because historically and structurally, the external sector in Ecuador is in deficit (imports surpass exports), it means that, if the public sector is no longer in deficit, the offset of this inequity will be handled by private savings, that is, households and enterprises.

This implies less demand (consumption) and a stagnation of economy, that is, a progressive decline. The IMF estimates that for this year 2020 inflation will reach 1.2% (three times more than in 2017) and unemployment will increase to 4.7% (more than in 2018). But the current health crisis will surely make these statistics worse.

In order to fill this economy gap, the State, as warned by Ecuador's letter of intent to the IMF, will have to resort to the pocket of common citizens and more debts in an unsustainable vicious cycle. This is because, by freeing the external sector, the deficit proportion will increase, since there is no reason to believe that Ecuador will become, in three years, an exporter of goods and services.

The State will then have two options to enter capital into the economy: increase taxes and / or acquire debt - a third option would be to issue currency, but Ecuador lacks this option.

For the first purpose, the letter of intent foresees expanding the tax base , but instead of increasing taxes on the wealthy, the order will be more taxes on the entire population, which will affect the lower classes in Ecuador.

**VIOLATION OF THE CONSTITUTION**

This will be done by reversing the Ecuadorian tax system of higher direct to indirect taxation, violating article 300 of the Constitution. To understand it better, the income tax, which taxes wealth correlatively, it’s a direct tax, while the Value-added Tax (VAT), which taxes the consumption is indirect, since regardless of whether you are poor or rich the same percentage is paid, although for the poor this represents a greater burden on their finances. Therefore, an approach towards indirect taxation implies more taxes for all Ecuadorians.

The letter also foresees eliminating tax exemptions and special regimes which could include: education, specific areas of agricultural production, among others. All of this will be intensified by the decision to eliminate the Currency Exit Tax (CET), which in 2018 represented 1.2 billion USD for the state.

By freeing and deregulating the flow of capital, transnational corporations and economic elites will especially be able to withdraw their money from Ecuador to place it in tax havens or foreign accounts. The IMF anticipates that this decision will cost Ecuador 0.2% of GDP at the end of the three years.

The other option to balance the economy will be more debt. For this, Ecuador, under neoliberal doctrine, will impose the independence of the Central Bank. This, as the agreement claims, ends and bans the financing of the State budget by the Central Bank, which limits the decision-making capacity regarding public policies and budget distribution, resulting in the consolidation of dependency on international creditors.

In other words, the State will be unable to finance the public sector. Infrastructure projects, social, and public expenses must come from outside, creating an unhealthy dependency on external debt. According to the IMF report, debt as a GDP percentage will increase to 46.8% and external debt will increase 6% compared to 2016.

In order to compensate the payments of the interest created by the initial debt, it will be necessary for the State to increase the number of new loans and credits, generating a process of accumulated debts. Sooner or later this process will become a new crisis in the balance of payments, which was the situation that apparently triggered the need for the IMF deal in the first place. That is, the nation is given away to foreign interests, with the agreement of the local oligarchy, and the complicity of a president who had been voted for pretending to continue a process of respect for national sovereignty.

**Translated by Amilkal Labañino / CubaSí Translation Staff**