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Taxing Latin America's Economic Elites

Tasha Fairfield

The idea that progressive taxation plays a central role in redistribution might strike many as intuitive. In fact, median-voter models, which continue to generate extensive research and debate in political science, generally start from this premise. Yet until recently, there has been a surprising dearth of research on tax policy and redistributive politics in Latin America. Scholarship on inequality in the region has tended to focus on the politics of social policy and the spending side of the redistributive equation (e.g., Garay 2016; Pribble 2014). Meanwhile, literature on advanced welfare states (Steinmo 1993; Wilensky 2002; Kato 2003) and economic analyses downplayed the relevance of progressive taxation for reducing inequality. Scholars of advanced democracies identified regressive consumption taxation as forming the backbone of the welfare state, which fit well with the view from mainstream economics that revenue should be raised with the economically efficient value-added tax (VAT) rather than direct taxes on income and profits, which would distort decisions about work effort and investment and thereby undermine growth. The standard prescription was to effect redistribution through spending alone.

Groundbreaking work by Thomas Piketty, Emanuel Saez, and their collaborators has shifted the terms of the debate on taxation and inequality. Their research makes a compelling case that progressive taxation can raise significant revenue in highly unequal societies – revenue that can in turn finance social spending and improve the welfare of lower-income groups (Piketty and Saez 2006). They also illustrate that progressive taxation can be an important redistributive tool in its own right (Piketty et al. 2013). Both of these contributions are of great potential importance

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in Latin America, where weak tax capacity – documented in Flores-Macías' Introduction to this volume – has often constrained spending and economic elites bear a notoriously low tax burden.

Methods pioneered by these same innovative economists have shed light on how little economic elites actually contribute to state coffers in Latin America. Estimates from tax return data, which provide far better information than household surveys on income at the top end of the distribution, suggest that the top 1% of Chileans earn more than 23% of income and profits but pay an effective tax rate of only 15% (Fairfield and Jorratt 2016). For Colombia, Alvaredo and Londoño (2013) estimate similarly high top income shares but an even lower effective tax rate of just 7%, although methodological differences preclude direct comparison with the Chilean figures. Even in Uruguay, one of Latin America's historically most equitable countries, the top 1% receives 13% of the pie but pays an effective tax rate of only 14% (Burdín et al. 2014, 40). By comparison, the top 1% paid 21% in the US in 2004 (Piketty and Saez 2006) and 31% in Germany in 2005 (Bach et al. 2013).

In light of these remarkable figures, the question of how and when Latin America's unequal democracies can tax economic elites becomes all the more salient. I have aimed to address this question (e.g., Fairfield 2015a) by focusing on three countries that adopted broad-base VATs with comparatively high rates in the aftermath of structural adjustment: Chile, Argentina, and Bolivia. When confronting revenue needs, policymakers in these countries by necessity often considered tapping into the under-taxed income and profits concentrated at the pinnacles of society.

My research strategy entails close examination of policymaking processes, including the critical but often overlooked stages of agenda formulation and proposal design, which helps pinpoint how economic elites – especially business actors – influence tax policy decisions. This approach complements historical accounts of tax capacity that operate at a more macro-level of analysis (e.g., chapters by Ondetti (4) and Schneider (5) in this volume). While we know a good deal about the historical origins of key sources of business power including partisan linkages and organization (Gibson 1996, Schneider 2004), few studies have examined exactly how business influences policy processes and how much scope governments have to enact progressive reforms when facing different configurations of business power. Detailed process tracing and comparative analysis of multiple tax policymaking episodes in essence form the microfoundations for my aggregate-level characterizations of how business power varied across the countries studied, as well as broader insights

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about structural and political factors that strengthen or weaken business power over time – both short-term and long-term.

The remainder of this chapter gives an overview of my theoretical framework, arguments, and findings. The final sections contribute thoughts on future directions for research on progressive taxation in the region in relation to literature on public opinion and on money in politics.

DEMOCRACY, INEQUALITY, AND REDISTRIBUTION

Debate on democracy and redistribution in political science ranges between two polar positions. On the one hand, a large body of research builds from a median-voter oriented view of politics that expects democratic policymaking to foster redistribution in unequal societies (Meltzer and Richard 1981; Boix 2003; Acemoglu and Robinson 2006). On the other hand, some scholars argue that economic elites get what they want almost all of the time. Winters (2011) focuses on super-rich individuals and identifies exorbitant wealth as an almost invincible source of power, when it comes to the core issue of wealth protection – which in democracies primarily involves curtailing progressive taxation. Culpepper (2011) advances an intermediate argument; he finds that the interests of big business prevail almost uniformly when the issue area has low salience, but maintains that policymakers respond to voters on high-salience issues, which he expects to include taxation.

Contrary to traditional median-voter approaches, I find that voters rarely play a leading role in the politics of progressive direct taxation. Progressive direct taxation by and large involved debate between political elites and economic elites, with electoral incentives mattering at the margins. However, economic elites did not always secure their preferred policy choices, even on manifestly low-salience tax issues. In fact, I observe substantial variation in the extent to which policymakers were able to legislate tax reforms targeting the resources of economic elites – across countries, over time, and depending on the subset of economic elites affected (e.g., different sectors of corporate taxpayers).

I explain this variation in the scope and fate of revenue-raising tax reform initiatives by analyzing business power. Business, broadly defined, plays a key role in tax politics. Taxation is a core issue for business. Firms and capital owners make decisions about employment and investment in response to tax policy that may have significant consequences for society at large. And business associations are organized actors that may represent not only the interests of businesses, but also those of wealthy individuals – which is not

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surprising given the extreme concentration of ownership and the extensive, family-controlled *grupos* which characterize Latin America's "hierarchical" capitalism (Schneider 2013).

BUSINESS POWER

Building on recent efforts to revive the study of business power,[1] I have aimed to refine the classic concepts of instrumental power and structural power. Instrumental power (Mills 1956; Miliband 1969) is the capacity to engage in deliberate political actions. I take a power resources approach by identifying specific sources of instrumental power that help predict when business interests will shape policy decisions. One set of instrumental power resources can be described as relationships with policymakers that enhance access and create bias in favor of business and economic elites more broadly. Examples include partisan linkages, where business forms a core constituency for conservative and/or right-wing parties (Gibson 1996), and recruitment into government, where business representatives hold important positions in the executive branch. Another set of instrumental-power resources comprises four key resources: organization, media access, expertise, and, of course, money. Each of these sources of power enhances business's ability to make the deliberate political actions it undertakes more effective. It is important to stress here that political activities such as lobbying should not be conflated with power. Instead, the relationships and resources described above serve as indicators of instrumental power – these "sources" of power help predict how effective business's political engagement will be. If business lacks sources of power, lobbying – however intensive – may achieve little influence. That is, we should not expect lobbying from a position of weakness to bear results. Clearly specifying and assessing sources of power is therefore critical for analyzing influence.

Instrumental power provides a useful overarching concept that accounts for many different potential constellations of political resources. It also distinguishes political modes of business influence from a very different channel of influence associated with what has been labeled as business's structural power.

Structural power arises from the profit-maximizing behavior of firms and investors (Block 1977; Lindblom 1977; Przeworski and Wallerstein 1988; Winters 1996). If policymakers anticipate that a reform will hurt

[1] See especially Hacker and Pierson (2002).

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investment, they may rule it out for fear of harming growth and employment. Structural power requires no organization or political action; instead, market signals coordinate how individual firms and investors react in the economic arena. Whereas many treatments of structural power focus on capital mobility vs. sunken costs, or a sector's economic importance, or other easily measured and clearly "structural" factors,[2] I have argued that faithfully operationalizing the concept of structural power requires reconciling its "structural" underpinnings with the importance of policymakers' perceptions and expectations (Fairfield 2015a,b).

The nuance lies in the fact that structural power operates through policymakers' *anticipations* about how firms and investors will respond to a particular reform. Policymakers must believe that the reform under consideration will actually create negative investment incentives or other economic problems that will have significant deleterious consequences for growth or other development goals. If that is not the case, then structural power is either weak, in that the contemplated reform will not create problematic market signals, or it is simply irrelevant – if policymakers do not anticipate negative investment consequences, they will not act to forestall them by discarding or amending the reform under consideration. Of course, policymakers might subsequently ascertain that the reform actually did provoke negative investment responses – in other words, business's structural power in retrospect was actually strong, but policymakers mistakenly perceived it to be weak ex-ante. In such cases, the reform might be amended in business's favor during subsequent iterations of policymaking. But even in these cases, perceptions and anticipations are central to how and when structural power operates. Investment might fall after a particular reform, but causally linking that outcome to the reform may be a nontrivial matter; even professional economists may draw different conclusions.

This approach to operationalizing structural power places heavy empirical demands on scholars, including substantial fieldwork and, where possible, interviews with key policymakers. If the goal is to *predict* policy decisions and policy outcomes across a large number of cases, scholars might understandably prefer to replace structural power with more easily measured "structural" variables such as capital mobility.

[2] See, for example, Monaldi on oil taxation (Chapter 2 in this volume), which focuses on structural characteristics of the sector such as sunken costs of investment. For a power-centered treatment of the Bolivian case that takes into account policymakers' perceptions, see Fairfield (2015a, ch. 8).

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However, if the goal is to *explain* actual policy decisions and policy outcomes that have occurred in salient cases, we cannot sidestep the question of perceptions and anticipated reactions – the classic concept of structural power cannot be operationalized as a purely objective variable. Moreover, given that anticipated reactions and perceptions clearly affect policy outcomes, it would be unscientific to exclude this subjective dimension from the analysis. Unfortunately for advocates of parsimony and generalizability, structural power is highly variable; capital mobility in itself does not ensure strong structural power, and policymakers in any given instance may disagree on the likely economic consequences of a particular reform. The world of social science is complex, and explanation of empirical reality is as important as (and probably a more attainable goal than) accurate prediction of outcomes across time and space.

It is important to emphasize that both instrumental power and structural power can influence agenda formulation via anticipated reactions; likewise, both types of power can act during subsequent stages of policymaking. These points are often overlooked in the literature on business politics. For example, instrumental power is usually understood to operate through direct, readily observable actions; however, when business has strong and multiple sources of instrumental power, policymakers may anticipate that attempting a reform will entail major political conflict, and they may rule it out as infeasible or not worth the costs (Fairfield 2010). In such cases, business need not undertake any overt political action in order to influence policy outcomes. Structural power, in contrast, is usually viewed as restricting the agenda, but it can also matter later on. For example, even if the executive-branch authors of a tax increase do not believe that it will negatively impact investment, legislators may well harbor concerns and hence make concessions to business during deliberations in Congress (Fairfield 2015b). In addition, simply announcing a tax reform proposal could precipitate market-coordinated disinvestment, which may in turn motivate policymakers to update their evaluations of structural power and heed greater attention to business demands.

Instrumental power and structural power are distinct concepts – they correspond to different means of influence: instrumental power is political, structural power has to do with market reactions. However, they can be mutually reinforcing. Consider what I call "structural enhancement of instrumental power." When business's structural power is strong, policymakers may institutionalize business's existing sources of instrumental power or even grant business new sources of instrumental power. For example, concerns over investor confidence or attempts to curtail capital

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flight may compel governments to appoint finance ministers from business circles (recruitment into government). Conversely, instrumental power may enhance structural power; in other words, business may actively deploy its sources of instrumental power to augment policymakers' perceptions of structural power. When business' instrumental power is strong, deliberate political actions such as lobbying and media campaigns can increase concern over investment, or even create concern among policymakers who initially did not anticipate any negative economic consequences in response to a proposed tax reform. Of course, business actors regularly argue that tax increases will hurt investment, but policymakers do not always believe these claims. The key point is that concrete sources of instrumental power – such as media access, close relationships with policymakers, and technical expertise – make it more likely that policymakers will take those arguments seriously, rather than writing them off as self-serving or lacking credibility.

A NOTE ON ALTERNATIVE TREATMENTS OF BUSINESS POWER

Culpepper and Reinke (2014, 431) have advocated an alternative treatment that separates instrumental and structural power into "strategic capacities" that "have to be deliberately exercised in order to be effective," and "automatic capacities" which "work through the anticipation … of policymakers." However, I argue that this approach introduces conceptual problems that undermine the analytical leverage of the business power framework.

Regarding instrumental power, the authors' distinction between "strategic capacities," exemplified by "lobbying," versus "automatic capacities," exemplified by "pro-business policymakers" (Culpepper and Reinke 2014, 432), overlooks the fact that any given instrumental-power resource may act indirectly, through anticipated reactions, or directly, through deliberate business actions. While we might usually think of lobbying as having a direct effect on the policy process, as noted earlier, the mere anticipation of a concerted lobbying campaign, predicated on strong sources of instrumental power such as money and organization, could be enough to dissuade a government from even proposing a tax increase that business opposes (Fairfield 2010) – in which case lobbying would count not just as a "strategic capacity," but also as an "automatic capacity." Conversely, there are certainly instances where business must deliberately and actively engage with "pro-business policymakers" in order to make sure their preferences are understood and

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translated into policy – in which case "pro-business policymakers" should be treated not just as an "automatic capacity," but also as a "strategic capacity." The proposed conceptual distinction thus dissolves.

Turning to structural power, the distinctions between "automatic" and "strategic" are equally unclear. On the one hand, Culpepper and Reinke (2014, 488–489) identify "disinvestment" as an "automatic resource" that works through policymakers' anticipations. On the other hand, they define "strategic structural power" as "deliberate use of economic power," which they also describe as a "bargaining resource." On the first point, it is hard to see why disinvestment would fall under one category but not the other. Anticipation of disinvestment can certainly influence policy decisions through an "automatic" pathway, yet an overt threat of disinvestment would have to count as a strategic "bargaining resource." Business may even intentionally curtail investment as a political strategy for influencing policy decisions, as occurs in capital strikes – a clear instance of "deliberate use of economic power."[3] On the second point, the authors seem to have in mind any overt statements by business that explicitly invoke their (purported) structural power. There is a valid point here: structural power need not be *strictly* "automatic," in that business may need to undertake some communication efforts to activate this source of power. However, this observation does not provide any added analytical leverage for understanding when structural power does or does not affect policy outcomes. Furthermore, Culpepper and Reinke's approach risks conflating strategies and bargaining positions with underlying sources of power that make those strategies or bargaining positions effective, as opposed to empty threats or detectable bluffs. Business can always threaten to disinvest or take other actions in the economic sphere that run counter to policymakers' wishes, but those threats are only effective if policymakers believe it would actually be in business's economic interest to follow through on those actions post facto. Business threats are credible when policymakers anticipate that disinvestment is a market-rational response to policy change – and/or when business can use strong sources of instrumental power (e.g., technical expertise) to augment policymakers' perceptions of their structural power, as discussed in the previous section.

[3] I argue that capital strikes require *politically* coordinated economic protest, as opposed to market-rational economic behavior. As such, capital strikes are best understood as an exercise of instrumental power, rather than structural power (Fairfield 2015a, b).

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The analytical advantage that Culpepper and Reinke (2014, 448–449) attribute to their notion of "strategic structural power" is that it "can [be] observed through its effect in negotiations, of which there is an empirical record," whereas studying "automatic structural power" requires the more difficult challenge of "assessing what is going on inside the heads of policymakers." Unfortunately this advantage is illusory. First, negotiations between policymakers and business often take place behind closed doors without public records – especially in developing countries – such that there are not necessarily any differences regarding the ease of obtaining empirical evidence to assess business influence. Second, and more importantly, focusing primarily on "strategic power" (whether structural or instrumental) shifts attention away from agenda formulation and anticipated reactions, which leads to multiple analytical perils in assessing business influence (Hacker and Pierson 2002; Fairfield 2015a,b). If structural and/or instrumental power is strong enough to shift the set of policies under consideration toward business preferences, focusing only on concessions made during negotiations after a policy has been proposed can lead us to significantly underestimate the extent of business influence (Fairfield 2010). Finally, ascertaining policymakers' (and business's) motives, perceptions, and strategic calculations – i.e., "getting inside their heads" – is critical for assessing business influence at any and all stages of the policymaking process.

Ultimately, distinguishing between "strategic capacities" and "automatic capacities" is unnecessary, once we recognize that (1) both types of power can act at different stages of policymaking – agenda setting or subsequently – through either anticipated reactions or observable actions and responses (whether in the political arena or in the economic arena), and (2) that instrumental power and structural power can be mutually reinforcing.

EXPLAINING VARIATION IN BUSINESS INFLUENCE

I argue that business interests shape policy decisions when either instrumental power or structural power is strong. The more types of power and the more sources of power business enjoys, the more significant and consistent business influence will be. Regarding instrumental power, I further argue that the more institutionalized relationships with policymakers, such as partisan linkages, will afford more consistent influence than less-institutionalized relationships, such as recruitment into government or informal ties to policymakers. In the latter cases, whether business

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interests prevail will depend much more on the characteristics and motivations of the specific policymakers in question. Of the other instrumental-power resources, I find that organization plays a particularly important role in explaining variation across my cases.

The argument plays out across the countries I analyze as follows. In Chile, during the primary time period I examine (1991–2009), business's strong instrumental power kept key tax reforms off of the agenda, even in the absence of structural power. Instrumental power arose primarily from strong business organization and partisan linkages to right parties, which enjoyed strong representation in Congress. Particularly during the Lagos administration (2000–2006), government policymakers anticipated that tax reforms targeting the resources of economic elites would provoke costly political battles involving coordinated opposition from business associations and their right-party allies that might well end in legislative defeat. The difficulty of legislating even modest progressive tax reforms dissuaded government policymakers from proposing more significant initiatives that they otherwise viewed as desirable and appropriate.

In Argentina, in contrast, business's weak instrumental power facilitated more significant direct tax increases. Governments in the 1990s and early 2000s were able to include various progressive tax initiatives among their revenue-raising tools, along with reforms that provided greater powers for the tax administration to control evasion, including broad access to bank information for the purpose of cross-checking taxpayers' declarations. Successive reforms contributed to a steady increase in direct tax revenue in Argentina, whereas tax revenue held essentially constant in Chile until the copper boom produced an exogenous increase (i.e., without any substantial tax policy changes). However, an examination of sectoral tax policy in Argentina reveals interesting variation, which can also be explained by examining business power at this level of analysis. Despite the weakness of business at the broader cross-sectoral level, finance and agriculture enjoyed substantial instrumental and/or structural power during specific periods that allowed them to block or defeat tax reforms that specifically affected their sectors.

In Bolivia during the early 2000s, when raising revenue became salient on the national agenda, business power shared the stage with an additional explanatory factor: popular mobilization. Business power interacted with popular mobilization (in occasionally surprising ways) to produce variation across different tax policy initiatives. Strong business associations with ties to Bolivia's traditional – albeit besieged – political

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parties were able to preclude higher taxation of income and wealth, yet large royalty increases were imposed on multinational hydrocarbons companies despite opposition from domestic business associations. While the details are complex, the Bolivian cases illustrate first, that business power plays an important explanatory role even in this very different and highly volatile political context; and second, that in unusual circumstances, popular mobilization in favor of redistribution can counterbalance or even overwhelm business power, leading to substantial tax increases on economic elites that otherwise would have been highly unlikely.

The business power framework also explains significant tax policy change over time at the within-country level. Sectoral tax politics in Argentina provides a salient example. Economic crisis, changes in development models, and alterations in government that led to greater proximity or isolation between policymakers and particular business sectors play a central role in driving variation in sectoral business power over time, which in turn explains the extent and timing of, for example, tax agency access to bank information for auditing purposes in Argentina. We also observe major change over time in Chile, when we consider developments under the second Bachelet administration (2014–2017). Whereas under previous center–left governments at most marginal tax increases were legislated, the Bachelet administration initiated a radical income-tax overhaul in 2014. Business's weaker instrumental power contributed to this change; the right's electoral losses in Congress made business's partisan linkages less effective for influencing policy decisions. At the same time, the student movement, which staged major protests and raised redistributive issues in 2011 and 2012, acted to counterbalance business power (discussed further in the next section).

BUSINESS'S STRATEGIC CALCULATIONS

As the Bolivia overview and recent developments in Chile suggest, analyzing business's strategic calculations along with business power is critical for understanding prospects for progressive direct tax increases. Business's strategic behavior has played a key role in the literature on democratization (Wood 2000; Makgetla and Shapiro 2016; Boylan 1996, and of course the formal modeling literature), but literature on business politics and the welfare state has sometimes paid insufficient attention to the ways that business's immediate or "induced" policy preferences may

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be shaped by the strategic landscape and the power of other social actors (Hacker and Pierson 2002; Korpi 2006).

Generally speaking, business and economic elites have a first-order preference for low taxation. Where revenue needs are imperative, they prefer using the VAT over taxes on income, profits, and wealth. However, the political context may compel business actors to accept measures they might otherwise oppose (Schneider [Chapter 5 in this volume] makes related points with regard to fiscal federalism). Popular mobilization plays an important role in altering business calculations about whether to resist or accept policy change. When popular mobilization emerges around redistributive issues, business elites may decide to accept reform rather than mobilizing their sources of power to resist, as occurred in the early stages of Chile's 2014 tax reform in the context of recent student protests for free higher education financed by taxing the rich (Fairfield 2015b). In such situations, business may anticipate that policy change will diffuse social pressure and restore order. Even if they view that scenario with skepticism, business elites may recognize that policymakers will prioritize responding to popular demands rather than business preferences for those same reasons, as well as for the sake of preserving their continuity in power. The scope of policy change business will tolerate depends on how sustained, organized, and disruptive social mobilization is. It is worth emphasizing, however, how rarely I observed the dynamic where social movements mobilize to demand progressive taxation – in only two out of the more than thirty cases examined in my book.[4]

Similar dynamics can occur in the absence of popular mobilization when policymakers perceive electoral incentives to promote progressive taxation, or when electoral considerations take regressive revenue-raising options off the agenda. For example, in Chile following the massive 2010 earthquake, President Piñera calculated that raising revenue for reconstruction by increasing the corporate tax would provide him with a highly desirable boost in public support, in a context where his government had been characterized as run by and for big business. Multiple factors contributed to the instrumentally powerful business associations' decision to accept the tax increase, but strategic calculations that refusing to open their pocketbooks after the natural disaster would elicit public opprobrium and could provide an opportunity for the left to push for a much more significant corporate tax increase was an important contributing

[4] In several cases, however, nonbusiness sectors mobilized against tax increases that they perceived (sometimes mistakenly) would affect them.

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factor (Fairfield 2015a, ch. 9). Similarly, in Mexico, in a context of extremely tight electoral competition and the manifest unpopularity of increasing the VAT, President Calderón opted to satisfy revenue needs by taxing business instead. As in Chile, Mexican business elites accepted the corporate tax increase instead of using their ample sources of instrumental power to resist, in part because they recognized that their preferred VAT alternative was politically infeasible for policymakers (Fairfield and Garay 2017).

However, in cases where electoral incentives and public opinion drive progressive tax reform, the scope of policy change will be narrow; organized interests (whether business associations or social movements) tend to have a much greater impact on policymaking than unorganized voters (Hacker and Pierson 2010).[5] Both the Piñera and Calderón corporate tax increases were modest compared to the much more significant tax increases legislated on hydrocarbons in Bolivia (2005) and on economic elites in Chile (2014) in contexts of widespread ongoing or recent social mobilization.

REFLECTIONS ON PUBLIC OPINION ABOUT TAXING ELITES

Literature on advanced democracies debates the influence of voters and public opinion on economic policy decisions. In contrast to arguments that voters carry little import (Hacker and Pierson 2010), recent work has advocated an "electoral turn" in political economy to investigate how electoral coalitions and voter preferences shape social protection and economic policy regimes (Beramendi et al. 2015; Hall 2014). With regard to taxation, one might expect broad-based taxes such as the VAT to be high-salience issues where public opinion would matter for policymakers. And while income taxes in Latin America are definitely not broad-based – the vast majority of voters earn less than the minimum taxable income – polls show high levels of support for the principle of progressive taxation – 76% of the population, as Bogliaccini and Luna (Chapter 9 in this volume) show.[6]

[5] For development of this perspective with respect to taxation and social policy in Latin America, see Fairfield (2015a), Garay (2016), and Fairfield and Garay (2017).

[6] Similarly, the 2012 LAPOP (SOC1) survey question found that 59% of respondents preferred the most progressive of three tax burdens comparing how much a rich person and a poor person should pay for every 100 currency units earned. CEP (2009) found that 64% believed upper-income individuals should pay a larger or much larger proportion of income in taxes than lower-income individuals.

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Yet my research suggests that progressive direct tax reforms in Latin America are often low-salience issues for nonelite voters, and that public opinion on these matters tends to be ill-formed, in accordance with findings in US politics (Bartels 2008; Graetz and Shapiro 2005). Even in Chile, where tax reforms were covered extensively in the media, many politicians I interviewed perceived that nonelite voters in their districts simply were not interested (Fairfield 2015a, 286). One member of Congress went so far as to assert: "The immense majority of people never ask you about your position on tax issues. I have been a member of the Budget Committee for eight years. If you ask me if I think any of my actions in the Budget Committee has caused me to win or lose votes, I would have to say zero" (quoted in Fairfield 2015a, 110). In many of the tax reform cases I analyzed, public opinion polls were not even conducted. Extractive resource taxation (e.g., copper in Chile and hydrocarbons in Bolivia) is a notable exception where surveys could be more easily located and public opinion tended to strongly favor tax increases. The difference is that mineral resource taxation tends to stoke nationalist sentiments when multinational companies dominate the sector. To a certain extent, "soaking the rich" in these contexts may be popularly understood as taxing extractive industries.

Much thought has been devoted to analyzing why nonelite voters might not support policies that are in their own economic best interest, including progressive taxation (e.g., Bartels 2008; Kaufman 2009). An important factor I wish to highlight is that taxation tends to be a highly complex, technical policy area, which means that voters rarely understand the consequences of policy change. Reform-minded policymakers can mobilize public support by emphasizing the importance of progressive taxation for fairness and equity and by designing reforms to clearly target economic elites while leaving the majority of citizens untouched. Other strategies, such as linking to visible social-spending benefits, can clarify that progressive tax reform will make a positive contribution to the welfare of nonelite taxpayers, who might not otherwise view tax increases on economic elites as relevant to their lives (Fairfield 2013). But business actors can also manipulate public opinion, by framing the same reforms as bad for growth and employment, or by fostering misperceptions regarding who will actually bear the tax burden. Instrumental-power resources, including media access and technical expertise, are extremely useful to these ends.

As an example, consider the Bachelet administration's 2014 income-tax overhaul initiative. Several survey organizations tracked public

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opinion on this far-reaching tax reform during the most intensive months of debate in Congress. The tax reform was explicitly intended to raise revenue from business and wealthy economic elites; tax agency studies indicated that the reform would primarily affect the top 1% and would make small and medium businesses better off than under the prevailing system. However, the Chilean tax system, with its integrated corporate and personal income tax and complicated system of deferred taxation for retained profits, as well as the proposed reform itself, were so complicated that there was ample scope for opponents to foster misperceptions regarding tax incidence, as well as concern over unwanted economic consequences.[7] Remarkably, the survey firm CADEM (2014) found that 68% of Chileans believed the tax reform would hurt the "middle class," and 57% thought they would personally have to pay more taxes as a result. Pervasive denunciations by business and the right in the media are likely responsible for these misperceptions; the government's inadequate communication campaign contributed as well. Meanwhile, despite the reform's high media salience, polls suggested that ordinary Chileans did not view it as a priority issue. Only 5% of respondents selected the tax reform as deserving greatest effort among eight other policy areas; health care, an issue with much more direct impact on citizens' daily lives, came out on top (CADEM 2014).

Future research on public opinion and progressive direct taxation in Latin America might fruitfully examine not just the factors that influence how voters at large respond to reform proposals (e.g., survey experiments on priming and earmarking, ascertaining which design features make taxes more visible), but also the ways that business interests and reform proponents seek to strategically deploy opinion polls during the policymaking process, along the lines described by Birney et al. (2008). Equally important would be more research on when public opinion becomes relevant at all in tax debates, and how decisive a role it plays. In my own research, I have found that strategies for mobilizing public opinion can make a difference for legislating progressive tax reforms, but where business power is strong, they matter only at the margins.

BUSINESS POWER AND THE DIRECT ROLE OF MONEY

Money is a source of instrumental power that distinguishes economic elites from all other actors. However, its direct role in politics and policymaking can be difficult to study, especially in Latin America where data on

[7] On the latter, see Fairfield (2015b).

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lobbying and campaign finance contributions are not publicly available. Partly for that reason, I focus on other sources of instrumental power in my research (especially organization, which helps to explain a significant amount of variation across tax reform cases). Nevertheless, the direct role that money plays as a power resource merits more attention. Scholars including Luna (2010), Yadav (2011), and Boas et al. (2014) have made headway despite the limitations. In Chile, the recent business campaign contribution/tax evasion scandal uncovered in the Penta case – in which employees of Chilean holding Grupo Penta colluded with employees of the tax revenue service to carry out tax fraud and channeled funds toward political campaigns – may produce more tangible evidence on the inner workings and scope of money politics, as well as providing a fascinating case study of the right's effort to regroup and reign in the scope of the tax agency's operations. Moreover, Winter's (2011) innovative research on oligarchy demonstrates that ample insights can be gained even in the absence of hard quantitative data.

Winters (2011) identifies various types of oligarchy, which he defines as the politics-of-wealth defense. While his case studies do not include Latin American countries, they fall under the category of civil oligarchy, like the US, where the state protects property rights, and the primary threat to oligarchic wealth is progressive taxation. In his analysis of money politics and taxation in the US, Winters emphasizes the role of the "income-defense industry" – the lawyers, lobbyists, tax accounts, and other professionals who earn their living by helping to ensure that oligarchs pay a low tax burden. These professionals serve as agents for their oligarchic principals; when it comes to tax legislation, the interests of the lobbyists and tax advisors are automatically aligned with those of their wealthy clients. Oligarchs simply spend a tiny fraction of their fantastic wealth, and the income-defense industry does the work of inserting tax benefits into legislation, exploiting existing loopholes on the oligarchs' behalf, and so forth.

Does Winters' (2011) perspective on the income-defense industry elucidate tax politics in Latin America? Oligarchs everywhere are certainly able to exploit tax loopholes with the help of accountants and consultants, but the existence of those loopholes is a policy question. The key issue is therefore what role the income-defense industry plays in policymaking processes. In the countries I have studied, I do find evidence of tax accountants and professional associations participating in policy debates. They often serve on business association advisory boards or business associations' research departments, they present their views on legislation

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in congressional committees, and they opinionate in the press, generally expressing views very similar to those of business and upper-income individuals. Professional associations representing the income-defense industry were especially visible in Chile's 2014 reform. Congressional hearings featured a myriad of such groups all opposing the reform and especially the proposed elimination of the "taxable profits fund" (FUT). As the then director of the tax agency commented, becoming a tax accountant required taking three courses dedicated explicitly to the FUT, with "a FUT manual thicker than the Bible."[8] It is hardly surprising that professionals with so much training invested in the prevailing tax system would oppose the reform. The interests of business owners and tax professionals in preserving the FUT system were clearly aligned.

However, the activities of "income-defense" professionals can be subsumed under the broader instrumental-power resource of technical expertise. In Chile's 2014 reform, I argue that technical expertise helped sew concern not only about how investment would respond, but also about the legality and administrative feasibility of the new income tax system (Fairfield 2015b). The barrage of criticism from business's tax consultants and technical advisors overwhelmed governing-coalition senators; the Finance Ministry was surprisingly slow to respond, partly because the top expert had been allocated to directing the tax administration rather than negotiating the reform through Congress. A congressional informant explained: "There is an argumentational imbalance. Every time there is a hearing, they hit us and hit us and hit us ... and what am I to do? I don't have answers. But also, I have genuine concerns."[9] Even in this case, however, the role of business organization and the unified lobbying and media campaigns strike me as more important than the income-defense professionals in their own right. Structural power mattered in this case as well (Fairfield 2015b). Even in the absence of the very numerous technical-association presentations in Congress, the most likely counterfactual is that business would have won similar concessions.

It is important to note that Winters (2011) defines oligarchs as individuals, not corporations. To the extent that wealthy individuals and corporations are distinct actors, Winters' emphasis on money as the ultimate

[8] Michel Jorratt, Comisión de Presupuesto y Hacienda, June 30, 2014 (congressional hearing).

[9] Interview: Finance committee member, June 13, 2014.

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source of power and the role of the income-defense industry in policy-making would be significantly different from my approach of subsuming the latter under technical expertise. In Latin America, however, where business elites and oligarchs as per Winters' definition are closely inter-related, family-controlled groups are common, and few companies are publicly traded, the distinction may matter less. Business associations in Chile and in Bolivia defended not only the tax interests of firms and corporations, but also the tax interests of upper-income individuals and business owners. In some sense, business associations themselves could be viewed as agents of the oligarchs – the owners of the large *grupos* who prefer to stay above the political fray.[10] The structural and political factors that lead wealthy individuals and business to coalesce, diverge, or complement one another as political actors are also worthy of further investigation.

CONCLUSION

In sum, Latin American elites remain substantially under-taxed, despite progress in recent decades in countries such as Argentina. Understanding prospects for raising revenue from the top of the income distribution requires examining economic elites' sources of power, both instrumental and structural. Economic elites have different configurations of power resources in different countries, and when either their instrumental power or their structural power is strong, they will be able to influence policy decisions. Instrumental and structural power are not constants, however, and opportunities for progress do arise that astute policymakers can take advantage of. Future research could complement our existing body of knowledge by finding creative ways to examine the direct role of money as a source of power and the role of the income-defense industry in tax politics, as well as the role of public opinion and social movements in efforts to tax economic elites. Particularly in a time of falling commodity prices and austerity – as noted in the Introduction – these are pressing intellectual and practical questions.

[10] When I asked former president Lagos if the heads of these *grupos* were active in tax policy discussion, he replied: "No, no. . . . they are not in the front lines of the battle, never" – that role instead falls to the business peak associations and to legislators with close ties to big business. Interview: September 2006.

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