Revisiting the link between resource windfalls and Fiscal Lazy Collection for local mining economies in Chile

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Abstract

Curse resource literature argues that resource windfalls, such as those derived from a price boom commodity, crowding-out several determinants of long-term incomes (Papyrakis & Gerlagh, 2006). While empirical literature tests this theory for inter country contexts, there is not similar attention to explore it for subnational governments. This different spatial scope would reveal how the low-tier governments would strategically behave for covering the local costs according to the resource windfalls. Thus, any strategic behaviour will directly impact the local community well-being especially due to the key role played by subnational governments to provide local public goods. We contribute to this gap analysing how the resource windfalls from mining taxes crowds out the local collected revenues such as the residential property tax and commercial property tax by means of the case of Chile. Using a panel data for 345 Chilean municipalities between 2008 and 2017, we pursue the causal effect derived from Fiscal Lazy Collection hypothesis measured as the cross substitution between an additional monetary unit received from windfalls. We take advantage for exogenous allocation rule for distribution of mining taxes in the mining municipalities via National Mining Code. Our results do not reject the hypothesis, we observe that mining taxes crowds out property tax collection. Tax laziness is maintained after considering potential endogeneity and heteroskedasticity imposed by spatial autocorrelation. The results suggest the need for local policies focused on discouraging strategic behavior in the collection of local taxes in mining municipalities.

Keywords: Resource windfalls, Tax laziness, Crowding-out, Mining taxes.

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