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FEATURED Q&A

Will Correa Resurrect His Tax Hike Plans?

Protesters filled streets in Ecuador earlier this month in opposition to Correa's proposals to increase inheritance and capital gains taxes. // Photo: Telesur.

Q **Ecuadorean President Rafael Correa recently announced that he was temporarily halting a plan to boost inheritance and capital-gains taxes. The announcement followed large street protests in opposition to the tax hikes. Will the plans eventually go forward, or will they be permanently shelved? What would be the economic effects of such tax increases? Is Correa facing mounting levels of political and public opposition to his agenda?**

A **Francisco X. Swett, chairman of Pallas Management Corp. and former Ecuadorean minister of finance, member of Congress and central bank president:** "The Correa regime's widely promoted 'miraculous' model of economic growth and development has lost whatever celestial qualities, if any, it possessed and has crash landed. This year, official expectations are of 1.9 percent growth with underlying negative growth considering that public debt equal to 5 percent of GDP is being issued. The Correa regime has accumulated liabilities that are now coming due, including the unilateral withdrawal of the subsidy support for pension payments to Social Security; the impounding of private pension funds, most notably the Teachers' Funds; and the maladroit handling of balance-of-payments adjustments with the imposition of prohibitively high tariff surcharges. The last straw is the ill-timed and poorly designed inheritance and land-valuation taxes. Not only are these measures ineffective against a gross income deficit of around 10 percent of GDP (6-7 percent unfunded), but contradicting the message of social equity, they represent a significant future burden to Ecuador's

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TODAY'S NEWS

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Petrobras Probe May Ensnare Eletrobras: Prosecutor

State power utility Eletrobras may become part of the investigation into corruption at state oil company Petrobras, a lead prosecutor said.

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Did the EU-CELAC Summit Achieve Anything?

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López Ends Hunger Strike as Venezuela Sets Election Date

Jailed Venezuelan opposition leader Leopoldo López ended his hunger strike after the government set a date for legislative elections, one of López's key demands.

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López // Photo: leopoldolopez.com.

POLITICAL NEWS

López Ends Hunger Strike as Venezuela Sets Election Date

Jailed Venezuelan opposition leader Leopoldo López on Tuesday ended his month-long hunger strike after the government set legislative elections for Dec. 6, meeting one of his primary demands, the Los Angeles Times reported. The country's electoral council, headed by Tibisay Lucena, set the date for the vote on Monday, ending weeks of speculation that the government might decide not to hold the election as polls show that the ruling party could lose its majority in the National Assembly. López's wife, Lilian Tintori, read a statement Tuesday from her husband in which he asked the approximately 100 other fasters to call off their hunger strikes. "We took on this protest not to die but so that all of us Venezuelans can live with dignity ... I will continue the struggle for a better Venezuela," he said in the letter, in which he also called the government's decision "a joint achievement" for all of the hunger strikers, according to The Wall Street Journal. "All I can say with a lot of hope is that Venezuela now has a date for change," López wrote. López has been detained since February 2014 on charges of inciting violence during anti-government protests. He has said the charges are politically motivated. López's family said he lost about 30 pounds during the hunger strike, in which he consumed only water and an electrolyte solution.

> **We took on this protest not to die but so that all of us Venezuelans can live with dignity..."**
>
> **— Leopoldo López**

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aspiring middle class who will be the main contributors to the schemes. The people have lost patience with Mr. Correa, with his ornery behavior and abuse of power. This is the third week of protests, and massive marches are expected to continue. Correa wants to bide his time until after the pope's visit in early July to relaunch his legislative pieces, but this is a bad misreading of the national mood. Malpractice in economic policymaking has created conditions of economic crisis with investment decisions postponed or canceled, business closures increasing, unemployment pushing upwards, and a generalized sentiment of malaise. The problem cannot be wished away. It is the time of reckoning."

A **Marc Becker, professor of history at Truman State University:** "The conservative opposition to Correa's plans to increase inheritance and capital gains taxes can usefully be understood through the observation of the famed abolitionist Frederick Douglass that, 'Power concedes nothing without a demand. It never has and it never will.' It is not surprising, and in fact should be expected, that the oligarchy would organize to defend their class privileges. Redistribution of resources from the top 2 percent of wealth holders to the rest of the population predictably leads to such a reaction. Powerful and well-organized social movements based in the lower classes and influenced by a leftist political ideology removed a series of presidents from 1997 to 2005 who implemented neoliberal economic policies that shifted resources to the top income earners. Correa is the first president in Ecuador to attempt to challenge those policies. The proposed tax increases are part of a broader economic program designed to reverse extreme wealth inequalities that lead to associated problems of political instability, criminal violence and declining socio-economic in-

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NEWS BRIEFS

Petrobras Probe May Hit Eletrobras, Other Companies: Prosecutor

Brazil's large corruption investigation into state oil company Petrobras could spread to state power utility Eletrobras and more than a dozen foreign companies, a lead prosecutor said on Tuesday, Reuters reported. Carlos Fernando dos Santos Lima said a graft scheme similar to the one that occurred at Petrobras may have taken place at Eletrobras on projects such as the huge Belo Monte dam and the Angra 3 nuclear reactor. "There are many charges still to come," Lima said.

Italy's UniCredit Eyeing Expansion in Latin America: CEO

The CEO of Italian financial services company UniCredit, Federico Ghizzoni, said Monday that the company is reviewing its business plan as interest rates could stay low for longer than expected and erode its planned margins, but that the bank still plans to expand its presence in Latin America as well as China and the Middle East, The Wall Street Journal reported. UniCredit would not acquire lenders in those regions, but would make commercial agreements with local banks in countries where it hopes to expand its presence, Ghizzoni said.

Audit at Endesa Chile Finds $500,000 in Irregular Expenses

Endesa Chile on Monday reported that an audit carried out to detect possible illegal political funding found irregular expenses amounting to $500,000 between 2012 and the first quarter of 2015, Reuters reported. The final reports from the auditors and lawyers will be available in July, but the power company's board said it would immediately stop giving any contributions for electoral or political purposes, 24horas.cl reported.

ECONOMIC NEWS

Mexico Announces Tender for $10 Billion of Power Projects

The Mexican government announced on Monday that it will tender 24 power projects for a total of 150 billion pesos ($9.79 billion), The Wall Street Journal reported. The plans, which had been partially announced, include five natural gas pipelines, three small pipeline branches, four power generation stations and nine electricity transmission and distribution stations, state-owned electricity utility CFE announced. The largest project in the package is an 800-kilometer, $3.1-billion underwater natural gas pipeline that would connect Brownsville, Tex., to the Mexican Gulf port of Tuxpan. The pipeline will have the capacity to carry 2.6 billion cubic feet a day of gas to supply CFE power plants in the states of Tamaulipas and Veracruz, among others. CFE will award the contract in December, with the pipeline slated to begin operating in 2018. Altogether, the projects would add 2,300 kilometers of gas pipeline, 1,442 megawatts of power generating capacity and more than 3,000 kilometers of transmission and distribution lines, CFE head Enrique Ochoa said. Most of the projects would come online in 2017 and 2018.

BUSINESS NEWS

Workers at Chile's Collahuasi Mine Vow Not to Back Down

Workers at the Collahuasi copper mine in Chile on Tuesday said they would not back down amid a conflict with the mine's owners over better working conditions, Reuters reported. The union representing workers at the mine, which is jointly owned by Glencore and Anglo American, has been pressing for concessions including better transportation and lunch schedules that are more generous, the wire service reported. "We will not quit, and we will continue to mobilize until a final agreement is reached," the union said in a statement. The union also urged mine workers elsewhere in Chile to start a national strike. The miners' union urged "miners that are staff and contractors, at private and state-owned companies, to mobilize and move towards a national mining strike." The Mining Federation, an umbrella organization for Chilean miners' unions, has expressed support for the Collahuasi miners' union. Workers called a 24-hour strike on June 15, and the mine owners responded by firing 31 striking workers. The mine called the strike an illegal breach of a labor contract that runs until 2017. Collahuasi, located in northern Chile, employs more than 2,500 workers. It had an output of 470,400 metric tons of copper last year, an amount equal to 8 percent of the South American country's total production. Chile's mining sector is facing declining grades of ore at many of its deposits, the wire service reported. However, new mines in Chile are helping to boost output.

THE DIALOGUE CONTINUES

Did Leaders at This Month's EU-CELAC Summit Achieve Anything?

Q **During a two-day summit in Brussels this month, Latin American and European leaders discussed cooperation on trade and other issues, with Europe pledging investments and support for sustainable development in Latin America and the Caribbean. What were the most important achievements of the summit? How well is Europe developing its economic interests in Latin America amid competition from other areas such as China? How significant was the European Union's agreement at the summit to allow Colombians and Peruvians to visit Europe without visas?**

A **Paweł Zerka, director of the Global Horizon of Europe program at the demosEUROPA-Centre for European Strategy in Warsaw:** "Strong high-level attendance at the E.U.-CELAC summit was the event's most important achievement. The meeting gathered heads of state and heads of government from a vast majority of countries in Europe as well as Latin America and the Caribbean. Even Brazilian President Dilma Rousseff went to Brussels despite her usual resistance to undertake long journeys. It must be recalled that only a year ago there were legitimate concerns that the summit would end up as a meaningless, low-level gathering—and a premature end to a promising partnership. The summit managed to dispel those fears. It was a demonstration of a true mutual interest between the two regions. Latin America and Caribbean are rediscovering Europe because of weaker Asian demand and the resulting lower growth. They are also trying to reconnect with major trade and investment agreements, currently negotiated in the Atlantic (TTIP) and in the Pacific (TPP). Meanwhile, since the 2008 crisis, European countries have become increasingly aware of the need to look away from their strictly regional affairs and to become more engaged globally, most of all in the economic area. The recently announced thaw between the United States and Cuba, which is considered as a herald of rapprochement between the United States and Latin America and the Caribbean, also serves as an invitation for European countries to strengthen their bonds with the entire Western Hemisphere. In this sense, we should expect increased E.U.-CELAC biregional activity in the years to come."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in Monday's Advisor.

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dicators. The recent street protests against Correa's redistributive economic policies do not remotely approach the size, intensity or coherence of the earlier mobilizations that removed conservative presidents from power. Hopefully Correa will not treat these reactions as a barrier to the creation of a more just and equal society."

A **Ramiro Crespo, president of Analytica Securities in Quito:** "Protests were certainly catalyzed by the president's controversial proposal of the inheritance and capital gains tax laws. However, these are, at most, the tip of the iceberg for what Ecuadoreans are really protesting against: the lack of accountability and freedom of speech, as well as corruption and the hint of indefinite re-election, just to name a few. Shelving these laws permanently is unlikely due to the heavy political risk it would entail for the president, yet, the potential tax collections these two laws would yield is anemic. We see, in the first of two possibilities, that such laws were grossly miscalculated in financial and political backfire terms, all too common in this law-rushing government with little or no debate. In an attempt to have the private sector fill in the gaps left by a fiscally contracted government, all Correa has achieved is killing investor confidence, as happens in a ruleless environment. A second possibility is that these laws are actually too well calculated as a distraction for much broader plans. Leaving these laws in limbo creates smoke and mirrors. While mass protests continue, Ecuador's National Assembly could pass a series of constitutional amendments without a plebiscite (including the aforementioned indefinite re-election), which would further erode the few checks and balances Ecuador has left. This said, the opposition is certainly consolidating against Correa's agenda, as Ecuadoreans' unrest responds to a Venezuela-like path they see themselves on, where democracy is constantly and increasingly mutilated by a rubber-stamp Assembly."

A **Abelardo Pachano, president of Finanview in Ecuador, former CEO of Produbanco and former Ecuadorean central bank president:** "Some government officials have cited a recently published book by economist Thomas Piketty as support for actions that governments must take to avoid the huge inequality that prevails in economies today. Piketty's book advances the notion of putting a global tax on capital, and the inheritance tax is a way to put a tax on the stock of capital of individuals. But it does not make sense for small, developing country with a free-market economy like Ecuador to be the pioneer on this idea. It would produce a big outflow of capital, and it violates property rights and the rule of law. Moreover, proposing these taxes was done at a very bad time, considering Ecuador's economy has suffered a big external shock due to the fall of oil prices. The tax proposal would increase de-monetization at a time when the financial system is suffering from a commercial imbalance in the external sector and would accelerate the outflow of capital from the economy. June will probably be a very bad month for the financial system. There are other ways in which the government should have acted in order to address income inequality. One of those is changing the huge gas subsidy that has been in place over the past eight years. This subsidy benefits the richest people in Ecuador. Politically, there is no doubt that Correa's government has suffered and lost a big part of its support. Nevertheless, it remains to be seen whether the administration will resubmit the tax proposals to the National Assembly."

Editor's note: The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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