Dominican Republic: In The Eye of IMF Hurricane

by Jorge Luis Meléndez Cárdenas

Those poor Heads of State attending the XIII Ibero-American Summit Nov. 14-15 in Santa Cruz, Bolivia, just couldn't escape reality. Not only had their host government hastily taken office less than a month before, after mass protests against International Monetary Fund (IMF) policies drove its predecessor out of office; but the first speaker to address them was Hipólito Mejía, the President of the Dominican Republic, who just three days before had ordered the military out against a national strike against those same policies. This crude repression had left nine dead, but done nothing to stop the strike; its organizers announced more actions to come.

The Dominican Republic provides a classic case of the political and physical disintegration to which the IMF's neo-liberal privatization policies inexorably lead. The national strike which took place on Nov. 11 became a plebiscite against those free-trade policies, surpassing by far the expections of the community groups and trade unions which organized it. Organizers had not used their typical trade union slogans, but instead had attacked the economic model by its name: neo-liberalism.

The strike was successful, despite the fact that days before it occurred, the country was largely militarized, strike organizers persecuted, and many of them jailed. By the end of the strike, despite it having been largely peaceful, nine people had been killed, more than 50 wounded, and more than 500 detained.

The center of national discussion in the Dominican Republic today revolves around the wretched economic reforms imposed by the IMF and its local representatives, which have accelerated the destruction of living conditions of the Dominicans over the last eight years, in particular. This discussion will determine the Presidential elections which are scheduled for May 2004. The population looks for a programatic alternative to bring about a recovery; and in this, the spirit of Lyndon LaRouche, the U.S. Democratic Presidential candidate well-known in the Dominican Republic, will be present.

A Typical Case of IMF System

What has happened in the country which has brought it to such a dramatic situation?

The Dominican Republic was one of the few countries which, for its own good, had been a laggard when it came to imposing the free-trade reforms which 15 years before had destroyed the neighboring nations of Central and South America. But, for nearly eight years now, especially since the government of Leonel Fernández of the Dominican Liberation Party (PLD), the full set of free-trade economic measures—privatizations, tariff reductions, allowing prices and utility rates to be determined by "the market"—have been undertaken by forced march, to make up for lost time. The PLD government was succeeded by the Mejí government of the Dominican Revolutionary Party (PRD), which continued the policies. That is to say, two parties in government, but one common program.

This common program has led to a 320% devaluation in the Dominican peso (from 12.65 in August 1996, to 41 pesos at the moment this report was written). Fuel costs have risen by 300% (from 20 pesos a gallon of regular gasoline, to its current price of 61 pesos). In the case of fuels, a tax was imposed specifically earmarked for foreign debt payments, an extraordinary decision, given how great an impact such products have on the overall economy. The so-called ITBI (Industrial Goods Transference Tax) has doubled since 1996. Electricity, telephone and water rates have risen by more than 200%; fares for public transport by 350% (from 2 pesos to 1996 to 7 pesos today). The price of propane gas for cooking rose by more than 200%, which was so severe that the Mejía government was forced to provide a temporary subsidy. As is clear: all designed so that the country pays the debt, and that the people carry this weight.

The measures succeeded—in collapsing the economy, and *increasing* the debt.

Facing bankruptcy by October 2001, the Mejia government came up with a new form of foreign debt, issuing $500 million worth of so-called sovereign bonds, at a 9.5% annual interest rate, over five years. Only eight months after the bond sale did the government publish a list of what it had supposedly used the proceeds of the bond sale for. The list confirmed what most Dominican experts had suspected: It had been used to cover the government's growing fiscal deficit.

A year later, in 2002, the government issued another $600 millon worth of bonds, at 9% annually over 10 years. This time, the government admitted up front that $300 million of that money would be used to pay old foreign debt, and $150 million to bail out the local banking system, which was already in crisis. The remaining $150 million was to be used to beef up the country's foreign reserves.

By May of 2003, the banking system began to implode. The government bailed out the Intercontinental Bank (Baninter) that month, and then handed the profitable part of its operations over to the Scotia Bank. The Mercantil Bank was bought out by the Republic Bank of Trinidad (Trinidad & Tobago), and the National Credit Bank (Bancredito) was bought out by the Professional Bank of the León Jiménez family, with which the government wished to reach a good arrangement, given that it, like the other banks, was in a critical situation.

All this was done by the government to try and keep the financial system from completely breaking down. To cover the costs of the bank bailout, however, the government had to turn to the IMF for a loan; the Fund, naturally, demanded the government impose new austerity measures. In addition, it imposed a spending limit upon the government, as a condition for receiving the loan.

The economic collapse not only gutted the banking system, but also the electrical industry, which had been privatized in one of the first rounds of IMF reforms. With the largely foreign-owned, privatized electrical companies refusing to make the investments required to maintain the system in functioning order, the government was forced to take some action to deal with the long blackouts suffered daily in one part of the country or another, as the system collapsed. The Mejía government stepped in during September of this year and renationalized two electricity distribution companies, Edenorte and Edesur, from Spain's Unión FENOSA company.

As the director of the Energy Institute of the Autonomous University of Santo Domingo, José Luis Moreno San Juan, pointed out, under the laws which governed the privatization, the state should have simply re-acquired the companies, without paying a cent, since they had been driven into bankruptcy by their owners. Nonetheless, the government agreed to pay more than $400 million to Unión FENOSA, which violated the IMF's spending limit for the government. The IMF then announced that it would not release the agreed-upon monies to the government, which was left to literally beg "donations" from private businesses, to keep afloat!

The Letter of Intent: a New Blow

The letter, which demands total submission to IMF policies, unloads the entire burden of the crisis onto the population and the national productive sector. Take a look at a few of the demands:

- The IMF demands that the tax system be changed, creating new taxes and increasing of indirect taxes, like the ITBI;
- An increase in electricity rates is demanded, as much as 3% a month until pre-devaluation value is recovered;
- A reduction in current spending is demanded as well, which means not only that thousands of workers in the state sector will be laid off, but that critical services provided by this sector will no longer be available to the population;
- Application of a free market, especially with regard to handling of foreign exchange, is required;
- The government must give autonomy to the central bank, thereby abandoning control over the national currency;
- National finances would be subjected to total oversight by the IMF, which plans to transfer more than 50 technicians to the country, many of whom are already in Santo Domingo. And with this, an end to national sovereignty.