Free market economics aids Colombian narcos

by Gerardo Terán Canal

The Colombian government of President César Gaviria announced on Jan. 9 that it was imposing a staggering 100% reserve requirement on all new deposits in the country's banking system. This means that the banks will not be able to lend out a penny of new money deposited as of that date, which will drastically reduce the availability of credit throughout the financial system. Although Finance Minister Rudolf Hommes explained that the purpose of the measure was to "control the rate of inflation, by hook or by crook," the more important immediate result will be to drive the entire Colombian economy further into the waiting arms of the drug cartels. The cartels, with their billions of dollars of hot money, will now be virtually the only source of liquidity for any and all business activities in Colombia—including heretofore legitimate ones.

In announcing the measure, Minister Hommes explained that the government wants to send a clear signal that it is serious about its anti-inflation program. The tight money policy, he stated, would be continued indefinitely, until there are clear signs that the rate of inflation is slowing down.

The government's move was triggered by the announcement by the National Department of Statistics, that inflation for 1990 had exceeded 32%—the highest level in 30 years.

The new reserve requirement is only part of the Gaviria government's foolish free market strategy. The government has also stated that its goal is to reduce the budget deficit to 1% of GNP. Expenditures on health, urban infrastructure, and other social programs, will be frozen, as part of the plan to keep the growth of expenditures down to 22% this year, which is also the target for inflation for 1991. But with inflation now running at over 32%, this means a 10% *reduction* in real expenditures.

One good example of what this policy is producing, is the suspension of the government's malaria vaccination program in the Tumaco region, which was being pioneered by the Colombian scientist Manuel E. Patarroyo, the inventor of the anti-malaria vaccine. Dr. Patarroyo recently announced that he was leaving Colombia, for lack of governmental support for his research and activities in this crucial area.

Budget cuts not curbing inflation

Of course, none of this dismantling of necessary social programs is having the slightest effect on inflation. Over the last four months of 1990, public service rates rose by an average of 70%, and a new rise of 22% has just been announced. Gasoline prices were raised by 22%.

In the face of this breakaway inflation, the government has only authorized a 26% increase in the minimum wage—6 points below the inflation rate. Needless to say, the Colombian trade union movement has strongly protested this inadequate increase, and went so far as to call a national strike back in November to try to get the government to change its mind. But the strike failed, and the 26% figure held.

The other anti-inflationary measures being taken by the government are in the area of opening the Colombian economy to foreign imports. Right after the 1990 figures were announced on Dec. 26, the government announced a decree eliminating import tariffs on those products that were declared responsible for the high cost of living: toothpaste, toilet paper, soap, and staples like potatoes.

Tariffs on other products will also be eliminated, in order to "punish" inefficient Colombian businessmen, despite the fact that this will mean throwing thousands out of work. What the government has refused to admit, is that one of the main reasons prices of locally produced items have been rising, is that the cost of their imported inputs has soared principally because of the devaluation of the Colombian currency vis-à-vis the U.S. dollar.

Gaviria supporters breaking ranks

In the face of these policies, political sectors which had heretofore been among President Gaviria's strongest supporters, are breaking ranks, and predicting utter economic chaos unless these policies are reversed. Particularly significant were the editorial remarks of Fidel Cano Izasa, in the Jan. 4 issue of *El Espectador:* "The price rises, especially those of gasoline, are being adorned with lies, plain and simple, saying that they do not affect the cost of living. They are promoting the [economic] opening by sacrificing workers with wages of hunger and contractual conditions which leave them at the mercy of their employers. The government decided to trade high prices for violence; it will soon reap the fruits of an economic policy that ignores the burning reality of the majority of the population. The government is governing with giggles and practical jokes, behind the back of popular hunger. A country in the hands of a playful kindergarten."

Cano, one of the most respected newspapermen in the country, went on to call for the replacement of President Gaviria: He suggested that the upcoming Constituent Assembly convoke new presidential elections in the immediate future.