Royalties and Regional Disparities

The Colombian Economy and Its Regional Structural Challenges: A Linkages Approach
DOI:
https://doi.org/10.1007/978-3-031-22653-3
Publicado:
Lunes, 14 Agosto 2023
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Clasificación JEL:
H77, R12, R13
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The extraction of non-renewable natural resources has the potential to generate revenue to finance government activities. One of the most used tax tools is the collection of royalties from mining projects because they are usually unrelated to their profitability. Royalties often have different channels to have a positive impact on regional development, which in some cases can have opposite effects. Using a computable regional equilibrium model, this chapter estimates the general equilibrium effects of royalty payments by mining activities in the regional development in Colombia. The results indicate that the benefits in welfare and the reduction of regional inequalities due to the imposition of royalties, are greater than the losses that it can generate in the regional output. Further results show the presence of regional and sectoral heterogeneities.