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THEDIALOGUE

FEATURED Q&A

What's Behind the Rise in the Region's Billionaires?

Latin America last year saw the world's fastest rise in the number of billionaires. // File Photo: Agnico-Eagle Mines Ltd.

Q The number of billionaires in Latin America increased 38 percent last year to 151, the fastest rate among regions of the world, while the number of 'ultra-high net worth' individuals with fortunes of at least $30 million grew 5 percent last year to just under 15,000 people, consulting firm Wealth-X said recently in its annual billionaire listing. Why is Latin America creating more super-rich people than other places in the world? Is it a healthy outcome of economic development or a signal that income inequality is getting worse?

A **Juan Carlos Hidalgo, Latin America policy analyst in the Center for Global Liberty and Prosperity at the Cato Institute:** "According to Wealth-X, the main reason the number of billionaires increased was because some big fortunes were subdivided among heirs. The report adds that even though there are more billionaires in the region, their median wealth actually decreased by 26 percent. Overall, the combined capital of Latin American billionaires went up by only 3 percent during this period, pretty much reflecting the growth of the economy. More importantly, the same study indicates that 72 percent of Latin American billionaires inherited their fortunes; while in North America, 64 percent of billionaires are classified as 'fully self-made.' This shows that our region is still home to fairly closed mercantilist societies in which the easiest way to become a billionaire is to be born one. Some of the biggest fortunes in the region, moreover, come from businesses that became successful thanks to captive markets sheltered by governments. Carlos Slim, Latin America's richest man, is a 'self-made'

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TODAY'S NEWS

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Brazil Probing $17 Billion in Suspicious Activity

An official told a congressional committee the suspicious movement of money may be linked to the corruption scandal at state-run oil company Petrobras.

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ECONOMIC

Mexico Announces Measures to Protect Steel Industry

The industry is facing oversupply from China and cheap imports from Russia. One major steel producer recently announced job eliminations.

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POLITICAL

Colombia's FARC Calls Unilateral Cease-Fire

The announcement came amid a surge in violence and calls for both the government and the rebels to de-escalate attacks. President Juan Manuel Santos said he valued the FARC's gesture, but added it was not enough.

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Santos // File Photo: Colombian Government.

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POLITICAL NEWS

Colombia's FARC Calls Unilateral Cease-Fire

The Revolutionary Armed Forces of Colombia rebels on Wednesday declared a unilateral cease-fire amid their peace negotiations with the government, a move that came just days after the government's chief negotiator said the talks, which have been going on for two and a half years, had reached their "lowest point," The Guardian reported. "With this, we seek to generate favorable conditions to advance with our counterpart to work toward a definitive, bilateral cease-fire," the FARC's lead negotiator, Iván Márquez, said in Havana. In March, Colombian President Juan Manuel Santos halted the military's aerial attacks against the rebels, but a rebel attack killed 10 soldiers in April, and Santos then ordered aerial attacks to resume. Since then, both sides have launched new attacks, including guerrilla attacks against utilities and infrastructure such as oil pipelines and roads. The FARC announced Wednesday that the cease-fire would begin on July 20—Colombia's independence day—and would last for one month. Santos reacted by saying he valued the gesture, but added that it was insufficient. "If the cease-fire were accompanied by concrete commitments on the subject of justice and a definitive cease-fire, then we would be talking about progress," he said at a public event, The Guardian reported. June was the most violent month in Colombia since the beginning of the peace talks in November 2012, according to the Conflict Analysis Resource Center, a Bogotá-based think tank. Last month, there were 24 attacks on military and police posts, 17 attacks on pipelines, roads and electrical infrastructure and four ambushes, the group said. On Tuesday, four countries backing the talks issued a statement calling for an "urgent de-escalation" of the violence that has threatened the negotiations. The statement from Chile, Cuba, Norway and Venezuela called for both sides to "strictly restrict" actions that cause suffering and to implement confidence-building measures. Former Colombian Vice President Humberto de la Calle, the government's chief negotiator at the talks, previously said in a newspaper interview that the government was prepared to walk away from the negotiations. "The harsh truth is that Colombians don't believe in the peace process," said de la Calle. Last week, a Gallup poll showed that Colombians were evenly divided between support for a negotiated end to the country's five-decade armed conflict and a resolution through military force. The poll showed barely 28 percent support for Santos, who has made the talks a centerpiece of his presidency.

The rebels' head negotiator, Iván Márquez, announced the cease-fire Wednesday in Havana. // Photo: FARC.

ECONOMIC NEWS

Brazil's Congress Defies Rousseff in Passing Pension Bill

Brazil's Congress on Wednesday approved legislation that would boost government expenditures on retirement benefits, a measure President Dilma Rousseff has opposed as her government tries to rein in spending increases, Bloomberg News reported. The Senate on Wednesday approved the measure, which would boost retirement payouts every year using the same formula that is used to calculate minimum-wage increases. The lower house passed the same measure last month as an amendment to a bill increasing the minimum wage. Both bills will now pass to Rousseff, who is expected to veto them. The government's leader in the Senate said Wednesday that

NEWS BRIEFS

Brazil Investigators Find as Much as $17 Billion in Suspicious Activity

Investigators at Brazil's finance ministry said this week that they have found as much as $17 billion of suspicious activity that may be linked to a kickback scandal at state oil company Petrobras, the Associated Press reported Wednesday. Financial intelligence unit head Antonio Gustavo Rodrigues told lawmakers on Tuesday that the unit found "suspicious movement of 55 billion reais in operations linked to Petrobras" and that authorities will now determine whether the activity was illegal.

Pope Francis Praises Bolivia for Social Inclusion of the Poor

Pope Francis arrived Wednesday in Bolivia on the second leg of his South American tour and praised the Andean country for its social inclusion of the poor. "Bolivia is making important steps towards including broad sectors in the country's economic, social and political life," the pontiff said after arriving in La Paz. The pope visited Ecuador earlier this week and will also travel to Paraguay during the trip.

World Bank Rejects Venezuela's Request to Review Arbitration Award

A World Bank tribunal on Wednesday rejected Venezuela's request to review an arbitration award of $46 million that the country was ordered to pay oil service company Tidewater for the 2009 nationalization of its ships and lifted the stay on the execution of the award, according to a decision posted on the tribunal's Web site, Reuters reported. Venezuela sought a revision of the award based on "an error in the tribunal's damages calculation," the World Bank's International Center for Settlement of Investment Disputes' (ICSID) said, but the tribunal said it had already considered all evidence.

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billionaire whose telecom empire enjoyed a legal monopoly in Mexico until very recently. Banking, beer, media and mining, all of them industries with high barriers to entry, are the sectors where we can find the largest fortunes in Latin America, suggesting that mercantilism is very much alive. Even so, in the last decade, Latin America has witnessed an unprecedented decline in inequality. The World Bank found that in the 2000s the incomes of the poor outstripped average incomes. Inequality is still high, but faster growth and open markets are key to more inclusive societies in Latin America."

Juan Pablo Jiménez, economic affairs officer in the Economic Development Division at the U.N. Economic Commission for Latin America and the Caribbean: "It is important to consider that the most significant feature of inequality in Latin America (the most unequal region in the world) is the high concentration of wealth and income in few families, considering different indicators based on household survey or tax data. Using tax records, recent evidence on income inequality has shown that the income share of the richest 1 percent in Latin America concentrates more than 15 percent of total income (for example, 17 percent in Argentina, 21 percent in Chile, 20.5 percent in Colombia, 20 percent in Ecuador and 21.3 percent in Mexico), which validates Latin America as the region with the highest income concentration. This high concentration is explained by several structural characteristics like the small distributive effect of fiscal and tax policy, weaknesses in the design of the income tax and its consequent low revenue, low performance of property taxes and almost nonexistent inheritance taxes. Typically, the income tax is biased to raise more revenue from enterprises than persons, weakening the distributive impact of the tax system. In addition, the personal income tax is biased toward labor income to the detriment of capital income, where the wealth and income of the richest are concentrated. Some evidence to support the previous statement: the personal income tax raises 1.6 percent of GDP in Latin American, while in OECD countries this reaches 8.5 percent of GDP. The revenue of property taxes in Latin America is 0.44 percent of GDP, while in the OECD this is roughly 1.4 percent of GDP. The gap between the average effective rate and legal or statutory rate on personal income tax is huge in the richest decile (explained by exemptions, tax avoidance and preferential treatment of capital gains): the effective rate paid by the 10th decile is on average about 5.6 percent, while the maximum statutory rates are between 25 percent and 40 percent."

Jorge Lara Urbaneja, partner at Arciniegas, Lara, Briceño & Plana in Bogotá: "The state has been the major source of wealth in Latin America. The state's preeminence in Latin America, in its defense of public interest, has fostered large fortunes and, in many cases, instances of corruption. For centuries, major projects have been structured as state or private monopolies with a heavy political component. Economic and social growth through major private projects and free-market competition is generally outside the political discussion. There are many examples of natural resources being exploited by state-owned entities or under long-term contracts or licenses outside market competition. Traditionally, the state has organized utility companies, whether or not with minority private participation, away from competition. The state undertakes large construction and infrastructure projects that, in many instances, become endless ventures with costs that exceed initial budgets. Commercial and industrial protection is another source of wealth, which is precisely generated under the notion that competition in open markets only favors foreign interests. That way, in certain cases, a few companies exploit local markets using

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Rousseff will likely only veto the part of the legislation that raises retirement spending. The president last month vetoed legislation that would have changed the formula that determines when Brazilians are eligible for pensions and allowed them to collect benefits at a lower age. Rousseff's government is trying to reduce spending and raise revenue to shrink the budget deficit and avoid a credit-rating downgrade, but her record-low popularity and disagreements within the ruling coalition have hindered her fiscal-austerity plans. "The defeat in today's voting once again demonstrates the weakness of the government," David Fleischer, emeritus professor of political science at the University of Brasília, said Wednesday. "This shows the government lacks strength in both the lower house and Senate." The president's administration is also trying to win Senate approval for a bill already passed in the lower house that would raise taxes on company sales revenue, the last proposal in Finance Minister Joaquim Levy's austerity package.

Mexico Unveils Measures to Protect Steel Industry

Mexico's government on Wednesday announced a series of new measures to protect the country's steel industry amid cheap imports from Russia and oversupply from China, Reuters reported. Under the new measures, the government will add 86 steel products to the country's "sensitive merchandise" list and will also bolster customs controls in order to prevent quota avoidance, the Economy Ministry said in a statement. The ministry added that the government has 31 quotas to prevent dumping, with nearly half of them imposed on products from China. Last month, Mexico implemented new import duties on steel products from China, Germany and France. Steel producers have been hard-hit recently. Altos Hornos de Mexico, one of the country's largest producers of the metal, said in June that it would slash its workforce by 20 percent.

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sub-quality standards. Those initiatives aimed at reducing the gap between the rich and the poor, mainly by increasing taxes upon those in the high end, have generally produced the opposite result. Rich individuals have the means and ability to legally avoid the tax impact using local loopholes or foreign legal structures available for the protection of capital. The tax strategies aimed at reducing the wealth gap generally affect new local entrepreneurs who see their capital investment capacity affected."

Deborah Itriago, researcher at Oxfam Intermón in Madrid: "Inequality increased dramatically in Latin America in the 1980s, when debt relief was contingent on structural adjustment programs. Today, Latin America is creating more super-rich people than other regions because of persisting inequality of opportunities. The main obstacles are unequal access to dignified work, lack of quality public services and lack of productive assets. For instance, only 56 percent of the students from the poorest backgrounds attend secondary schools, compared to 87 percent of children from the highest income group. Tax and public spending policies are powerful tools to reduce inequality and generate opportunities for the majority. Unfortunately, tax systems reflect the power asymmetries between rich elites and everyone else. For instance, revenue from general consumption taxes (which apply regardless of a person's income and wealth) is more than eight times what is collected from direct taxes on properties, which are usually concentrated in the wealthier sectors of the population. The increased concentration of wealth by a few has enabled rich elites to continue bending public policy to benefit their interests. Such political capture has served to perpetuate a cycle of increasing concentration of income and wealth, which distorts the political process and results in exclusionary policies that undermine any effort to reduce poverty and inequality."

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>
> **— Deborah Itriago**

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