

The wealth does not reach the people



In an extraordinarily favourable international context of high prices for prime materials, the country has received big financial inflows derived mainly from its hydrocarbon exports. However, the funds the State receives through taxes and fees has not had an impact on the domestic economy. The extractive model is such that foreign direct investment does not generate better conditions in the country since this system takes more money out of Bolivia than it generates in domestic economy.

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Thanks to an increase in *per capita* income in recent years Bolivia has ceased to be a low income country and has moved up to the middle income level. Therefore access to resources to finance development no longer depends on access to concessionary credits from multi- and bilateral organizations in the developed countries.

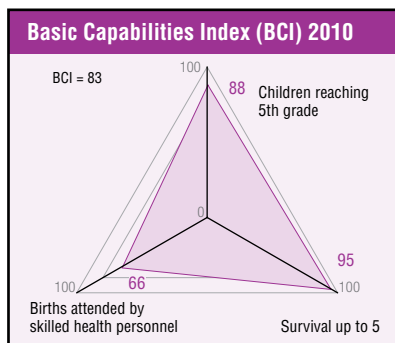
Moreover, the world economic crisis has revived a camouflaged version of the old debate about reforming the international financial architecture and finance for development in countries on the periphery. There is no doubt that the crisis in the capitalist system has added fuel to calls for some kind of reform, however tenuous, but this has not led to real changes in the financial sphere.

Fiscal income and the prime exports model

In recent years the economies in Latin America have strengthened their development models linked to the exploitation and commercialization of prime materials based on the increase in international prices. This means that the region's insertion in the world market is mainly built around activities like mining, oil and gas. But in fact this profile, which has been re-baptized as neo-extractionism,¹ only goes to consolidate the international division of labour and an acceptance of the "global institutionalism" linked to the World Trade Organization (WTO).²

The Latin American economies are basically exporters of prime materials and in recent years this has meant that most of these countries have increased their economic activity and have Gross Domestic Product (GDP) growth rates above 5%. This expansion has been driven by an exceptionally favourable international context with higher prices and increased foreign demand.

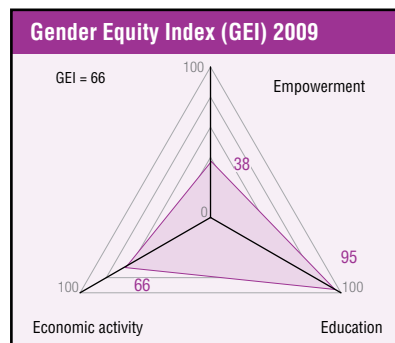
While the fiscal balances in these countries have benefited from this situation, the nature of the model is such that transnational enterprises have benefited much more. Some Latin American countries receive considerable fiscal income from the exploitation of non-renewable resources; according to the ECLAC, in "...countries like Venezuela, Ecuador, Mexico and



Bolivia around 30% or more of total fiscal income derives from the production of petrol (in the first three countries mentioned) and the exploitation of gas (in the last).³

Since 2005, the fiscal income that Bolivia has obtained from the hydrocarbons sector – one of the biggest sectors in the economy – has been crucially important in enabling the country to overcome its fiscal deficit and finance most public investment.⁴ But these resources are still fragile because international prices are volatile in the context of the world crisis. This might be confused with a typical case of the so-called "Dutch disease", which is distortion caused by a sudden inflow of foreign currency from natural resources that the real productive system is unable to absorb.⁵ But in fact, in Bolivia, the cause lies in the structure of the country's economy, and this has been accentuated by the recent boom in international prices for prime materials.

An analysis of the behaviour of fiscal income and its component parts shows that after the crisis the country went through in the first half of the 1980s the implementation of severe structural adjustment policies made it possible to manage to some extent the fiscal deficit. In the twenty-five years since that time the fiscal structure has been rather inflexible, with a large proportion of expenditure committed basically to financing the State and only a relatively



small amount going on public investment (no more than USD 500 million in that period), most of which was financed through external public debt.

Bolivia's income situation is very different because, after the tax system was reformed in 1986, value added tax (VAT) basically became the main source of State income. This is an indirect tax and it is by nature regressive as it is levied on the consumption of all the people of Bolivia regardless of whether they are rich or poor. Up to 2003, this meant that VAT accounted for somewhat more than 70% of the country's total tax income, but by 2009 this share had declined to a little over 50%.⁶

According to official sources, the State's income from direct taxes on the hydrocarbons sector increased from USD 287 million in 2005 to USD 802 million in 2009. It may be easier to grasp what this means if we compare the contribution to tax income from this sector with the VAT share in the total. In 2000 VAT accounted for 40% of the total and by 2009 its share had fallen to 35%, but this was on a greater absolute tax income base – from USD 420 million in 2000 it increased to USD 1,2 billion in 2009. The figures for taxes on hydrocarbons show that in 2005 their share was 15% of total tax income and in 2009 the figure was 22%. This was mainly due to higher prices rather than to an increase in the volumes produced and exported.

1 Eduardo Gudynas, "El nuevo extractivismo progresista" (The new progressist extractionism). *El Observador* No. 8. CEDLA/OBIE. January 2010.

2 *Ibid.*, p. 3.

3 Latin America and the Caribbean in the New International Scenario. Santiago de Chile, ECLAC, 2008.

4 There were two factors behind this: first, changes in the tax regulations for this area, and second, the increase in international prices for oil and gas.

5 This leads to an exaggerated expansion of non-transable goods and services – public works, transportation, communications – due to over-valuation of the country's currency.

6 Value Added Tax (VAT) shows how highly regressive the Bolivian tax system is, even with the increase in State income from taxes on oil and gas activity since 2005, after the Hydrocarbons Law (No. 3058) was passed and the imposition of a direct tax on hydrocarbons – an aliquot of 32% of total hydrocarbons production measured at the fiscalisation point, which is not levied on wealth but that varies depending on the volumes of gas and oil produced and their international prices.

A narrow margin for the State

In the period 1997-2007, the average annual growth rates for petrol and gas production were 4.6% and 11.6% respectively, but in the 2006-2007 period they were only 1.11% and 3.73%. There are various reasons why these production growth rates fell. In a diagnosis carried out as part of the present Government's Bolivian Strategy for Hydrocarbons, three main factors stand out: the fall in investment in the exploitation and development of fields, the capacity of the plants for processing hydrocarbons and the characteristics of accumulation in the sector. These aspects show that the oil companies still control production.

A first conclusion that can be drawn is that in spite of the considerable increase in State income thanks to higher prime material prices, the overall orientation of the tax system has not been changed and the main burden is still borne by the people of the country. The clearest indicator of this is the increase in tax pressure on consumption, which rose from 7.2% of GDP in 1990 to 14.2% in 2009. A second conclusion is that the gas business still depends on investment that the oil companies make in the sector, but under the regulatory framework that has been in force since 2005 the transnational enterprises are not obliged to invest in exploration or exploitation.⁷

As to expenditure, the increase in fiscal income from hydrocarbon rents does not translate into greater flows of public investment in productive sectors. The resources from the sale of hydrocarbons have mostly gone on road infrastructure, and very little has been channelled into sectors like agriculture or manufacturing.⁸ This profile has a lot to do with the ways in which Bolivia is integrated commercially into the dominant markets in the region: the country is more a bi-oceanic integrating bridge that allows the flow of merchandise between neighbouring countries than a partner that can promote and sell its local production.⁹

This scenario means that the hope that a favourable climate in terms of prices can promote a change in the primary exporter model has wilted in the face of the enormous problems the country is confronting. And to make matters worse, the transnational enterprises are continuing to invest in the extractive sectors, and this leaves little margin for the State – which cannot reverse the process of appropriation of surpluses – to undertake initiatives to bring about sustainable change.

7 "La crisis energética al ritmo de las petroleras" (The energy crisis at the rhythm of the oil companies), *El Observador* No. 4. CEDLA/OBIE. March 2008.

8 Juan Luis Espada, *La renta de hidrocarburos en las finanzas prefecturales. Tendencias de los ingresos y gastos (Hydrocarbon rents in municipal finances. Trends in income and expenditure) (1997-2007)*. CEDLA, 2009.

9 This relates to the South American Regional Infrastructure Integration Initiative (IIRSA) and investment in bi-oceanic road projects.

The crisis and pressure on natural resources

According to some scientific predictions,¹ the world could reach its conventional oil production peak before 2020. This scenario suggests that energy prices will continue at high levels and thus constitute inflationary pressure world-wide and stimulate the development and production of substitutes like bio-fuels, also spurring the search for other substitutes like the so-called energy minerals, nuclear power and renewable energy sources.

In this complex panorama, responses to the international economic crisis cannot focus exclusively on the immediate consequences of the recession and the form that recovery will take. On the contrary, these responses should stem from an evaluation of the consequences of maintaining a mode of production that, in the long term, will lead to the over-exploitation of labour and the consolidation of the transnational monopolies that dominate the exploitation of natural resources.

Trends in foreign direct investment (FDI) in Bolivia have been variable in the last ten years, but from their behaviour it is clear that there is increasing concentration in the extractive sectors (hydrocarbons and mining). Official statistics show that in 2008 these two sectors received more than 75% of FDI flows,² with mining taking a greater share because of international price rises

for these products and investment stagnation in the oil and gas sector.

Another aspect is that an analysis of FDI in these sectors shows an increase in payments of dividends on shares and other participation in capital, and in "disinvestment",³ especially since 2004, and since that time these payments have exceeded gross FDI. The highest peak for capital outflows from the country on the part of transnational enterprises was in 2005, when it amounted to more than 201% of gross FDI.⁴

Because of the kinds of activities involved (basically geared to exports), FDI has not generated better conditions for the country. In fact, in this business, more money has flowed out of Bolivia than has come in. Similarly, what is left in the State's coffers through taxes and fees from extractive activities (mainly oil and gas) has gone on public investment in regional projects – like the bi-oceanic integration project – rather than on investments that would have a significant positive impact on the country's economy. ■

1 UK Energy Research Centre, "Global Oil Depletion. An assessment of the evidence for a near-term peak in global oil production." August 2009.

2 Instituto Nacional de Estadísticas. *Inversión Extranjera Directa*. (National Statistics Institute. Foreign Direct Investment) 1996-2001. Central Bank of Bolivia, 2002-2008.

3 Disinvestment is understood as "investment is the opposite direction (...) it is a kind of return of direct investment capital to its owner and/or capital financier." IMF, *Guide for compiling balance of payments statistics*. Washington, 1995.

4 Efraín Huanca, "Generación y uso del excedente económico en Bolivia (The generation and use of economic surplus in Bolivia) 1988-2008". CEDLA. Mimeo. December 2009 (Partial progress).

Conclusions

As we have seen, Bolivia's increase in fiscal income was brought about by extraordinarily high international prices for prime materials. This rules out plans for sustainable development because the country is more dependent than ever on income derived from taxes on primary export activities, which are controlled by transnational enterprises. Moreover, these companies regulate their investment flows in accordance with international price trends and the conditions the Bolivian State has imposed through frameworks that regulate their activities. ■