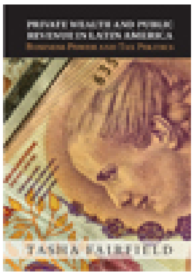

Private Wealth and Public Revenue in Latin America

Business Power and Tax Politics

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2

The Power of Economic Elites

Economic elites tend to have strong, well-formed preferences regarding tax policy. Other policy areas like trade liberalization and privatization may have multiple and unpredictable distributional effects that make it difficult for business actors to discern their true interests, in which case their reform preferences may vary widely (Schneider 2004b: 460, 475). In contrast, tax increases usually impose clear, predictable, and immediate losses that economic elites can easily identify. Although there can be some variation in attitudes, economic elites generally dislike tax increases affecting their income, profits, or assets. Such reforms inherently threaten their core interest in protecting their wealth (Winters 2011).

To understand how and when economic elites exert influence – not only on taxation but much more generally – we must look beyond their underlying preferences and think seriously about power. In common parlance and even in academic writing, the terms power and influence are often used synonymously. In this book, however, I treat power as a cause and influence as an effect. This distinction helps eliminate the tendency to conflate power with outcomes; assertions that policies reflect the preferences of powerful actors are often tautological in practice. In contrast, the theoretical framework elaborated in this chapter provides explicit guidelines for assessing economic elites' power independently of policy outcomes, identifies the mechanisms connecting sources of power to influence over policy, and elucidates the conditions under which elites' power may increase or decline. In doing so, this chapter contributes to recent efforts to revive the concept of power and hone it into an effective causal variable for comparative political analysis (Hacker and Pierson 2002, Culpepper 2011).

This chapter begins by explicating the classic concepts of instrumental (political) power (Section 2.1) and structural (investment) power (Section 2.2) with clarifications and specifications that build on and move beyond earlier

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work in comparative politics, American politics, and international relations. In the causal model I advance, either instrumental or structural power can allow economic elites to thwart policies they oppose. However, elites will have more consistent and systematic influence when they possess both types of power; instrumental and structural power can even be mutually reinforcing (Section 2.3). Section 2.4 addresses the oft-asked but elusive question – "How do you get rich people to pay tax?" (Schneider 2012: 202) – an especially salient conundrum where economic elites have strong sources of power. I discuss six strategies for circumventing elite power that can be used to implement incremental tax increases that might otherwise be infeasible. Distinguishing between instrumental power and structural power is critical for identifying these reform strategies and assessing which will be most effective in a given context. Economic elites' instrumental and structural power, and to a lesser extent government reform strategies, serve as the primary independent variables for explaining the scope of the tax agenda and the fate of reform proposals in the following empirical chapters. However, popular mobilization also influenced tax policy in some cases. Section 2.5 elaborates how mobilized popular actors may counteract – or occasionally even reinforce – the power of economic elites.

2.1 INSTRUMENTAL POWER

Instrumental power, first theorized by authors including Mills (1956) and Miliband (1969), entails capacity for deliberate political actions. These actions may include lobbying, direct participation in policymaking, financing electoral campaigns, editorializing in the press, or engaging in various types of collective action. Although the term instrumental power is not used as commonly today, the activities that fall within its domain, especially lobbying and campaign finance, remain major topics in research on business politics. Economic elites may undertake political actions within formal policymaking arenas, of which the most relevant for this book are the executive branch and the legislature.[1] In rare cases, economic elites may also undertake collective action outside of formal policymaking arenas by engaging in protest. As discussed below, instrumental power can be wielded overtly, when economic elites actually undertake political actions, but it can also act indirectly, when policymakers anticipate the reactions of economic elites, or implicitly, when policymakers share common goals with economic elites.

I identify observable sources of instrumental power that make policymakers more responsive to economic elites. These sources of power can be classified as *relationships* with policymakers and *resources* (Table 2.1). Relationships include partisan linkages, whereby economic elites form a party's core constituency (the

[1] The judicial branch may also be relevant; see Schneider (2012) on courts and tax policy in Guatemala and Kapiszewski and Taylor (2008) on courts and policymaking more generally. On venue choice for lobbying and policy contestation, see Yadav (2011) and Hacker et al. (2013).

TABLE 2.1. *Sources of Instrumental Power*

Relationships with Policymakers	Partisan Linkages Institutionalized Consultation Recruitment into Government Election to Public Office Informal Ties
Resources	Cohesion Expertise Media Access Money

sector most important to the party's political agenda and resources, following Gibson [1992]); institutionalized consultation between the government and business associations; recruitment into government, whereby economic elites hold executive branch appointments; election to public office; and informal ties to policymakers. These relationships afford instrumental power in formal decision-making arenas by enhancing access to policymakers, facilitating participation in policymaking, and creating bias in favor of economic elites' interests. Resources include cohesion, expertise, media access, and money, all of which can help economic elites more effectively lobby or pursue their interests through any of the actions described above.[2]

These sources of power are conceptually distinct, yet they may be mutually reinforcing. For example, business actors with technical expertise may be more likely to receive government appointments, and partisan linkages may strengthen cohesion by fostering a shared identity among economic elites.[3] Resources may strengthen or underpin economic elites' relationships with legislators. And of course money facilitates acquisition of the other resources as well.

Different categories of economic elites may have different sources of instrumental power, and these sources of power vary across countries and over time. In a given country, economic elites in a particular sector (e.g., construction or agriculture) may have strong sources of instrumental power, whereas those in other sectors may not. In some cases, economic elites may have strong instrumental power at the cross-sectoral level that can be mobilized to defend common interests or even the specific interests of a given sector. The arenas in which economic elites enjoy instrumental power can vary across space and time as well; relationships with the executive branch may be strong during some periods whereas relationships with legislators may be more relevant during other periods. Institutionalized relationships with policymakers, like partisan linkages and government-business consultation, tend to be more stable

[2] In conflict-ridden democracies, weapons or ties to militaries may also be relevant.
[3] I thank Timothy Scully for the latter point.

sources of power than noninstitutionalized relationships like recruitment into government and informal ties. Whereas the former sources of power may persist for decades, the latter may vary with electoral cycles or even during a single presidential term.

Economic elites will achieve more significant and more consistent influence when they possess strong and multiple sources of instrumental power. The more resources economic elites have at their disposal, the more numerous, advantageous, and institutionalized their relationships with policymakers, and the more decision-making arenas in which these relationships operate, then the more effectively economic elites can lobby or mobilize in other ways, and the more available channels through which their influence can flow. However, a single strong source of instrumental power may be sufficient for economic elites to block a reform they oppose. Nor does instrumental power operate deterministically;[4] economic elites may fail to obtain their preferred outcome in a particular instance despite strong instrumental power. For example, advancing the interests of powerful economic actors may occasionally become an electoral liability for politicians, in which case pleasing voters may take precedence; alternatively, popular sectors may wield strong countervailing power. Yet identifying sources of instrumental power helps us assess when and where economic elites are more likely to exert influence, as well as the mechanisms through which they obtain influence.

This explanatory framework facilitates analysis of economic elites' influence by drawing clear distinctions between actions, sources of instrumental power, and underlying preferences.[5] Distinguishing between actions and sources of power admits the possibility that economic elites with strong sources of instrumental power may not need to actually undertake any overt political action in order to wield influence. In other words, economic elites may not need to "activate" their sources of power; influence may flow instead through anticipated reactions. In this regard, my framework follows insights from power resources theory, which was developed to resolve conceptual difficulties inherent in approaches that focused on the visible "exercise of power" (Korpi 1985: 33).[6]

Furthermore, distinguishing between actions and underlying preferences clarifies that the strategic context can influence actors' behavior and the choices they make (Frieden 1999, Hacker and Pierson 2002). Weak economic elites who lack sources of power may accept a reform in anticipation that resistance will be futile, yet the absence of active opposition does not necessarily imply that they view the reform favorably. Even strong economic elites

[4] Korpi (1985: 34) similarly asserts: "The relationship between the distribution of power resources and the outcomes of conflicts must … be seen as a probabilistic one."

[5] These distinctions are roughly analogous to those made in game theory between strategies (choices), strategic setting (environment), and utilities (e.g. Frieden 1999, Morrow 1999).

[6] Korpi's critique includes "second" and "third dimensions" of power (Bachrach and Baratz 1970, Lukes 1974).

may accept tax increases under some circumstances, in which case they will not marshal their sources of power to resist. As discussed later in this chapter, popular mobilization and government reform strategies can influence how economic elites react to tax increases by altering the perceived or actual costs and associated benefits of accepting or opposing reform.

Despite these analytical advantages, leading literature on business politics does not always distinguish clearly between actions and sources of power. Schneider (2010: 8), for example, elaborates "a portfolio of business investment in politics" that entails "a range of activities including associations, consultative councils, legislative lobbying, campaign finance, networking, and corruption." Lobbying and corrupt activities like bribery are clearly actions that business may undertake to influence policy; the latter is one of many ways to deploy monetary resources. However, for the purpose of analyzing business influence, the other "activities" are better treated as sources of instrumental power: associations contribute to cohesion, consultative councils are a form of institutionalized government-business consultation, and networks are often built around informal ties to policymakers or recruitment into government.[7] Likewise, Culpepper (2011: 8–9, 188) does not distinguish clearly between political actions and sources of power when he identifies "lobbying capacity, the use of private interest committees, and influencing the tenor of press coverage" as "resources" that managers can deploy to influence policymaking. Yadav's (2011: 12) statement that "Special interest groups can employ a variety of resources, including electoral campaign contributions and legislative lobbying … using money, information, media campaigns, and demonstrations" provides a third example of the tendency to conflate actions and sources of power.[8] While these problems may seem purely semantic, using precise terms and clear concepts is essential for avoiding inferential problems that have often plagued analysis of business power and influence.

Moreover, sources of power and/or actions are often conflated with influence over policy outcomes. Culpepper's (2011: 182) definition of "lobbying capacity" as the "ability to convince politicians and bureaucrats" risks conflating cause and effect; without further specification, this definition confuses assessment of power with policy outcomes.[9] Lobbying is best treated instead

[7] It should be noted that Schneider's goal is characterizing patterns of business participation in policymaking, not analyzing business influence.

[8] Demonstrations for instance are actions that will be more effective when business possesses resources like cohesion and money.

[9] Culpepper subsequently argues that expertise – an observable source of power – underpins lobbying capacity (and the aforementioned "use of private interest committees" and "influencing the tenor of press coverage"). In other words, expertise is the key source of power that explains business influence in his cases. Elsewhere, however, expertise and lobbying capacity become decoupled; Culpepper (2011: 188) writes: "expertise and lobbying capacity are the key resources" that afford business influence in low-salience issue areas. The "lobbying capacity" under-specification problem thus reemerges.

as an action that is more likely to succeed when economic elites possess one or more of the sources of power in Table 2.1. This point also applies to Frieden's (1991: 33) postulate that more intense lobbying leads to greater influence.[10] This logic holds when business actors have strong sources of power that dispose policymakers to respond to lobbying. But if business lacks sources of power, lobbying – however intensive – may not achieve any influence, as the case of agricultural producers and export taxes in Argentina will illustrate (Chapter 7). In other words, 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.

In addition, literature on business politics often overlooks the role that instrumental power can play in shaping agenda formulation. Instrumental power is usually viewed as influencing policy through "direct" or "overt" means – for example, through lobbying or other observable political actions – after a proposal has been initiated. However, instrumental power can also indirectly influence the reform agenda, a possibility that many authors do not consider (Smith 2000: 115–41, Hacker and Pierson 2002: 279–86, Fuchs 2007: 56–58, 71–95, Falkner 2009: 19).[11] When economic elites have strong and multiple sources of instrumental power, policymakers may anticipate that attempting a given reform will entail major political conflict, and they may rule it out as infeasible or not worth the costs. In these cases, as noted above, the mere anticipation that elites will undertake concerted action against a reform may keep that reform off the agenda[12]; economic elites need not mobilize their sources of power or engage in any direct action to achieve influence. In other cases, recruitment into government or other strong relationship-based sources of power may result in such pervasive convergence of preferences between policymakers and economic elites that policies elites oppose are excluded from the agenda automatically.[13]

Baumgartner et al.'s (2009) innovative research on lobbying in the United States is a partial exception to the tendency of overlooking how instrumental power shapes agenda formulation. They analyze what I describe as the direct role that instrumental power (although they do not use the term) can play in agenda formulation, but they leave its indirect role largely unaddressed. The authors examine how lobbying by business and other interest

[10] "Sectors with more specific assets … exert more pressure on policymakers and obtain more favorable policies."

[11] Most authors treat structural power as the means through which business exerts "indirect" influence over the agenda.

[12] In early business politics literature, Bachrach and Baratz (1970) made similar points about anticipated reactions.

[13] Here the deliberate political actions that are the hallmark of instrumental power may have occurred earlier (e.g., donations that helped elect policymakers), or if economic elites themselves are the policymakers, these actions are their policy decisions. Note however that economic elites often need to actively engage with friends in office to ensure policy influence.

groups can place issues on the legislative agenda that policymakers might otherwise ignore, or prevent other groups from introducing opposing issues. They acknowledge that whether interest groups raise an issue at all depends on assessments of the potential for success and the actions of rival groups (Baumgartner et al. 2009: 201, 214). However, their empirical focus on active lobbying precludes in-depth analysis of how anticipated reactions shape agenda formulation.[14] Additionally, they do not examine the possibility of anticipated interest-group reactions discouraging policymakers from raising issues they care about, given the authors' much greater attention to the goals of interest groups.

Relationships

This section discusses relationship-based sources of instrumental power in greater detail, with attention to corresponding mechanisms of influence, assessment or measurement, and potential variation over time and space. In general, more institutionalized relationships (partisan linkages and institutionalized consultation) will give economic elites more consistent influence than less institutionalized relationships.

Partisan Linkages

I use this term to describe the core constituency relationship between economic elites and conservative parties (Gibson 1992, 1996). Following Gibson (1992: 15): "A party's core constituencies are those sectors of society that are most important to its political agenda and resources. Their importance lies not necessarily in the number of votes they represent, but in their influence on the party's agenda and capacities for political action." Conservative parties necessarily pursue multi-class coalitions in order to construct electoral majorities. However, economic elites are located at the top of the coalitional hierarchy, and they are by far the most important sectors for shaping conservative parties' positions on high-stakes issues (Gibson 1996: 10).[15]

One can identify economic elites as a party's core constituency when the party receives consistently high levels of electoral support or public endorsement from the economic elites in question, when they contribute significant financial resources to the party, and/or when there is "programmatic convergence" between the party's policy positions and the preferences of economic elites (Gibson 1996: 13–14). In this study, I identify partisan linkages by drawing on literature on Latin America's conservative and right parties, as well as my own interviews with country experts, business leaders, and politicians.

[14] They analyze a random sample of issues on which interest groups are actively lobbying.

[15] Miliband (1969: 187) similarly described right parties: "For all their rhetoric of classlessness, [they] remain primarily the defense organizations, in the political field, of business and property."

I also examine campaign finance data where available and public political statements made by economic elites.

Partisan linkages afford economic elites influence through representation of their interests, in the executive branch and/or the legislature. Since instrumental power based on partisan linkages depends on the electoral fortunes of conservative parties, it may vary over the medium term. Instrumental power in the legislature arising from partisan linkages will be stronger when conservative parties hold more seats. Accordingly, electoral rules or district malapportionment[16] that favor conservative parties augment instrumental power based on partisan linkages. Legislative institutions requiring supermajorities to approve particular reforms can have the same effect.

Although conservative party politicians usually have informal ties to economic elites, partisan linkages are a more institutionalized relationship than informal ties. Partisan linkages therefore give economic elites more systematic influence than purely informal ties to legislators. However, electoral considerations at times may compel conservative parties to stray from the preferences of their core constituencies such that partisan linkages do not guarantee economic elites influence on all issues at all times. Various government strategies discussed later in this chapter aim to provoke conservative-party legislators to deviate from economic elites' tax policy preferences. Such deviations are more likely during electoral periods in which conservative parties face strong competition for nonelite voters.

Institutionalized Consultation

Formal or informally institutionalized consultation, or *concertation*, as it is often called in literature on Latin America (Schneider 1997: 200), entails regular meetings between government officials and business association leaders. Concertation is similar to tripartite bargaining between government, business, and labor in European corporatism, except that labor need not participate – consultation or concertation in this study describes only the relationship between government and business. Institutionalized government-business consultation may take place in councils or other formal bodies, or it may proceed more informally through regular interactions between high-level policymakers and business association leaders (Silva 1996, Schneider 2004a, 2010). Widely held expectations that consultation with business will precede or accompany major policy initiatives affecting the private sector and an established empirical record of such practices are indicators of informally institutionalized consultation. I draw on interviews with government officials and business informants, as well as literature on government-business relations in Latin America, news articles, and records

[16] Snyder and Samuels (2004), Gibson et al. (2004), Adranaz and Scartasini (2011).

from business association Web pages, to establish in which cases this source of instrumental power is present.

Beyond granting business regular access to policymakers, institutionalized consultation can create incentives for governments to cede on issues affecting core business interests. In general, institutionalized consultation may also create incentives for business to compromise with the government; as Schneider (1997: 214) notes, concertation "does not mean simply a zero-sum loss of state autonomy or power to business." However, when consultation is well established in multiple domains, conflict with business over its core interests may create unwanted tension or potentially disrupt mutually beneficial collaboration in other policy areas. Since concertation can improve economic governance and contribute to successful policy implementation (Schneider 1997: 200–12; 2004a: 210–34), governments may have strong incentives to avoid reforms that threaten business's core interests.

Institutionalized consultation requires a well-organized business sector with strong peak associations (Schneider 1997: 201). Accordingly, institutionalized consultation tends to generate instrumental power at the sectoral level or higher if there is a strong economy-wide business association. Furthermore, institutionalized consultation develops over fairly long time periods and is a relatively stable source of instrumental power, although it may be disrupted by the rise of new political actors or other destabilizing factors.

Institutionalized consultation can take place not just between business associations and the executive branch but also with the legislative branch. In the countries examined here, congressional finance committees regularly invited business representatives to present their positions on tax bills, and, in some cases, committee hearings became a key venue of political struggle. However, when the executive's legislative powers and/or de facto authority over economic policy formulation are much stronger than those of Congress, institutionalized consultation with committees is a much weaker source of instrumental power than institutionalized consultation with the executive branch. Business-committee consultation in the studied countries in and of itself did not create incentives for legislators to cede on core business interests, in part because legislators' initiative on economic policy and the scope of their participation in policymaking was much more limited than that of the executive. Instead, consultation with congressional committees served primarily as a formal channel for business access to legislators, and other sources of power like partisan linkages were more relevant in this arena.

Recruitment into Government, Election to Public Office, and Informal Ties

Recruitment into government, through appointments to state ministries or executive-branch positions, enables direct participation by economic elites in policymaking. Recruitment is a classic source of instrumental power discussed by original authors of the concept (Miliband 1969: 54–57). Contemporary scholars have noted the importance of government appointments for business influence in Latin America (Schneider 2010, Arce 2005, Schamis 2002) and beyond.[17]

Election to public office also affords direct participation in policymaking. Various wealthy businessmen have been elected to the presidency in Latin America in recent years, including Bolivia's Gonzalo Sánchez de Lozada (1993–97, 2002–03) and Chile's Sebastián Piñera (2010–present), and businesspeople, large landowners, and other economic elites may hold seats in Congress, even where partisan linkages are absent.

Informal ties to government officials or legislators constitute a similar source of power; however, the nexus of linkages between economic elites and policymakers is one step further removed. In this case, economic elites are not policymakers themselves; rather, they may enjoy easy access to and sympathy from executive-branch officials or legislators with whom they have informal ties. These decision makers may in turn advocate policies that economic elites favor. Theorists including Mills (1956: 278), Miliband (1969: 59), and Domhoff (1967, 1990) argued that informal ties based on extraction from a common social circle or socioeconomic class could afford business influence over members of government and state institutions, even in the absence of direct participation in policymaking arenas. Common educational or professional experiences and family ties may also serve this purpose. Many authors have subsequently associated informal ties with business influence in Latin America.[18]

Influence arising from these three sources of power tends to be highly contingent and depends on particular characteristics of the policymakers involved and the institutional environment. Businesspeople elected to the presidency may pursue agendas that deviate from the interests of other economic elites, with an eye toward establishing their legacies or boosting their popularity to maintain power. Likewise, policymakers may have strong personal loyalties to a political leader that take precedence over informal ties to economic elites when conflicts of interest arise.[19] Furthermore, state institutions can augment or temper the effectiveness of informal ties and recruitment. If the state is characterized by a Weberian bureaucracy, associated incentives for policymakers and bureaucrats to pursue common developmental goals may make them less responsive to business demands that are inconsistent with those goals, regardless of informal ties. Following Evans (1995, 1997), informal ties to business

[17] In Russia, Easter (2012: 68) describes how tycoons in Yeltsin's government gave their own businesses tax benefits.

[18] E.g., Silva 1996, Weyland 1996: 59, Teichman 2001, Arce 2005, Schneider 2010.

[19] Conaghan and Malloy (1994: 67) make this point regarding Banzer's authoritarian government in Bolivia.

in these circumstances can even empower state officials to better implement developmental agendas. In the absence of a Weberian bureaucracy, however, informal ties may lead to state capture: "When the state lacks the capacity to monitor and discipline individual incumbents, every relationship between a state official and a businessperson is another opportunity to generate rents for the individuals involved" (Evans 1997: 66). Turning to the legislature, the degree to which informal ties serve as effective sources of instrumental power for economic elites depends on characteristics of the country's electoral system. Eaton (2002) argues that where electoral institutions create career-based incentives for legislators to demonstrate loyalty to party leaders, legislators are less receptive to interest-group pressures that run counter to their party's major policy initiatives. In contrast, where electoral institutions "encourage legislators to cultivate personal reputations" (Eaton 2002: 15), legislators have leeway to be much more responsive to business demands. Accordingly, informal ties to legislators are a less effective source of instrumental power in party-centered electoral systems compared to candidate-centered electoral systems. Recognizing the contingent nature of influence derived from informal ties and the importance of institutional environments helps overcome problems inherent in "power elite" approaches, which tend to overestimate the extent to which informal ties or common backgrounds align public policies with business interests.[20]

The degree to which these sources of power afford influence in a given policy area also depends in part on the purview of the relevant policymakers. The higher ranking the officials and the more authority they wield in the policy domain, the more valuable economic elites' informal ties or appointments will be. For economic elites seeking to influence tax policy, appointments or ties to the Finance Ministry tend to be more consequential than appointments or ties to sectoral ministries. Further, the more pervasive economic elites' appointments or connections, the stronger their corresponding instrumental power will be.

Informal ties, election to public office, and/or recruitment may be highly variable over relatively short time periods. Elections can bring economic elites into office or turn them out, and cabinet appointments usually change when a new administration assumes office, if not more frequently.

These sources of power can be identified by examining the professional and personal backgrounds of the policymakers in question and using evidence from interviews and news sources. Assessing these sources of power becomes more important when economic elites lack institutionalized sources of power that afford more systematic influence.

[20] Power elite literature is also criticized for overestimating the homogeneity of interests within the business community and between business and state actors (Polsby 1968, Hacker and Pierson 2002).

Resources

Among the resources in Table 2.1, this study emphasizes cohesion, which is most important for explaining variation in tax policy outcomes in the cases examined. For completeness, this section includes brief discussions of all four resources.

Cohesion

Cohesion describes economic elites' capacity to form and sustain a united front and engage in collective action. When economic elites can present a united opposition front, prospects for influencing policy are stronger than if opposition is uncoordinated, or if only certain sectors or subgroups resist.

Cohesion enhances the effectiveness of lobbying or other forms of mobilization through two mechanisms. First, cohesion strengthens economic elites' bargaining position by increasing the cost of divide-and-conquer strategies. If cohesion is weak, policymakers may be able to negotiate acceptance from particular sectors or subgroups by offering only marginal concessions. This logic applies to business elites at both the cross-sectoral and sectoral levels. Economy-wide cohesion strengthens business's bargaining position on issues of cross-sectoral concern, whereas sectoral cohesion strengthens a sector's bargaining position on issues that affect its own special interests. Second, cohesion helps confer legitimacy on economic elites' demands. In contrast, when opposition is uncoordinated or where no united front exists, the demands of any particular group may be dismissed as narrow and self-serving (Silva 1997: 246). This dynamic is especially relevant regarding cross-sectoral taxes; in the absence of elite cohesion, the government can portray each sector as demanding special treatment and unfairly seeking to shift the tax burden onto others. For taxes affecting a single sector, solidarity from economic elites more broadly can legitimate and amplify that sector's opposition.

The commonsense view that unity enhances business power appears frequently in literature on business, elites, and economic reforms. In his classic study of redistribution in Latin America, Ascher (1984: 40) finds that "if a coalition of the wealthy is allowed to form, the results are likely to be devastating" for progressive reform. In contrast, he observes that redistribution is more feasible when elites are regionally or sectorally divided because such divisions can be exploited to impede formation of a united elite-opposition front. Frieden (1991: 33) makes a similar argument at the sectoral level: "The more successful a sector is in coming together to make common demands on policymakers, the more powerful will be the pressure it can exert."[21] Literature on regulation and taxation in the United States reaches similar con-

[21] Cooperation among capitalists is an important aspect of sectoral cohesion, along with capital-labor cooperation.

clusions (Vogel 1987: 395, Akard 1992), as does recent research on global environmental politics (Falkner 2009).

I treat encompassing organization as the most important of various factors that contribute to cohesion. Strong economy-wide business associations foster cross-sectoral cohesion by forging consensus among their members (Schneider 2004a) and acting with authority on their behalf. Business associations may also defend the interests of economic elites much more broadly, including upper-income earners and business owners as well as firms and corporations. Economy-wide associations can serve as key interlocutors between the government and economic elites, coordinating lobbying or other forms of collective action including protest. Likewise, strong sectoral business peak associations can contribute to sectoral cohesion. Although collective action can take place in the absence of encompassing organization, it will be much easier to sustain a united front when such an organization exists. In short, organization provides an institutional backbone for cohesion.

Several additional factors may contribute to cohesion. A strong common identity that distinguishes economic elites from other socially constructed groups contributes to cohesion (Lieberman 2003: 16) by promoting elite solidarity. Likewise, shared ideology can promote cohesion (Frieden 1991: 40, Levi 1988: 21)[22] by helping define a common identity or common interests.[23] Finally, homogeneity and concentration (a relatively small number of dominant economic actors) are oft-cited factors that promote business cohesion and facilitate collective action (Olson 1965, Frieden 1991, Etchemendy 2011).

Expertise

Technical expertise may confer instrumental power through several mechanisms. First, it may be a prerequisite for business actors to obtain access to policymakers. The executive branch may have little interest in consulting with business associations unless they bring technical expertise to the table. Second, expertise can enhance the effectiveness of lobbying by legitimating economic elites' demands and making their arguments more persuasive. Command of technical criteria can help business actors frame their interests as congruent with the country's developmental goals, whereas they might otherwise be perceived as purely self-interested.[24] And instead of simply rejecting increased taxation as an unwanted burden, business may be able to present its opposition

[22] In a similar vein, Blyth (2002: 38) holds that ideas are "crucial resources in the promotion of collective action."

[23] Note that while common interests may facilitate collective action, cohesion is not simply a function of the distribution of underlying preferences. Chapters 5 and 7 analyze cases where weak cohesion created collective action problems that limited elite influence despite broad opposition to tax increases. Note also that the content and/or nature of elite preferences remain analytically independent from power in this formulation.

[24] Conaghan and Malloy (1994: 73) and Silva (1997: 176) make similar observations.

in terms of technical concerns that policymakers share. Legislators may also be more easily swayed when business lobbyists have strong technical credentials. Investing in business association research divisions or financing think tanks that produce policy recommendations are two ways that business can seek to acquire and broadcast technical expertise.[25]

The degree to which business's technical expertise helps legitimate demands and craft persuasive arguments depends on how much expertise policymakers command. As Culpepper (2011) argues, when business actors possess greater expertise than policymakers on highly complex, obscure policy issues, policymakers tend to defer to lobbyists. In some such cases, policymakers may even delegate rule making to business actors (Culpepper 2011: 178). In contrast, policymakers with extensive expertise on the issue in question are unlikely to accept business assessments without scrutiny, and they may quickly detect flaws in purportedly technical arguments crafted to legitimate business demands.

The extent to which expertise confers instrumental power also depends on whether the policymakers and economic elites in question are trained in similar schools of economic thought. Orthodox policymakers are unlikely to be convinced by heterodox economic arguments, and vice versa. For example, arguments that eliminating tax credits entails technically inappropriate double taxation may resonate with highly orthodox economists, but heterodox policymakers may not be persuaded.

Despite the potential importance of technical expertise, it does not play a central role in explaining variation in tax policy outcomes in the cases examined in this book. Most relevant business associations enjoyed significant technical capacity, yet they sometimes obtained concessions from policymakers and sometimes did not, even when both sides espoused orthodox economic principles. This source of power does not play a strong causal role primarily because executive-branch officials in charge of tax policy all had extensive technical training; there simply was no significant gap in expertise between government and business on tax issues.

Media Access

Preferential media access may help economic elites influence policy through an indirect mechanism: shaping public opinion. Editorials, biased reports, and extensive coverage of economic elites' positions may persuade voters to adopt those views and thereby encourage politicians to implement congruent policies. To the extent that politicians respond to public opinion, media access may thereby affect the executive's reform agenda and/or influence legislators' votes. Preferential media access can also give conservative parties an advantage in electoral campaigns (Gibson 1992: 31) and may thus help economic elites obtain partisan representation. Business may also use media access as part of

[25] See Schneider (2013: 147) on Latin American think tanks.

longer-term strategies to shift the terms of public debate and define the scope of policy options considered appropriate.[26]

Authors dating back to Mills (1956: 315) and Miliband (1969: 182, 221) have identified media access as a key source of instrumental power, and much contemporary research concurs.[27] In Latin America, heavy concentration of media ownership and strong financial incentives to cater to advertisers[28] suggest that this source of power could be particularly important. Indeed, many large business groups in Latin America have diversified into media holdings.[29] However, given that links between public opinion and policy are often tenuous, as discussed in Chapter 1, the role of media access as a source of power should not be overemphasized. Opinion polls and survey data on tax reforms in Latin America are rare, making systematic analysis of media effects difficult. Yet this lack of data in and of itself suggests that public opinion, and hence media access, tended to play a modest role in tax politics. In Chile, where business is widely perceived to enjoy preferential media access, I argue that other sources of instrumental power were much more important for influencing tax policy. Where business enjoyed favorable media coverage but did not have other sources of power, it achieved little influence, as in the case of Argentina's industrial sector during the 1990s and agricultural producers in the 2000s.[30] And where business received neither preferential access nor favorable coverage, other sources of instrumental power conferred influence, as in the case of finance in Argentina during the 1990s.

Money

Money enhances economic elites' ability to organize, invest in technical expertise, hire lobbyists,[31] and procure media access. Three additional mechanisms linking money and influence that have been much studied are worth noting. First, financial contributions may sway legislators' votes, although authors disagree regarding to what extent.[32] Second, financial donations may mobilize bias in Congress and shape the legislative agenda (Hall and Wayman 1990). Third,

[26] See additional discussion in the subsequent section on "discursive power."

[27] In the United States, Smith (2000) argues that business achieves influence by funding think tanks, whose spokespeople receive extensive media attention based on technical credentials.

[28] Fox and Waisbord (2002), Hughes and Lawson (2004), Wolf (2009), Becerra and Mastrini (2009), Boas (2013).

[29] I think Ben Ross Schneider for this point. Brazil's Globo is a prominent example.

[30] Schneider (2004a: 193) observes that the Argentine industrial association's "greatest strength was its visibility in the press" in the 1990s; however, it achieved little influence on tax policy (Chapter 5). Likewise, farmers' concerns received ample coverage in the Argentine newspaper *La Nación* but failed to influence export tax policy for many years (Chapter 7).

[31] Etchemendy (2011: 67–68) emphasizes the importance of material resources for business lobbying during structural adjustment in Argentina.

[32] Some contend that this hypothesis is not strongly supported for the United States (Hall and Wayman 1990: 798, Baumgartner et al. 2009); evidence from Brazil suggests that campaign contributions do lead to "quid pro quos" (Samuels 2001: 35).

campaign contributions may give conservative parties an electoral advantage. While business usually donates to all major candidates, contributions to conservative parties tend to be much more substantial; as Gibson (1992) notes, campaign contributions are an important component of the core constituency relationship between economic elites and conservative parties.[33]

In general, the extent to which money procures political influence is hotly contested, with some authors arguing that it makes little difference,[34] others calling for greater attention to this resource,[35] and some placing it above all other sources of power (Winters 2011). Given the difficulty of obtaining relevant data in Latin America, systematic analysis of money as a direct source of power lies outside the scope of this book.[36] While my view is that money does matter, I find that other sources of power (which money may in part underpin) explain most of the observed policy variation in this study.

2.2 STRUCTURAL POWER

Structural power stems from the profit-maximizing behavior of private-sector actors and policymakers' expectations about the aggregate economic consequences of myriad individual investment decisions made in response to policy decisions. Block (1977) and Lindblom (1977, 1982), who originally theorized this concept,[37] stressed that governments in market societies depend on business to invest and produce in ways that foster collective prosperity. Accordingly, structural power arises from concerns that a policy will provoke reduced investment, capital flight, or declining production, because of the market incentives the policy creates for firms, capital owners, or producers. Reduced investment or production may in turn lead to slow or declining growth, unemployment, or other macroeconomic problems. If policymakers anticipate such negative aggregate outcomes, they may refrain from initiating the policy in question for the sake of attaining developmental goals or to avoid punishment at the polls for declining prosperity. The defining feature of structural power is that it requires no organization or capacity for political action; instead, market signals coordinate reactions in the economic arena. As summarized by Hacker and Pierson (2002: 281): "The pressure to protect business interests is generated automatically and apolitically. It results from private, individual investment

[33] Samuels (2001) finds that in Brazil, left parties receive less corporate funding, and campaign contributions have a large effect on elections. On business contributions helping Yeltsin defeat left-wing competitors in Russia, see Easter (2012: 68). More generally, see Yadav (2011: 26–29) on the growing importance of business funds for campaign finance in developing democracies and Arriola on business financing African opposition campaigns.

[34] Baumgartner et al. (2009) and Culpepper (2010) tend toward this view.

[35] Graetz and Shapiro (2005), Hacker and Pierson (2010), Gilens (2012).

[36] More extensive information is available for Brazil (Samuels 2001). On campaign finance in Latin America, see Posada-Carbó and Malamud (2005).

[37] See also Przeworski and Wallerstein (1988) and Winters (1996).

decisions taken in thousands of enterprises, rather than from any organized effort to influence policymakers."

To better understand this concept, I operationalize structural power as a credible and economically significant *disinvestment threat*. In some cases, the disinvestment threat may take the form of an *exit threat,* whereby policymakers anticipate that domestic or foreign economic elites will remove their capital from the country in pursuit of higher returns elsewhere. In other cases, the disinvestment threat may take the form of a *withholding threat*, whereby policymakers anticipate that economic elites will cancel or postpone productive investment.[38] For example, a company might distribute profits to shareholders instead of reinvesting. Beyond disinvestment threats, structural power may also entail threats that a policy will merely cause investment to stagnate at prevailing levels, or prevent investment from increasing to the desired extent. Even more broadly, structural power may entail a threat that a reform will disrupt normal economic activities other than investment; for example, unfavorable market signals might lead business owners to scale back or halt production, or to hold their goods off of the market until more favorable conditions prevail.[39] For simplicity, I use the term disinvestment throughout the following discussion.

What makes a disinvestment threat credible? First and foremost, private sector agents must have significant and concrete incentives to actually withhold or relocate investment; many policies create no such incentives, even if economic elites dislike them. In addition, for exit threats, capital must be mobile. However, structural power more generally does not require capital mobility. For example, extractive industries with large sunken investments may be unlikely to close their operations, but structural power may still arise from concerns that a policy will discourage new investment.[40] Nor does capital mobility necessarily confer structural power; the policy must actually create negative investment incentives.

Turning to significance, a credible disinvestment threat will generate stronger structural power if the sector or class of investors in question plays an important role in the country's economy. For example, a sector that constitutes a large proportion of GDP, serves as a growth engine, drives job creation, or plays a critical role in ensuring that the broader economy functions smoothly

[38] This distinction between withholding and exit threats builds on Winters (1996: 22), who differentiates between withdrawing investment, an option available to all investors, and relocating investment, which is possible only when capital is mobile. Of withdrawing investment, he observes: "At its most dramatic a plant can be closed.... At a much more subtle level an expansion, a new investment, or some kind of reinvestment can be postponed or cancelled."

[39] See Chapter 7 on grain export companies periodically suspending operations during Argentina's 2001 crisis.

[40] See Winters (1996: 23) for further discussion of this point. See also Chapter 8 on the Bolivian hydrocarbons sector's structural power.

(e.g., the financial sector[41]) has the potential to generate stronger structural power than a sector lacking such characteristics. Even substantial disinvestment within a weak or economically insignificant sector may cause little concern. It is worth stressing, however, that economic importance and structural power are not synonymous, although authors sometimes treat them as such (Handley 2008: 10).[42]

Predicting investor behavior and the aggregate effects of myriad individual investment decisions is not an exact science. Rational observers, including highly trained economists, may disagree on the likely consequences of a reform, especially in real-world situations where numerous other variables may affect investment. Incomplete information and uncertainty during periods of instability can also make it difficult to predict how a policy will affect investment trends.

Structural power therefore depends on policymakers' perceptions in the following sense: if policymakers perceive significant disinvestment incentives and a substantial associated economic impact, these concerns will influence agenda formulation regardless of the actual impact the reform would have, which is unobservable at this stage of policymaking (Table 2.2, quadrants a, b). If policymakers do not anticipate disinvestment, or if they believe its economic consequences will be negligible, then structural power – whether weak or simply perceived as such – will have no effect on whether or not a reform is proposed (Table 2.2, quadrants c, d), regardless of whether that reform would have, or ultimately does, stimulate disinvestment. In other words, what matters for policymaking is the anticipated disinvestment threat, not the unobservable "objective" disinvestment threat.

Disjunctures can arise between policymakers' anticipations regarding a reform's likely impact on investment and the actual economic consequences of reform. On the one hand, policymakers might anticipate significant disinvestment even if a reform is in fact unlikely to alter investors' behavior (Table 2.2, quadrant b). On the other hand, policymakers might not anticipate disinvestment in cases where investors will respond negatively to a reform (Table 2.2, quadrant c). As Hacker and Pierson (2002: 282) point out: "structural power is a signaling device; by itself it does not dictate policy choices." Under some conditions, policymakers may misread or simply fail to detect the signal. Retrospectively, it is sometimes possible to identify misperceptions, especially when enacted reforms appear to produce subsequent disinvestment,[43] or when

[41] Woll (2014: 101–02) emphasizes the sheer size of the financial sector and the intricate ways in which it is integrated with and supports the real economy in developed democracies.

[42] Etchemendy (2011: 79) uses "structural power" to describe "the value that industrial sectors generate in relation to their degree of concentration," which combines indicators of economic importance (value generated) and collective-action capacity (number of firms in the sector); the latter introduces aspects of instrumental power.

[43] Apropos, Ambroce Bierce's *The Lacking Factor*: "'Your act was unwise,' I exclaimed 'as you see / by the outcome.' He solemnly eyed me. / 'When choosing the course of my action,' said he, / 'I had not the outcome to guide me.'"

TABLE 2.2. *Structural Power and Disinvestment Threats*

		"Objective" Disinvestment Threat	
		High	**Low**
Anticipated Disinvestment Threat	**High**	**a) Strong Structural Power** Keeps reform off agenda, unless other priorities prevail	**b) Strong (Perceived) Structural Power** Keeps reform off agenda, unless other priorities prevail
	Low	**c) Weak (Perceived) Structural Power** No effect on reform agenda **Realized Disinvestment Threat** May affect fate of proposal or duration of enacted reform	**d) Weak Structural Power** No effect on policy decisions

reforms implemented despite perceived structural power do not appear to alter investment trends.[44] Where concerns over investment kept reforms off the agenda, however, it is impossible to know definitively how investment would actually have responded; the "objective" disinvestment threat remains unobservable. Accordingly, in cases where quadrants a) and b) (Table 2.2) cannot reasonably be distinguished, I simply score structural power as strong.

This discussion so far has treated structural power as influencing agenda formulation, in accord with most literature on the concept.[45] However, structural power may also affect the fate of reform initiatives after they have been proposed. For example, where executive initiatives require congressional approval, legislators' concerns over reduced investment may compel them to vote against a reform, even if executive-branch policymakers believe the reform will provoke no negative economic consequences. In other words, structural power may be deemed strong in the legislative arena but weak in the executive arena (or vice-versa).

Alternatively, policymakers may ascertain post facto that the mere announcement or initiation of a proposal actually precipitates disinvestment.[46] They may accordingly rescind or reject the proposal. Likewise, actual disinvestment after a reform is implemented may lead policymakers to subsequently amend or

[44] See Chapter 8 on Bolivia's 2005 hydrocarbons reform.

[45] For example, Hacker and Pierson (2002), Fuchs (2007), and Falkner (2009) implicitly equate structural power with "indirect" influence or "agenda-setting power." Smith (2000) is an exception.

[46] Przeworski and Wallerstein (1988) find that capitalists' anticipation of tax increases can lead to reduced investment before implementation.

repeal the offending reform. In these cases, structural power takes the form of a *realized disinvestment threat* (Table 2.2, quadrant c).

Competing priorities can attenuate the causal impact of structural power. Policymakers may have other goals that trump concerns over investment, even if they do anticipate that a reform will provoke disinvestment. For example, a left government might prioritize redistribution over growth, reestablishing fiscal discipline or solvency might take precedence over stimulating investment, and pacifying mobilized popular sectors might preempt concerns over a policy's longer-term economic consequences. However, other priorities will become less relevant as the perceived credibility and impact of the disinvestment threat increases.

As the above discussion illustrates, identifying policymakers' perceptions regarding the anticipated consequences of reform options, as well as additional factors they take into account when making policy decisions, is essential for assessing whether or not structural power influences policy.[47] Accordingly, I draw on interviews with high-level government officials as well as written records to establish whether certain reforms were ruled out for fear of reduced investment and to explain why policymakers perceived structural power to be weak or strong. Where possible, I also examine relevant economic data to assess whether policymakers' anticipations represented an accurate reading of the "objective" disinvestment threat.

Many authors emphasize that macroeconomic factors, including the relative weight of the state versus the private sector in economic activity and levels of international economic integration and global capital mobility, shape structural power.[48] Seismic shifts toward private ownership and global capital mobility in the 1980s and early 1990s paved the way for structural power to play a much more important constraining role in Latin America and other developing regions compared to earlier decades.

Against this macroeconomic backdrop, however, structural power is in fact highly context-specific; it varies across countries, policy areas, and even specific reform proposals. National-level contextual factors such as the broader policy environment (Hacker and Pierson 2002: 282, Gelleny and McCoy 2001, Garrett and Mitchell 2001), or a history of economic instability or

[47] Perceptions are indispensible when analyzing anticipated reactions. As such, the importance of perceptions is implicit in the classic formulations of structural power. Both Winters (1996: xv) and Hacker and Pierson (2002: 282) anticipate this point; the former notes that "issues of perception and anticipation are … critical to the actions of both investors and state leaders"; the latter observe: "If influence depends on fear of disinvestment, then it will vary depending on how credible policy makers believe that threat to be." Constructivists in international relations (Bell 2012, Bell and Hindmoor 2014) are developing points about perceptions similar to those I make here and in previous work (Fairfield 2010, 2011), but they venture into relational notions of power and questions of agency that I find less promising for honing structural power into an empirically useful causal variable that is conceptually distinct from instrumental power.

[48] See Winters (1996) on commodity booms and capital mobility.

extensive government intervention can affect the likelihood that a particular reform will provoke reduced investment or capital flight. Structural power may even have a cultural component, to the extent that common national experiences create shared expectations about how investors will respond to particular reforms.[49] Furthermore, the broader structure of the tax system may affect the incentives that a specific tax increase creates. For these reasons, similar reforms may provoke a disinvestment threat in one country but no such threat in another country. In addition, reforms in different policy areas can affect or convey different signals to investors with different types of assets (Maxfield 1997: 38–39). For example, investment in certain sectors or asset classes may be highly sensitive to reforms with a relatively small impact on profits, whereas investment in other sectors or asset classes may be so profitable compared to other options that even substantial tax increases would not deter investment.[50] High commodity prices may contribute to the latter situation with regard to mineral and agricultural export sectors. In general, the extent to which a particular reform creates disinvestment incentives depends not only on how much it affects profits, but also on expected returns to alternative investment options and associated transaction costs (Mahon 1996: 21). Moreover, investors may interpret some reforms as signals that their assets are no longer secure, whereas other reforms may not trigger any such concerns.[51]

Structural power also varies over time. The state of the economy is one factor that can drive fluctuations in structural power. Some authors have observed that structural power should be at it strongest during recessions, when policymakers tend to prioritize investment and job creation (Smith 2000: 148–49). In such contexts, even marginal investment losses may matter, whereas economic boom may make moderate (or even significant) changes in investment levels inconsequential.[52] However, economic crisis can reduce structural power (Block 1979, Akard 1992: 609, Hacker and Pierson 2002). If investment has already fallen dramatically, as occurred during the Great Depression, additional disinvestment may create little cause for concern. Vogel (1987: 394) builds on a synthesis of these views. He argues that structural power will be weak when the economy is either in boom or in bust, but strong when intermediate conditions prevail. Although this relationship between structural power and economic conditions holds across several cases examined in this book, it is not a generalizable rule. Disinvestment threats may persist even during times of strong

[49] I thank Peter Evans for this insight. See Chapter 6 on interest earnings in Argentina.

[50] In Argentina, fixed-time deposits illustrate the former case (Chapter 6); soy production illustrates the latter case (Chapter 7).

[51] Chapter 6 illustrates this point for tax reforms affecting Argentina's financial sector.

[52] For a similar view, see Campello (forthcoming) on financial investors' reduced ability to influence economic policy in Latin America during periods characterized by low international interest rates and high commodity prices.

economic growth,[53] and economic crises may enhance rather than diminish structural power, depending on how they alter investors' incentives and the relative economic importance of the sector(s) in question. Given the specificity of structural power to particular contexts and reforms, structural power must be carefully evaluated on a case-by-case basis.

Because experts may disagree on the likelihood that a reform will stimulate reduced investment, turnover in government is another factor that can drive temporal fluctuations in (perceived) structural power. If new authorities espouse different economic principles than their predecessors, they may view a given reform as either more or less deleterious to investment than previous incumbents assumed. Even policymakers and technocrats with similar economic training may predict different consequences to a given reform and have different views regarding the credibility of disinvestment threats.[54]

Identifying these multiple sources of variation helps to reclaim structural power as a useful analytical concept. Early literature, particularly Lindblom's (1982) formulation of "the market as prison," viewed structural power as extremely constraining and could not account for broad cross-national variation in economic policy regimes.[55] But careful analysis of how structural power varies over time, across policy areas, and across countries, in conjunction with attention to instrumental power, provides strong leverage for explaining policy change.[56]

2.3 INTEGRATING ANALYSIS OF INSTRUMENTAL AND STRUCTURAL POWER

Historically, the concept of structural power emerged partly as a reaction against both instrumental definitions of power and its pluralist critics, who

[53] See Chapter 6 on taxation of interest earnings in Argentina. More generally, even during economic booms when it might seem that policymakers have little to fear, concerns that a policy may disincentivize investment and deflect the positive economic trajectory may prevail.

[54] For example, orthodox center-left Chilean finance ministers Eyzaguirre and Velasco disagreed on how corporate tax increases would affect investment (Chapter 3).

[55] Lindblom (1982: 326) asserts: "One line of reform after another is blocked by prospective punishment. An enormous variety of reforms do in fact undercut business expectations of profitability and do therefore reduce employment." For additional critiques, see Vogel (1987) and Hacker and Pierson (2002), the latter offer an insightful review of changing perspectives on constraints imposed by structural power.

[56] Lindblom's failure to problematize the credibility of disinvestment threats helps explain why he portrays structural power as monolithic and invariant. Lindblom (1977: 185) writes: "Prophecies of some kinds tend to be self-fulfilling. If spokesmen for businessmen predict that new investment will lag without tax relief, it is only one short step to corporate decisions that put off investment until tax relief is granted." However, a policy's effect on investment behavior may not be clear-cut, and when many investors are involved, business leaders' predictions may not automatically ensue (although signaling effects could be important). Moreover, policymakers do not always unquestioningly accept business actors' evaluations.

argued that divisions and differences of interest within the business community undermined early notions of a power elite. Analysts tended to advocate one type of power or the other instead of adopting an integrated view in which economic elites can possess either or both types of power in any given context. As Hacker and Pierson (2002) recount, the failure to incorporate both instrumental and structural power into a single analytical framework contributed to an impasse in the literature and declining interest in the concept of power within comparative politics. However, examining both types of power is critical for understanding the means and extent to which economic elites exert influence in market democracies. This section explicates how the two types of power can aggregate and interact, although they remain conceptually distinct.

When economic elites enjoy both structural power and instrumental power, they can achieve more consistent and more substantial influence. In these cases, they can exert influence through multiple channels; when one means fails to achieve the goal, another may succeed. For example, if structural power does not deter policymakers from proposing a reform that economic elites oppose, instrumental power may help them obtain concessions later in the policymaking process.

Moreover, instrumental power and structural power can be mutually reinforcing – each may be stronger in the presence of the other. On the one hand, instrumental power can augment structural power. For example, lobbying from a position of strong instrumental power can exacerbate policymakers' concerns that a reform will provoke disinvestment – in other words, structural power can be instrumentally enhanced.[57] Economic elites regularly assert that failure to heed their policy recommendations will lead to grave economic consequences, and these warnings will be taken more seriously when they have strong relationships with policymakers and resources like technical expertise. It is even possible that lobbying could convince policymakers that there is a credible threat of disinvestment when they harbor no preexisting concerns regarding a reform's economic impact. This situation might arise when policymakers lack sufficient expertise to independently evaluate economic elites' claims that a reform will deter investment and growth. Culpepper's (2011: 178) argument that expertise is the key to business influence on low-salience issues draws largely on this logic (although he does not refer to either instrumental or structural power): politicians with little knowledge of policy areas like corporate takeover regulations respond to mangers' demands because "they do not want to risk messing up the economy."

Another scenario involving instrumental enhancement of structural power could occur where business's instrumental power motivates the appointment of key government officials (e.g., the finance minister) whose technical training predisposes them to be highly concerned about the economic consequences of a policy that runs against business preferences. In this example, concerns over

[57] See Chapter 6 on bank-information access in Argentina during the 1990s.

structural power are particularly strong because instrumental power influenced the economic tenets prevailing within the government. If the officials in question discard the policy due to anticipated disinvestment, then structural power is the direct cause, yet this structural power has been enhanced by business's prior exercise of instrumental power.[58]

On the other hand, structural power can augment instrumental power. When decision makers worry that a reform or a broader policy agenda may affect investment, they may grant business more extensive access and participation than would otherwise be expected given their existing sources of instrumental power.[59] At one extreme, businesspeople might be recruited into government – thereby acquiring a new source of instrumental power – in order to reestablish investor confidence and thus diminish threats of disinvestment associated with business expectations about an administration's preferred policy agenda.[60] Lindblom's (1977: 170–88) discussion of the privileged position of business is consistent with this view. He argues that public officials grant business privileged access to decision-making arenas – conferring instrumental power – because business makes the decisions that determine growth and employment – in other words, because capital wields structural power.

Despite the fact that instrumental and structural power may interact in mutually reinforcing ways, it is important to recognize that they are nevertheless conceptually distinct. Instrumental power involves capacity for deliberate and often collective action in the political arena, whereas structural power entails apolitical, market-coordinated decisions in the economic arena. Accordingly, structural power and instrumental power need not covary. Structural power may be strong even if instrumental power is weak, and instrumental power can be strong in the absence of structural power. The empirical chapters include cases exemplifying all four combinations of weak and strong scores on these two variables.

Particular care must be taken to distinguish instrumental power from structural power in cases where disinvestment or other forms of economic disruption do occur in response to reform. If these outcomes result from individually rational profit-maximizing decisions, structural power is at work. However, on rare occasion, these outcomes may result from economic protest, which falls within the realm of instrumental power.

58 Thacker's (2000: 36) observation that business's political participation can help decision makers understand which among multiple policies have motivated reduced investment suggests yet another complementarity between instrumental and structural power: the former may clarify signals sent by the latter.

59 Following this logic, Silva (1997) argues that the Chilean government's concern over investment after the democratic transition motivated close consultation with business.

60 For example, Ecuadorian president Gutierrez campaigned on a leftist platform but appointed an orthodox economist supported by business as finance minister to quell concerns over potential disinvestment (Campello 2009). Peruvian president Humala reportedly followed a similar strategy.

Economic protest entails deliberate, politically coordinated decisions to relocate or withhold investment (investment strikes),[61] halt production (lockouts or production strikes), or disrupt the sale or distribution of goods (commercialization strikes) in order to exert influence, when individual participants have market-based incentives to continue their normal economic activities. In contrast to market-coordinated disinvestment or disruption of production, economic protest entails short-term costs for participants, and long-run gains depend on whether the actions undertaken influence policy choices and/or politics more broadly.[62] Business strikes, like labor strikes, therefore require collective action, and they are more likely to arise when cohesion among the relevant economic elites is strong.[63] However, Chapter 7 examines an unusual case in which a tax increase catalyzed business strikes despite the participants' prior lack of cohesion.

Many authors do not explicitly consider the possibility that disinvestment can be politically coordinated (Winters 1996: 21–22, Hacker and Pierson 2002: 297, Campello 2009: 2).[64] Yet distinguishing between market coordination and political coordination is important because the logic of disinvestment may affect policymakers' subsequent reactions. For example, if a policy does not significantly alter market incentives but does provoke politically coordinated disinvestment, governments may attempt to ride out the economic protest and wait for the logic of individual short-term profitability to preempt the logic of collective action.

Although the primary case of economic disruption examined in this study was strictly politically coordinated (Argentina's agricultural producers protest, Chapter 7), other instances may involve elements of both structural power and instrumental power. Economic elites may attempt to organize investment strikes to augment their influence even if market-coordinated disinvestment is also taking place. For example, business staged politically coordinated investment strikes in Chile in 1972 to destabilize the Allende government, even though substantial disinvestment had already occurred in response to the government's transformative, redistributive agenda (Ascher 1984: 256).[65] Likewise, business leaders in India attempted to orchestrate an investment strike in the 1940s

[61] In contrast to my usage, the term investment strike (or capital strike) is often applied to cases of market-coordinated disinvestment or disruption of production.

[62] This treatment is consistent with Mahon (1996: 20–21), who views capital strikes as "a class of political capital flows" that act as "a *deliberate* tool of pressure, as opposed to a method of increasing expected return."

[63] See Fairfield (2011) for further discussion of business strikes and protests.

[64] Winters (1996: 21–22) and Vogel (1987: 393–94) associate capital strikes with all cases of disinvestment, except those involving relocation of mobile capital. However, relocation and withholding of investment can both result from deliberate, coordinated efforts to effect policy or political change. Conversely, both relocation and withholding can be economically rational responses to market signals.

[65] See also Sigmund 1977, Stallings 1978, and Silva 1996.

against proposed regulatory reforms; this initiative also took place in a context of market-coordinated disinvestment (Chibber 2003: 142–45).

A Note on "Discursive Power"

In recent years, international relations scholars have advanced the concept of "discursive power" to understand business influence in global governance and policymaking (Fuchs 2007, Newell 2009, Falkner 2009).[66] These authors define discursive power as business's ability to exert influence by shaping norms and ideas. As Fuchs (2007: 61) elaborates, the notion of discursive power is related to the "third dimension" of power conceptualized by Lukes (1974: 23), whereby "*A* may exercise power over *B* … by influencing, shaping, or determining his very wants." While this dimension of power is a well-established concept, I argue that the ideas these authors discuss are already incorporated within the instrumental and structural power framework. As such, discursive power does not add analytical leverage but can instead create conceptual confusion.

To the extent that shaping norms and ideas entails deliberate, strategic actions designed to influence policy outcomes (Fuchs 2007: 60–61, Falkner 2009: 20), discursive power is no different from instrumental power. Early instrumentalists like Mills (1956: 314–15) and Miliband (1969: 182, 211) discuss similar ideas about power as those expounded by Lukes. For example, while Lukes (1974: 23) emphasizes that an actor can "secure … compliance by controlling … thoughts and desires," Miliband (1969: 211) discusses "effort[s] business makes to persuade society not merely to accept the policies it advocates but also the … values and the goals which are its own." Three sources of instrumental power – media access, technical expertise, and informal ties to policymakers – are particularly relevant for the socialization and indoctrination processes these authors discuss. Media access (or control over mass media, as discussed by all three authors) helps business define and disseminate norms. Technical expertise and informal ties may play a role in convincing policymakers that certain policies are appropriate or inappropriate and/or socializing them into particular schools of economic thought, which may in turn have implications for how they perceive structural power and disinvestment threats – as discussed in the previous section, structural power may thus be instrumentally enhanced. Business-financed think tanks, which may leverage media access and technical expertise, are often particularly active in these regards, aiming to shape policy discourse and restrict the scope of the reform agenda.[67] While Fuchs (2007) identifies seemingly distinct sources

[66] See Barnett and Duvall (2005) and Woll (2014) on the related but more nebulous concept of "productive power," to which the following critique also applies.

[67] See Smith (2000) among others.

of discursive power – legitimacy and authority – these attributes can also be related to sources of instrumental power that are more analytically tractable.[68] For example, technical expertise, media access, and cohesion can establish business groups as authoritative actors with legitimate positions and demands.

Notions of discursive power are closely related to framing strategies (Fuchs 2007: 60–61), whereby actors craft appeals using widely shared norms. Government framing strategies to promote tax reform and business counterstrategies are discussed in Section 2.4. There is no need to identify a distinct type of power corresponding to discursive strategies to incorporate the latter into the analysis. Moreover, equating discursive power with discursive strategies (Falkner 2009: 31–32)[69] conflates sources of power, actions, and influence. We cannot conclude that an actor who employs a discursive strategy is necessarily powerful, or that employing a discursive strategy will ensure that the actor's preferences shape policy outcomes. Framing strategies crafted by business actors will be more likely to succeed when sources of instrumental power lend greater weight, attention, and credibility to their arguments.[70]

Finally, whether or not one introduces a concept of discursive power, assessing business influence over policymakers' *a priori* views of what reforms are appropriate and desirable, as per the third dimension of power, poses challenging analytical problems, as many authors (including those critiqued in the preceding paragraphs) have noted (Shapiro 2006). Such endeavors lie beyond the scope of this book.

2.4 REFORM STRATEGIES: CIRCUMVENTING ELITES' POWER

When economic elites have strong instrumental and/or structural power, increasing taxes on income and wealth is difficult. However, astute governments can legislate incremental tax increases that might not otherwise be possible when economic elites are powerful by using strategies that temper

[68] Levi (1988: 17) similarly treats legitimacy and authority as derivative of other sources of power.

[69] "In trying to shape social understandings of the problems … and the ideas and norms that should guide policymaking, actors employ discursive strategies and can be said to possess discursive power."

[70] Blyth's (2002) research on ideas and institutional change is instructive in these regards. While his analysis of business's onslaught against "embedded liberalism" in the United States during the 1970s emphasizes the ideas business marshaled, his simultaneous attention to business efforts to rebuild "muscle" by organizing, financing think tanks, and bankrolling campaigns illustrates the underlying importance of instrumental power. Consistent with the theoretical perspective I present above, Blyth (2002: 154) describes the "production and dissemination" of ideas as a deliberate business strategy for pursuing policy change. To a significant extent, his narrative suggests that organization, money, and relationship-based sources of power played an important role in helping business establish the dominance of its new economic ideas.

TABLE 2.3. *Reform Strategies*

		Mechanism	
		Tempering Elite Antagonism	**Mobilizing Public Support**
Fiscal Policy Domain	**Tax-Side**	Attenuating Impact Obfuscating Incidence Legitimating Appeals (horizontal equity)	Legitimating Appeals (equity & nationalism)
	Benefit-Side	Compensation Emphasizing Stabilization	Linking to Popular Benefits

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elite antagonism and/or mobilize public support. Most of these strategies are intimately related to reform design. At the same time, many require concerted framing efforts.[71]

I identify six reform strategies that can be classified according to their "fiscal policy domain." *Tax-side* strategies – attenuating impact, obfuscating incidence, and legitimating appeals – exploit characteristics of the chosen tax instrument(s). *Benefit-side* strategies – compensation, emphasizing stabilization, and linking to popular benefits – deflect debate away from taxation by focusing attention on benefits associated with the tax increase, the reform package in which it is nested, or a broader policy agenda. Many of these strategies have analogs in literature on fiscal bargaining, "reform mongering" in Latin America, welfare state development and retrenchment in advanced industrial democracies, and coalitions for market reform in developing and postcommunist countries. However, tax reform strategies have not been analyzed systematically and comparatively.

The typology in Table 2.3 locates reform strategies according to their fiscal policy domain and the primary mechanism through which they act.[72] Strategies that temper antagonism make economic elites less inclined to use their instrumental power to resist reform. Tempering antagonism can also circumvent structural power by reducing the likelihood that economic elites will disinvest. Strategies that mobilize public support can counterbalance economic elites' instrumental power by creating electoral incentives for politicians to be less responsive to elite interests.

[71] The relative importance of policy design versus "crafted talk" has been debated (Jacobs and Shapiro 2000, Hacker and Pierson 2005); I find that both elements can be important and mutually reinforcing.

[72] Following Collier et al. (2012), this typology organizes theory and concepts, draws together multiple lines of investigation, and maps variation in the independent variable.

As Pierson (1993: 625) observes, "Individual policies may have a number of politically relevant characteristics, and these characteristics may have a multiplicity of consequences." The same holds for reform strategies. For instance, a given strategy may have the desired effect on public opinion but undesirable consequences in terms of business reactions. How these multiple political effects play out in particular instances will depend on context-specific factors.[73] I discuss the most salient trade-offs that can arise for each of the strategies with reference to cases examined in the empirical chapters.

Tax-Side Strategies

The three tax-side strategies act through different means. Attenuating impact and obfuscating incidence temper elite antagonism. Legitimating appeals – based on vertical equity, horizontal equity, or nationalism – mobilize public support; horizontal equity appeals can also temper elite antagonism.

Attenuating Impact

This strategy draws on the commonsense observation that economic elites are less likely to mobilize their instrumental power against, or reduce investment in response to, a tax increase, the smaller its impact on their profits or pocketbooks. Various temporal techniques attenuate impact. A tax increase can be phased in gradually, giving firms a transition period to adjust. Reformers can enact a series of incremental tax increases rather than proposing a single more substantial reform. Tax increases can also be legislated to hold effect for a limited time period. These attenuation techniques can be viewed as "foot in the door" strategies (Ascher 1984: 131). For example, renewing temporary tax increases may incur less resistance than passing the initial reform, to the extent that taxpayers become accustomed to the increase and/or the government can demonstrate that it has not harmed growth and investment. However, repeated recourse to temporary increases undermines this technique, as taxpayers learn that such measures will either be renewed or replaced with additional temporary tax increases and therefore press to keep the "door" closed.[74]

Obfuscating Incidence

Obfuscating tax incidence[75] reduces taxpayers' awareness of paying the burden. Economic elites will not react against a tax increase by activating their instrumental or structural power (i.e., disinvesting) if they are not conscious of its impact. Obfuscation entails selecting taxes with low *visibility* (Steinmo 1993,

[73] See also Falleti and Lynch (2009) on how context shapes outcomes of causal mechanisms.

[74] This problem occurred in Chile, where temporary tax increases were consistently extended; promises that taxes increases would be temporary lost credibility by the mid 2000s.

[75] I borrow the term obfuscation from Pierson (1994: 19–22), who elaborates analogous strategies for welfare retrenchment.

Wilensky 2002). Direct taxes on income or assets tend to be highly visible. When individuals file income tax returns, they are acutely aware of the tax burden imposed upon them. In contrast, employers' social security contributions have low visibility (Steinmo 1993: 19). Employers pass on the cost of these taxes to employees through lower wages. But because these taxes are collected from employers, wage earners generally are unaware that they bear the burden. This example illustrates a technique for reducing tax visibility: exploiting the phenomenon of burden shifting, which stems from "the difference between the *de jure* and *de facto* incidence of taxes" (Pierson 1994: 21).

Obfuscating techniques have several limitations and drawbacks. First, they can introduce actual uncertainty regarding tax incidence. It may not be clear whether the assumptions required to successfully exploit burden shifting actually hold, in which case, taxpayers other than those intended may be affected.[76] Further, if a reform's incidence becomes too uncertain, business actors may strongly resist because of the difficulties it creates for anticipating costs and planning investments (Ascher 1989: 464).

Second, reducing the visibility of a tax increase intended to raise revenue from economic elites is rarely feasible. Unlike average citizens, elites have the motivation and the resources to ascertain exactly how tax reforms affect their pocketbooks. As Hacker and Pierson (2005: 37) observe: "F. Scott Fitzgerald was right: The very rich *are* different – not just in their preferences regarding tax policy but, crucially, in their level of knowledge with respect to various dimensions of this complex issue."[77]

Legitimating Appeals

Legitimating appeals draw on widely held norms that can mobilize public support and thereby pressure politicians who might otherwise defend elite interests to accept reform. Wilson (1980: 370) envisages these strategies when discussing policies that impose costs on small groups but confer broad benefits, for which success "requires the efforts of a skilled entrepreneur who can mobilize latent public sentiment … put the opponents of the plan publicly on the defensive … and associate the legislation with widely shared values."

Legitimating appeals are more likely to succeed when political competition is strong and issue salience is high, such that politicians have electoral incentives to cater to marginal voters (Murillo 2009), and when major elections are

[76] See Chapter 6 on Argentina's tax on debt.

[77] The superior resources and information available to economic elites creates inherent asymmetry between the politics of progressive direct taxation and the politics of increasing broad-based taxes or reducing elite taxation. Policymakers pursuing the latter objectives strive to reduce the *public's* awareness of these reforms. There are numerous ways that tax cuts for elites or tax increases affecting the broader public can be designed to achieve that goal (Hacker and Pierson 2005, Wilensky 2002, Steinmo 1993). In contrast, policymakers seeking to raise revenue in highly unequal societies face the far greater challenge of reducing *economic elites'* awareness of tax increases.

approaching, so that citizens are more likely to remember politicians' policy positions when they cast their votes (Jacobs and Shapiro 2000, Gilens 2012). In these circumstances, politicians may prioritize attracting voters over responding to pressure from economic elites. However, the nature of political competition and voter-party linkages conditions the effectiveness of legitimating appeals. Strong partisan identities, cross-cutting voter preferences, clientelism, and charismatic linkages provide ample opportunities for politicians to win votes even if their policy positions deviate from median-voter preferences.[78] For these reasons, strategies that cultivate public support influence tax politics only at the margins when economic elites enjoy strong instrumental power.

VERTICAL EQUITY. Vertical equity entails that the rich should bear a larger share of the tax burden – that is, progressive taxation. Reforms that are not only progressive but also highly targeted at elites are especially well suited for vertical equity appeals. By targeting I refer to how exclusively a tax increase affects upper-income sectors as opposed to middle- or lower-income sectors. Increasing the top marginal income tax rate targets elites more than reducing minimum allowances for all income tax payers. Likewise, excise taxes on luxury goods are more elite-targeted than VAT increases, which affect consumers more broadly. While elite-targeted tax increases are inherently progressive, not all progressive tax increases are elite-targeted.

Vertical equity appeals are more effective when tax increases narrowly target elites. In highly unequal societies, the top income decile includes individuals who can be construed as "middle class," usually professionals who are not manifestly rich according to cultural norms or international comparison. Economic elites and their political allies often frame tax increases as affecting the "middle class" to justify opposition. Such assertions are harder to sustain the more elite-targeted the reform.

However, economic elites may be able to shape public opinion to their own ends by invoking principles other than vertical equity. For example, proponents of estate tax repeal in the United States secured support from ordinary citizens by framing the tax as a "death tax," connoting moral inappropriateness, rather than a tax on extraordinary wealth (Graetz and Shapiro 2005).[79]

Further, while vertical equity appeals can mobilize public support, they pose the potential drawback of provoking intense elite opposition. Although targeting and visibility need not covary, elite-targeted taxes are often highly visible and may thus exacerbate elite antagonism.[80]

[78] See, for example, Campbell et al. 1960, Roemer 1999, Luna 2014.

[79] See Chapter 7 on agroexport taxes for similar dynamics. Soy producers framed their opposition as a struggle for provincial rights to counter the central government's portrayal of the taxes as a redistributive tool.

[80] Bolivia's proposed wealth tax illustrates this dynamic (Chapter 8).

HORIZONTAL EQUITY. This principle implies that taxpayers of similar economic means should bear similar tax burdens, regardless of their income sources. Examples of reforms that improve horizontal equity include eliminating sector-specific corporate tax benefits and broadening personal income tax bases to include nonwage income. Anti-evasion reforms also improve horizontal equity by ensuring that all taxpayers pay their due burden.

Because many reforms that enhance horizontal equity also enhance vertical equity, appeals to both principles can often be used simultaneously. Further, in situations where vertical equity appeals might antagonize economic elites, horizontal equity appeals may be used to promote redistributive reforms instead (Ascher 1989: 419). Anti-evasion measures are a prominent example of reforms that facilitate both types of appeals. Middle or lower-income sectors have little opportunity for income tax evasion since taxes are withheld directly from their wages, whereas upper-income sectors receive substantial nonwage income and can under-declare those earnings on tax returns. Similarly, eliminating exemptions for sources of income accruing disproportionately to the wealthy, including rents, interest, and capital gains, enhances both horizontal and vertical equity.

In addition to mobilizing popular support, horizontal equity appeals can temper elite antagonism. By definition, reforms that improve horizontal equity affect some sectors but not others and may hence avoid provoking broad elite opposition. Moreover, horizontal equity appeals are one of the few strategies that can generate support from economic elites. Anti-evasion reforms involving corporate taxes often elicit support from law-abiding firms, which view tax evasion as unfair competition. Eliminating sectoral tax benefits can generate support from sectors that do not receive such privileges. However, where business is highly cohesive, support for eliminating sector-specific benefits tends to be passive at best (Chapter 4). Moreover, eliminating sectoral exemptions generally provokes intense opposition from those affected (Ascher 1984: 465, Olson 1965).

NATIONALISM. Nationalist appeals are highly relevant for taxing extractive resources, since they are widely viewed as national patrimony and mining firms are often foreign-owned. Many developing countries have well-known histories of exploitation by foreign powers and/or companies engaged in resource extraction.[81] Mineral-resource nationalization in Latin America was extremely popular across wide ideological spectrums. The Chilean Congress, for example, unanimously approved copper nationalization in 1971. Evoking historical experiences of exploitation and national patrimony can mobilize nationalistic enthusiasm for taxing extractive resources. Proponents of such reforms need

[81] See for example Gamarra and Malloy 1995 on Bolivia.

only decry that foreign companies are stealing the wealth belonging to the nations' citizens.

Nationalist appeals are among the most effective legitimating appeals. Foreign firms may be more easily identifiable as a distinct group and more easily portrayed as exploitative than domestic elites.[82] Nationalist appeals can also be used to mobilize public support for taxing foreign firms operating in other economic sectors. However, histories of mineral exploitation and dependency help generate more intense support for taxing extractive resources, and in some cases widespread popular mobilization to that end.

Benefit-Side Strategies

Benefit-side strategies aim to shift attention away from tax increases. With a few exceptions, benefit-side strategies explicitly invoke or tacitly rely on the neoliberal imperative of fiscal discipline to draw connections between taxation and benefits. I classify these strategies according to who receives the benefits: popular sectors (linking to popular benefits), economic elites (compensation), or members of both groups (linking to universal benefits).

Linking to Popular Benefits

Welfare-state literature advocates linking to popular benefits as a way to minimize public opposition against broad-based taxes (Steinmo 1993, Wilensky 2002); I focus on this strategy's potential to mobilize public support for elite-targeted taxes.[83] The logic is similar to tax-side legitimacy appeals. Whereas the latter strategies emphasize a tax increase's inherent legitimacy, linking invokes legitimacy derived from the benefits the tax increase will finance. A prominent example is social spending, which often does not benefit economic elites in developing countries due to means testing and/or elite preferences for private services. Linking strategies allow governments to blame legislators who oppose reform for blocking popular benefits. Linking can also create political payoffs for legislators who support reform by letting them share credit for popular programs.[84]

Occasionally, linking to popular benefits can directly mitigate elite resistance. When redistributive demands are strong and/or popular sectors are highly mobilized, economic elites may agree to accept higher taxation to fund

[82] Moreover, to the extent that taxes on extractive resources affect primarily foreign or multinational companies, they may provoke less opposition from domestic business (Dunning 2008). However, the stronger the economic, organizational, or informal linkages between local elites and foreign firms in extractive sectors, the more the former will oppose these taxes (see Chapter 4 on copper taxation in Chile).

[83] In this context, linking to popular benefits does not entail a "fiscal contract" scenario, since benefits are not destined to elite taxpayers.

[84] See Boylan (1996) on Chile's 1990 reform.

social spending in order to promote social peace and preserve the political or economic status quo.[85] In such cases, linking to popular benefits becomes analogous to emphasizing stabilization (discussed below).

Linking can be achieved through discourse and/or reform design. Discourse alone is the weakest approach. Several techniques make links between taxation and benefits more evident and more credible. First, popular benefits and tax increases can be included within a single reform package so that they are debated simultaneously. Second, if the executive has exclusive initiative on fiscal policy, as in Chile, benefits can be made contingent on tax increases: a reform can be designed such that rejecting the tax increase automatically prevents spending measures from taking effect. Third, tax revenue can be formally earmarked.

Linking strategies can be more effective than tax-side legitimating appeals for pressuring legislators to approve tax increases. First, popular benefits like social spending will inherently draw greater attention and be perceived as more important by the public than elite-targeted tax reforms, which in and of themselves do not directly affect citizens at large.[86] For this reason, politicians often compete for votes by expanding social policy,[87] but partisan outbidding to tax elites is less common. Second, to exert electoral control over politicians, voters must perceive negative outcomes, associate them with policy decisions, and identify who is to blame (Arnold 1990, Hacker and Pierson 2005). Tight linking to spending through reform design helps voters make these connections by raising awareness of the negative consequences of failing to tax elites and helping voters associate those negative consequences with failed reform.

Linking to Universal Benefits: Emphasizing Stabilization

These strategies temper elite antagonism by emphasizing public goods that appeal to elites, such as national security or prestige,[88] sociopolitical stability, or economic stability. While these strategies may also generate public support for taxing elites, their role in tempering elite antagonism is particularly important. I focus on economic stabilization, which has been critical in developing countries and is now salient in many developed democracies as well.

Emphasizing stabilization aims to convince elites that impending economic crisis is more costly than higher taxes. The observation that economic

[85] See Chapters 3 and 9 on business acceptance of Chile's 1990 and 2011 tax increases. See Lieberman (2003) on South African elites' acceptance of taxation to resolve the "poor white problem" under apartheid.

[86] Hirschman (1973: 267, 217) draws similar conclusions regarding land taxes. Likewise, U.S. public opinion on taxes paid by the wealthy is described as "low intensity" (Graetz and Shapiro 2005: 254) or "remarkably superficial" (Bartels 2008: 176).

[87] E.g. Weyland (2006: 166–67), Garay (2014).

[88] Emphasizing national security helped South African governments secure elite cooperation to finance wars (Lieberman 2003: 140–48). In postcommunist countries, appealing to national prestige facilitated tax reforms required for EU membership (Appel 2011); a similar logic facilitated modest banking-secrecy reforms in Chile required for OECD membership (Chapter 6).

crisis – especially hyperinflation – disposes elites to tolerate costs associated with taxation or market reforms more generally is common in structural adjustment literature (Acuña 1994, Kingstone 1999, Weyland 2002).

Various conditions must hold for emphasizing stabilization to succeed. First, elites must perceive instability as imminent. A history of crises may increase receptiveness to warnings that economic instability will ensue if fiscal discipline is neglected. Second, elites must perceive instability as costly; fiscal indiscipline may threaten to undermine economic models or governments that economic elites support. If elites do not feel vulnerable, they have little reason to accept a tax increase. Elites may have options for minimizing the costs of instability, including moving assets offshore to protect their value; likewise, some sectors can endure inflation because of the nature of their assets. Third, elites must be convinced that fiscal discipline cannot be achieved without increasing taxes. Privatization, austerity, reducing state corruption, and international loans or aid must not be perceived as feasible short-term options.

In addition to reducing domestic elites' instrumental resistance to tax increases, emphasizing stabilization may circumvent concerns over their structural power. If tax increases build foreign investors' (creditors') confidence in government solvency and economic stability,[89] any negative reactions from domestic investors may be offset by additional foreign investment (loans).[90]

Compensation

These strategies provide benefits for economic elites ranging from subsidies to reforms they favor in other policy areas. Compensation is a central idea in fiscal-bargaining and market-reform literatures. Fiscal-bargaining research highlights "contracts" in which privileged groups accept tax obligations in exchange for "side payments," including services or participation in government (Levi 1988: 64, Bates and Lien 1985, Timmons 2005). Market-reform literature illustrates that compensation can effectively mitigate elite opposition to reforms in policy areas including trade liberalization and privatization (Corrales 1998, Schamis 1999, Shleifer and Treisman 2000, Etchemendy 2011).[91]

The type and scope of compensations needed to temper elite antagonism depend on their sources of power.[92] If economic elites are organized and cohesive, inclusive compensations may be necessary; if they are fragmented, compensating a few key groups may suffice. Generally, the stronger and more numerous the sources of instrumental power, the more significant compensations must be. Earmarking or contingency techniques can formalize the bargain and increase leverage for securing cooperation from politicians who have strong relationships with economic elites.

[89] See Mahon (2004: 26) on international bondholders' interest in strong tax systems.
[90] Argentina's transactions tax is an example (Chapter 6).
[91] See Pierson (1994) on compensation to facilitate welfare retrenchment.
[92] Levi (1988: 64) makes similar observations.

Compensation can also circumvent structural power. If a tax increase is accompanied by or linked to pro-growth measures, it is less likely to provoke disinvestment or capital flight. Taxes are one of many policies affecting profits, and favorable policies in other areas may offset the costs of higher taxation (Gelleny and McCoy 2001, Hacker and Pierson 2002).

2.5 POPULAR MOBILIZATION: COUNTERACTING (OR REINFORCING) ELITES' POWER

While economic elites are the central societal actors analyzed in the following chapters, popular-sectors – including labor unions, indigenous movements, student associations, and other organized social actors – can influence tax policy decisions when they are highly mobilized and capable of staging large-scale, sustained protest. Mobilized popular sectors may influence tax policy in various ways. First, their demands may create revenue needs, which can place tax increases on policymakers' agenda. For example, governments may be pressured to expand social spending programs or provide other benefits that existing resources cannot support.[93] Second, mobilized popular sectors may reject tax increases affecting their own members. Where popular sectors are highly mobilized, broad-based or regressive tax increases may be politically infeasible, just as elite-targeted tax increases may be infeasible where economic elites have strong sources of power. Third, on rare occasion, popular sectors may actively demand that elites be taxed more heavily, in accord with redistributive agendas.

Especially in the second two cases, popular mobilization may counterbalance the power of economic elites. Policymakers who would otherwise respond to business interests experience countervailing pressures to take popular demands into account for the sake of restoring order or even surviving in power. With regard to taxation, policymakers facing revenue needs may be compelled to rule out alternatives to direct tax increases when they might otherwise cater to business preferences for consumption tax increases. And economic elites may make strategic decisions to accept tax increases on their income and wealth to preserve social peace and preclude destabilizing confrontation with popular sectors that could much more seriously undermine their interests. Elites may also strategically acquiesce to tax increases if they anticipate that popular sectors will likely prevail in the ensuing battle of interests. Lieberman (2003) and Slater (2010), among other authors, note the importance of threats from below for compelling economic elites to consent to direct taxation.[94] Note that in my framework, popular mobilization does not reduce the power of economic elites; the latter's sources of power remain

[93] This dynamic arose in Chile in 2011 due to student protests (Chapter 9).

[94] See also Winters (2011: 227) on the populist movement and the creation of the U.S. income tax, Hacker and Pierson (2002: 298), and Schneider (2012: 69).

unaltered and may well be significant.[95] However, the countervailing effects of popular mobilization make it less likely that economic elites' sources of power will serve to secure their preferred policies.

Compared to electoral incentives operating during periods of normal democratic politics – which underpin the strategies for mobilizing public support discussed in the previous section – sustained popular mobilization to demand progressive taxation can have a much more substantial impact on policy decisions,[96] as demonstrated in Chapters 8 and 9. Yet this phenomenon is also rare, likely for similar reasons that taxing economic elites does not necessarily draw concerted attention or strong support from lower-income voters: clear links must be drawn between higher taxation of elites and concrete, visible benefits for lower-income groups and/or compelling norms of fairness. Natural resource taxation is more conducive to mobilization, given the emotive potential and nationalist sentiments at play.[97]

Instead of counterbalancing economic elites, however, it is also possible for mobilized popular sectors to act as circumstantial elite allies. By pursuing their own (perceived) interests, popular sectors may inadvertently advance elite interests as well. The empirical chapters include several such cases. In the first two cases, tax structures aligned the interests of lower-income sectors with economic elites. Labor unions demanded a reform that also benefitted elite taxpayers (Argentina's 2008 income tax reform, Chapter 5), and small farmers mobilized against a reform that also heavily taxed large, wealthy farmers (Argentina's 2008 export tax increase, Chapter 7). In the third case, popular sectors' misperceptions regarding tax incidence led them to oppose reform alongside economic elites (Bolivia's 2003 income tax proposal, Chapter 7).

2.6 CONCLUSION

The concepts of instrumental power and structural power are hardly new. Yet they have not been employed as complementary causal variables for explaining policy change in comparative cross-national research. Literature on business in comparative politics has instead tended to focus on interests, coalitions, and observable actions, without sufficient attention to when and why business preferences prevail in policy decisions. But before we can harness the significant explanatory leverage that instrumental power and structural power provide, these concepts must be theoretically refined and carefully operationalized so that they can be systematically assessed across different contexts.

The primary contributions of this chapter lie in these endeavors. First, drawing on insights from power resource theory, I identify observable sources of

[95] As Korpi (1985: 33) observes: "From the power resource perspective, power is not a zero-sum concept."

[96] Similar dynamics obtain with respect to social policy (Garay 2014).

[97] Examples beyond the Latin American cases considered here include strikes in Zambia demanding higher copper mining taxation (Manley 2012).

instrumental power that make deliberate political actions like lobbying more effective. I introduce the categories of relationships with policymakers (e.g., partisan linkages and recruitment into government) and resources (e.g., cohesion, technical expertise) to systematize these sources of instrumental power. Second, I operationalize structural power as a credible and economically significant threat that a policy will provoke reduced investment or other undesirable aggregate economic outcomes because of the market incentives it creates for profit-maximizing firms and investors. Recognizing the highly variable, context-specific nature of structural power is imperative for putting this concept to work. Third, I theorize two key ways in which instrumental and structural power can be not only complementary, in that they afford multiple channels of influence, but also mutually reinforcing. On the one hand, instrumental power can enhance structural power; lobbying and communication campaigns by economic elites with strong sources of instrumental power can persuade policymakers that the likelihood of disinvestment is higher than they might otherwise anticipate. On the other hand, structural power may augment instrumental power, by affording economic elites access and participation beyond what would be expected based on their sources of instrumental power alone, or by inducing policymakers to grant economic elites new sources of instrumental power (e.g., recruitment into government).

This chapter also clarifies that both instrumental power and structural power can operate at multiple stages of policymaking, including the critical agenda-formulation stage. Studying agenda setting requires attention to anticipated reactions, whether in the political arena (instrumental power) or in the economic arena (structural power). Distinguishing sources of instrumental power from political actions helps clarify that instrumental power can restrict the agenda, an important point that is often overlooked in literature on business power. Costly anticipated political battles can dissuade policymakers from attempting a reform, just as costly anticipated disinvestment may motivate policymakers to rule out other options. While it is not easy to assess from afar whether instrumental power or structural power is the key factor keeping a reform off the agenda, interviews with policymakers who made the key decisions provide a wealth of evidence to this end. Evaluating whether informants have motives to dissimulate (Bennett and Checkel 2014) and whether their retrospective views reflect considerations other than those that prevailed at the time (Hacker and Pierson 2002) is essential. Yet these problems are not insurmountable; triangulation among multiple informants and other sources of data helps protect against erroneous inferences.

The business power concepts as elaborated in this chapter help to both elucidate and systematize the casual complexity that arises when we seek to understand how and when economic elites succeed at influencing policy decisions in market democracies. Some authors have found that a single type of power or a single source of instrumental power provides adequate explanatory traction across their cases for the substantive issues they examine. But analyzing tax policy change in Latin America requires attention to multiple types and sources of power. Multiple causal pathways may contribute to an outcome in a given case, and different causal pathways may lead to similar outcomes across cases. Ascertaining which pathways operate – that is, distinguishing between structural and instrumental power and identifying the relevant sources of instrumental power – is critical to the explanatory enterprise. Economic elites have distinct power profiles in different contexts. The more types and sources of power they possess, the more often and more extensively their interests will prevail in policymaking.

While instrumental and structural power serve as the primary independent variables in this study, integrating business power into a broader theoretical framework that also examines government reform strategies and popular mobilization provides additional explanatory leverage across a broader range of cases. Governments can circumvent obstacles associated with business power by employing strategies that mobilize public support and/or temper elite antagonism, although the tax increases these strategies facilitate tend to be marginal when economic elites' instrumental and/or structural power is strong. Popular mobilization, when it arises on a significant scale, can improve prospects for reform by counterbalancing the power of economic elites and/or altering their strategic calculations, although on rare occasions popular mobilization may inadvertently advance elite interests.

The following two chapters apply this theoretical framework to analyze the challenge of increasing progressive direct taxes in Chile. Chapter 3 showcases the causal role of business power; business actors in Chile had multiple, highly institutionalized sources of instrumental power that greatly restricted center-left governments' tax policy agendas. Chapter 4 brings reform strategies into the analysis to explain how governments were able to enact incremental tax increases in this context of strong business power. Recourse to multiple reform strategies was necessary, yet revenue gains were marginal.