Raw Materials and Society in Latin America

Reflections on Extractivism, Fiscal Policy and Socio-Ecological Sustainability

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TODAY, both to ensure democratic and economic stability and to achieve social equilibrium in Latin America, it is necessary to mobilise resources extensively. This is achieved exclusively through collective efforts. In the region with the highest levels of inequality and a high concentration of wealth (according to the World Inequality Database – WID, 2022[1]), this also implies holding the richest ten percent of the Latin American population responsible.

The global appetite for raw materials, which is readjusting with the onset of the decarbonisation of the world economy and the war in Ukraine, is beginning to give way to a boom in "green" raw materials. Latin America is well poised for this new dynamic: the region has a significant share of global reserves of lithium, copper, bauxite, silver, coal and oil; in total, more than a third of all the minerals needed to achieve climate neutrality, which are strategically important

[1] https://wid.world/.

for industrialised nations. In particular, the subcontinent leads in the extraction of lithium, which is used in the production of batteries for electric motors, which also provide attractive conditions for the production of green hydrogen. Furthermore, the subcontinent produces a substantial portion of the world's staple foods.

It is therefore foreseeable that the development path oriented towards the export of raw materials, which has notably shaped Latin America in the last two decades, will be strengthened once again. A new phase of raw material extraction known as "green extractivism" is being prepared, in which it would be possible to unify the extraction and utilisation of raw materials through the use of environmentally friendly state-of-the-art technology. This implies the creation of mining that respects both climate and sustainable development goals, as well as a "low-carbon" future for all.

However, the experience and results of the last phase of the extractivist boom (2003-2014) have shown that the development strategy based on commodity exports failed in its main objectives. It did not manage to sustainably reduce social inequality or the structural heterogeneity of the economy (that is, reduce intersectoral productivity differences, the segmentation of income and labour markets, as well as the stratified consumption patterns derived from these), nor did it increase labour productivity or change the productive matrix, generate economic diversification, strengthen the internal economy or create greater independence from international markets [2].

If, with the new commodity boom, the region wants to transform itself and move from an economic model that exports raw materials to another that is socially and ecologically sustainable, in which the quantitative increase in export earnings is transformed into qualitative growth, saving resources and with productivity gains, it is essential to revalue work. This includes the universalisation of quality education and robust social protection, which would initiate a significant reduction in informal employment and lay the foundations for an increase in labour productivity and the creation of highly efficient, non-resource-intensive "green jobs." The additional resources needed for this can initially be generated th-

[2]Burchardt, H.-J., Dietz, K. and Warnecke-Berger, H. (2021). Dependency, Rent, and the Failure of Neo-Extractivism. In Madariaga, A., Palestini, S. (Eds.). *Dependent Capitalisms in Contemporary Latin America and Europe* (pp. 207–229). London: Palgrave Macmillan.

rough revenues from the new "green" commodity boom. However, the last boom phase taught us that this is not enough and is only sustainable for a short period of time; therefore, resources must be generated beyond the income from raw materials. What is needed is the rapid development of new state revenues that are less dependent on global market trends and allow for long-term strategies. This makes the issue of fiscal reform one of the central development issues for Latin America in the 21st century.

The challenges of fiscal systems in Latin America and the need for reform

Today, Latin American tax systems can be characterised by three features. First, by levies that have focused on commodity exports and foreign trade. This historical dependence on tax revenue from commodity exports did not decrease during the latest boom, and in some cases even increased. Second, by their strongly regressive nature. This is based on a consistent low and direct taxation of wealth, high incomes, and corporate profits. Even during the recent commodity boom, progressive governments failed to increase taxes on the wealthy through direct taxation. Moreover, businessmen and the wealthy enjoy numerous tax avoidance privileges. Inheritance taxes are low or non-existent and there is a culturally disguised tolerance of tax fraud and tax evasion abroad, both by individuals and transnational corporations. ECLAC[3] estimates that tax evasion in the region may reach 60 % of potential tax revenue. Third, Latin American tax systems are characterised by a traditionally distributive and allocative fiscal policy that particularly favours the middle classes and economic elites. Public spending traditionally focuses on essential functions such as the military, administration, structural policy, corporate subsidies and debt servicing, and neglects the important areas of fiscal legitimisation of public services such as health, education and culture. Since its inception, the fiscal state has only fulfilled redistributive functions to a very limited extent; this has also not changed during the recent commodity boom[4].

The lack of implementation of fis-

[3] ECLAC (2020). *Panorama Fiscal de América Latina y el Caribe, 2020*. Santiago de Chile: ECLAC.

[4] Fehling, P. and Burchardt, H-J. (Eds.). (2023). *Taxation and Inequality in Latin America: New Perspectives on Political Economy and Tax Regimes*. London: Routledge.

cal reforms cannot be interpreted as a manifestation of a lack of institutional cohesion. Nor can it be explained exclusively as a manifestation of political discouragement or opportunism. Rather, it is a structural result of the very development model based on the export of raw materials. On the one hand, this model has generated small but highly influential (business, political, military) elites who, due to the lack of economic diversification and little differentiation in society, possess enormous veto power and hinder any attempt to implement redistributive policies that would affect them. On the other hand, the considerable commodity revenues during the economic boom led governments not to address these conflicts, but to use the additional revenues from commodity exports to mitigate social problems and thus gain political legitimacy.

A new "green extractivism" that wants to use its resources for sustainable development can only succeed if it breaks with this logic and culture. To achieve this, this is not a call for conflict with the elites. Rather, the economic prosperity of the next boom phase must be used to implement structural reforms with democratic legitimacy. A tax reform that seeks to effectively tax higher incomes and wealth is not just a matter of technical application; it must also create fiscal legitimacy. That is, it must reduce the rejection of taxation among important parts of society. This can be achieved not only with efficient laws or administrations, but also with a state that provides widely accessible high-quality public goods, improves the education and working conditions of a large part of the working population and, in doing so, exploits productivity potentials that invigorate the economy and society. The aim is to set the course for a distribution and allocation of tax policy that will significantly improve the quality of life of taxpayers.

The necessary reforms can be achieved through a variety of measures. There is no doubt that there is a need to rapidly improve the data situation regarding the registration of high incomes and wealth, as well as the ownership of land and real estate, both in individual countries and in the region as a whole, through the creation of public registries of wealth. This would provide a solid basis for an effective fight against tax evasion and avoidance, to be enforced through a generalised threat of sanctions, i.e. simply by enforcing compliance with the law. According to various estimates, this would increase regional tax revenues by at least half. Instead, when sufficient fiscal legitimacy cannot be generated and active redistribution cannot be politically imposed, one can resort to passive redistribution through the dismantling of corporate protection and subsidies, as well as a tax-financed structural policy in favour of the public sector.

The dynamics of commodity-based development in Latin America

The latest commodity boom in Latin America has made it clear: development is not a question of scarcity. There are sufficient resources. It is just a matter of mobilising and distributing them wisely. Therefore, development through the export of raw materials is always a matter of policy.

Analysis of the region's fiscal systems shows that, despite excellent initial conditions and a clearly articulated political will to promote structural change, the state and politics have failed to come even close to achieving their goals. The reason for this is that the state does not operate in isolation from the raw material, but is shaped by it: in extractive economies, revenues are generated through the exploitation of nature. Revenues generated by raw materials are not usually accompanied by a high return on labour or investment on the part of the beneficiary, but are relatively freely accessible. Profits are not created, rents are generated. In this system, work has little or no value for wealth creation. At the same time, the distribution of resource income is not decided through economic allocation, competition and efficiency, but mainly politically and above all by the state as a central actor. As Coronil [5] succinctly put it: if in market economies, "the business of politics is business," i.e. the state sets the central parameters of capitalist accumulation, then in rentier states it would be: "the business of business is politics."

Moreover, commodity revenues from abroad free the state from the need to tax the population. But when there is no need for a fiscal contract between the state and society, the need to guarantee the state's legitimacy through democratic and social participation is also reduced: "No Taxation, No Representation." The state and go-

[5] Coronil, F. (2008). It's the Oil, Stupid!!!. *ReVista: Harvard Review of Latin America*, November.

vernments can afford not to respond to social demands and increasingly act as agents of distribution.

It is not democratic participation that ensures legitimacy on the part of the population, but the promise of material participation through the distribution of resource revenues. Thus, public spending policies in resource-rich societies are primarily aimed at ensuring political loyalty and stability. The (unequal) distribution of resource rents among the population allows the state to co-opt different social groups and pacify society, at least in times of high income.

This particular mix inhibits the transformative potential of governments and states that pursue development models based on commodity exports. If power, status and wealth depend primarily on access to commodity rents and thus access to the state, the state apparatus as a whole is not capable of creating development alternatives in terms of increased productivity, diversification or sustainable growth [6]. Rather, many state actors have an interest in securing and further deepening the extractivist model in order to preserve their autonomy and their own privileges.

This explains why, during the last boom phase, even under optimal reform conditions (parliamentary majorities, consolidated democracy, economic prosperity, full state coffers and high legitimacy), Latin American political elites failed to implement the universalisation of social policy, stricter regulation of informal labour and fiscal redistribution that would ensure greater social cohesion, economic productivity and lasting political stability [7].

The dynamics of this commodity society constellation can be described as a lift effect, i.e. an upward collective mobility in which (almost) all groups involved rose equally during the boom phase without changing the internal composition of society. The state exercised the central function of continuously regulating this equilibrium. Conflicts with influential groups, especially economic elites, which would inevitably have arisen with tax reforms, were compensated and avoided by additional spending. Thus, economic eli-

[6] Warnecke-Berger, H. and Ickler, J. (Eds.). (2023). *The Political Economy of Extractivism: Global Perspectives on the Seduction of Rent*. London, New York: Routledge.

[7] Burchardt, H.-J. (2017). La crisis actual de América Latina: causas y soluciones. *Nueva Sociedad*, no. 267, pp. 114–128. Disponible en https://nuso.org/articulo/la-crisis-actual-de-america-latina-causas-y-soluciones/.

tes were not only able to maintain their wealth under progressive governments, but often even expanded it. The consensus that emerged was not based on social cohesion, but rather on a kind of alliance between spoils distributors that was based on raw materials and remained stable as long as there was plenty to distribute. However, in political alliances characterised primarily not by compromise, but by the interaction of a community of predators, institutional legality and democratic institutions are stealthily eroded.

Road to sustainable development

On the face of it, this is a pessimistic assessment. Rather, lessons can be drawn from this finding. The latest commodity boom in Latin America serves as an excellent lesson on how a future "green extractivism" can be transformed into sustainable development with broad social participation and leads to several recommendations.

For a policy that wants to harness the boom in new raw materials to achieve socio-ecological transformation, there is a clear roadmap: the deployment of green technologies will not be enough. To achieve sustainable development, "green extractivism" must be systematically linked to structural reforms in social policy, labour relations and tax systems that reduce the structural heterogeneity of the economy and society.

Reform of the tax system must be at the heart of any commodity export strategy that pursues socio-ecological transformation. Through taxation, the state can secure revenues that are not directly subject to natural exploitation and volatile global market dynamics, which helps to finance the long-term, high-quality expansion of public services such as social entitlements, and helps to promote economic diversification and productivity potentials. Initially these measures can be financed by new commodity revenues, but it is necessary to clearly formulate from the outset how they will be gradually financed from fiscal financing. The best way to achieve broad legitimacy for such tax reforms is for governments to carry them out during periods of economic prosperity.

Minerals and rare earths (such as lithium, copper, aluminium, magnesium and nickel) will become more important and promise to generate new high revenues. However, unlike oil and gas production, mining is often not centrally organised or, in many cases, regulated by the state. Instead, the local level and actors, both private and transnational, are gaining influence in this area. If this situation is not responded to with adapted regulatory formulas and fiscal mechanisms, Latin America will be threatened by a dangerous increase in territorial disparities, which may fuel new political conflicts and instabilities.

If this does not happen, the incipient boom phase in Latin America will not promote sustainability and social cohesion. What will remain will be a region even more depleted of resources and people. History would repeat itself, this time as a farce, because politicians knew in time what had to be done.