



Global Challenges in Political Economy

TAXATION AND INEQUALITY IN LATIN AMERICA

**NEW PERSPECTIVES ON POLITICAL ECONOMY
AND TAX REGIMES**

Edited by
Philip Fehling and Hans-Jürgen Burchardt

ROUTLEDGE



“Tax reform is one of the most pressing issues in contemporary Latin America, a region historically plagued by excessive inequality, high dependence on natural resource exploitation, and unacceptable levels of tax evasion. This edited volume provides an excellent examination of the implications of fiscal policy on the raw material sector and the way to design adequate tax policies to manage it.”

José Antonio Ocampo,

Minister of Finance and Public Credit of Colombia, former Executive Secretary of the United Nations Economic Commission for Latin America and the Caribbean

“Tax systems should reflect social preferences for redistribution, and while the vast majority of people in Latin America believe that inequalities are unfair, our tax systems and social services do not do enough to address these social and economic inequalities. This book offers a vision from political economy to analyze the relationship between natural resource wealth, allocational politics, and the limited role of tax regimes for redistribution and progressive resource mobilization. A piece of knowledge that will help to understand the current status quo and identify tools to move forward.”

Claudia Sanhueza Riveros,

Undersecretary of Finance in the Chilean Ministry of Finance



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Taxation and Inequality in Latin America

Taxation and Inequality in Latin America takes a heterodox political economy approach, focusing on Latin America, where current problems of taxation have existed for a century and great wealth contrasts with abject poverty. The book analyzes the relation of natural resource wealth, allocational politics and the limited role of taxation for redistribution, and progressive resource mobilization. By drawing on the political economy of tax regimes, the book considers the specific conditions of taxation in Latin America, which apply to a large part of the Global South and more than 100 countries specializing in the extraction and export of raw materials. This book will cover:

- taxation and the dominance of raw material export sectors;
- taxation and allocational politics;
- new perspectives on political economy and tax regimes.

Scholars and advanced students of political economy, political science, development studies, and fiscal sociology will find several key issues in tax research from a novel angle. The book provides an analytical orientation that relates central questions of taxation to patterns of regional political economy, thereby opening up the debate with tax scholars from other world regions of the Global South.

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Taxation and Inequality in Latin America:

New Perspectives on Political Economy and Tax Regimes

Philip Fehling and Hans-Jürgen Burchardt

Taxation and Inequality in Latin America

New Perspectives on Political Economy
and Tax Regimes

**Edited by Philip Fehling
and Hans-Jürgen Burchardt**

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Contents

<i>List of figures</i>	ix
<i>List of tables</i>	xi
<i>List of contributors</i>	xiii
1 Reorienting the tax debate: Political economy and tax regimes in Latin America	1
PHILIP FEHLING AND HANS-JÜRGEN BURCHARDT	
PART I	
Taxation and the dominance of raw material export sectors	23
2 Natural resource wealth and fiscal institutions in Latin America since independence	25
LUIS BÉRTOLA, CECILIA LARA, AND CAMILO MARTÍNEZ	
3 Fiscal revenues from hydrocarbons and minerals in Latin America: Challenges in an era of unprecedented decarbonization and growing digitalization	49
JUAN PABLO JIMÉNEZ AND ANDREA PODESTÁ	
4 The political economy of mobilizing tax resources in Bolivia	75
VERÓNICA PAZ ARAUCO AND WILSON JIMÉNEZ POZO	
5 Tax culture: a conceptual proposal and empirical approach to the economic elite in Chile	95
JORGE ATRIA	
6 Tax evasion and capital flight in resource-rich Latin America: What we can learn from Argentina	115
VERÓNICA GRONDONA	

PART II

Taxation and allocational politics 135

- 7 The political economy of failed progressive fiscal reforms in Latin America 137
RAFAEL DOMÍNGUEZ MARTÍN
- 8 Redistributive threats, development models, and taxation in Latin America 157
GABRIEL ONDETTI
- 9 A close relationship with the economic elite: the historical roots of the poor Mexican tax state 176
MÓNICA UNDA-GUTIÉRREZ
- 10 Business coordination and regressive taxation in Latin America 196
NÉSTOR CASTAÑEDA
- 11 Ground rent, capital accumulation, and the limits of taxation in resource-rich countries: the case of Argentina (1993–2020) 214
GASTÓN CALIGARIS
- 12 Tax system and exchange rate in the appropriation of agrarian ground rent in Uruguay, 2000–2020 232
GABRIEL OYHANTÇABAL BENELLI

PART III

New perspectives on political economy and tax regimes 249

- 13 Raw materials, tax reforms, and sustainable development: lessons from Latin America 251
HANS-JÜRGEN BURCHARDT
- 14 Contours of rent-based societies: concluding remarks and new perspectives on political economy and taxation 274
PHILIP FEHLING
- Index* 297

Figures

1.1	Latin American tax structure as a share of GDP and price indexes of main export commodities per year, 1990–2019	5
1.2	Latin American and OECD tax level and tax structure as a share of GDP, 1990–2019	6
3.1	Latin America (8 countries): fiscal revenues from hydrocarbons and mining, and international prices – in thousands of millions of dollars, with base year of 2010 = 100	64
3.2	Latin America (8 countries): fiscal revenues from the exploitation of non-renewable resources, by commodity, as percentage of GDP (2000–2020)	65
3.3	Latin America (8 countries): fiscal revenues from the exploitation of non-renewable resources, by country and commodity	66
3.4	Latin America (8 countries): structure of the fiscal revenues from the exploitation of non-renewable natural resources, by type of instrument – percentages (2019)	67
3.5	Latin America (6 countries): sub-national fiscal revenues from extractive activities vs. sub-national public investment in infrastructure, as percentage of GDP (2000–2020)	70
3.6	Latin America (8 countries): sub-national public investment in infrastructure as percentage of GDP (2000–2020)	70
4.1	Annual GDP and global index of economic activity (a) var % annual GDP (b) var % accumulated from the IGAE	81
4.2	The general government's revenue and spending (as % of GDP) (a) general government revenues (b) general government expenditures	82
4.3	General government balance (as % of GDP)	83
4.4	Transfers to autonomous governments and universities, by royalties and IDH tax sharing (millions of Bolivianos)	89
5.1	Perception of own tax burden: do you consider yourself to be a person who pays...? (%)	104

5.2	The economic elite's evaluation of different groups' tax burdens: for each group, would you say that they pay high taxes, low taxes, or the right amount of taxes?	105
5.3	The citizenry's evaluation of different groups' tax burdens: for each group, would you say that they pay high taxes, low taxes, or the right amount of taxes?	105
6.1	Simplified structure of the Yamana Gold group	124
8.1	Historical tax burden trajectory, Brazil and Chile (1900–2019)	163
9.1	Total federal government budget revenue (% GDP)	181
9.2	Public and private gross fixed capital accumulation (% of GDP)	190
11.1	Valuation of the national currency against the US dollar (1882–2019)	220
11.2	Sectoral profit rates (main axis) and agricultural sector surplus profit in millions of 2004 pesos (secondary axis) (1993–2019)	223
11.3	Soybean index price (main axis) and ground rent appropriated by the landowning class in millions of 2004 pesos (secondary axis) (1993–2019)	224
11.4	Total ground rent in millions of 2004 pesos (main axis) and soybean index price (secondary axis) (1993–2019)	224
11.5	Primary forms of ground rent appropriation (1993–2019)	225
12.1	Agrarian and non-agrarian taxes' share of GDP in Uruguay (2000–2020)	235
12.2	Effective tax burden (% , three-year average) on ground rent landowners, agrarian profits, and total profits in Uruguay (2000–2020)	236
12.3	Share (%) of agrarian ground rent appropriated by other non-landowning subjects (GROS) of total surplus value (SV) and gross domestic product (GDP), and GDP growth rate (1955–2019)	238
12.4	Agrarian ground rent in millions of dollars (right axis) and as share of GDP (left axis) by form of appropriation (2000–2020)	239
13.1	Sectoral labour productivity as share of total average labour productivity in Latin America (1990–2009)	255
13.2	Latin America (18 countries): indicators of structural heterogeneity (in %), around 2009	256
14.1	Share of commodity exports (including processed foodstuffs) in total exports in selected Latin American countries	282

Tables

1.1	Corporate and top tax rates on labor income and total tax revenue (including social contributions) as a percentage of GDP for 18 Latin American countries in %, 2017	7
2.1	Per capita tax revenue in pounds sterling and taxes on foreign trade relative to total tax revenue (%) (1820–1870)	28
2.2	Per capita tax revenue in pounds sterling and taxes on foreign trade relative to total tax revenue (%) (1900–1930)	31
2.3	Tax revenue relative to GDP (%) (1930–1979)	34
2.4	Customs taxes relative to central government revenue (%) (1930–1979)	35
2.5	Income taxes relative to central government revenue (%) (1930–1979)	36
2.6	Fiscal indicators in Latin America (1980–1999)	40
2.7	Tax revenue growth rate and tax revenue relative to GDP (%) (1990–2019)	42
2.8	Income and profit taxes relative to total tax revenue (%), and total tax revenue relative to GDP (%) (1990–2019)	43
2.9	Tax revenue structure (% of total tax)	44
3.1	Latin America (seven countries): fiscal regimes for hydrocarbons	52
3.2	Latin America (eight countries): fiscal regimes on mining	56
3.3	Latin America (eight countries): legal frameworks that govern the distribution and allocation of fiscal revenues from the extractive sectors	60
3.4	Latin America (seven countries): fiscal revenues from non-renewable natural resources received by sub-national governments – percentage of GDP and of total revenues (2000–2020)	69
4.1	Selected indicators during the 2006–2021 period	80
4.2	Solvency indicators of the public sector’s foreign debt (%)	84
6.1	Payments for declared financial operations for the fiscal periods 2019 and 2020 in ten core countries	119

6.2	Royalty payments declared for the fiscal periods 2019 and 2020, Argentina	121
6.3	Exports of agricultural products and manufactured goods of agricultural origin (2018), Argentina	126
6.4	Minimum and maximum deviations by agricultural commodity export type (2018), Argentina	127
7.1	Income distribution in Latin America in international comparison (c. 1960)	142
7.2	Distribution in tax burden in Latin America by income categories (percentages of personal income)	143
8.1	Average tax burdens in Latin America (2015–2019)	158
8.2	Brazil vs. Chile: key independent variables (2015–2019)	162
9.1	Tax revenue per capita in 1935 (US\$)	179
9.2	Tax revenue (as % of GDP)	179
9.3	State-owned enterprise sector (millions of Mexican pesos)	180
9.4	Breakdown of public investment financing	186
9.5	ISR (income tax) composition	189
10.1	Exports, Latin America (1970–2020)	200
10.2	Hirschman–Herfindahl index, Latin America, and the United States (1995–2017)	200
10.3	Tax incentives for business in Latin America (2019), % of GDP, and total tax revenue	205
14.1	Fiscal regimes: public spending and taxation (selected items) in selected Latin American countries (2003–2015)	285

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1 Reorienting the tax debate

Political economy and tax regimes in Latin America

Philip Fehling and Hans-Jürgen Burchardt

Introduction

Inequality on a global scale is on the rise and has been sharply accentuated in the wake of the Covid-19 pandemic, which will be exacerbated by the economic turmoil resulting from Russia's war against Ukraine. The number of billionaires and their wealth has increased substantially during the pandemic due to huge amounts of public money being used to prop up financial asset prices and profits of pharmaceutical firms. Their wealth has grown more since 2020 than in the last 14 years combined, while countless people were dying not only from Covid-19 but also from preexisting extreme inequality that has worsened the impact of the pandemic and increased mortality rates in many countries (OXFAM, 2022). Predating the pandemic in the United States, the share of the top 1% of wealth was estimated at 40% in 2016, up from 25% to 30% in the 1980s. For China, Europe, and the United States combined, this share is estimated at 33% today, while the share of the bottom 75% is approximately just 10%. The real gap is still estimated to be much larger when taking into account offshore wealth, which accounts for the lion's share of wealth in Latin American and Asian societies (Zucman, 2019). In the dramatic situation of sanitary, economic, and social crises, even international financial institutions such as the International Monetary Fund (IMF) and the World Bank called for raising taxes on the rich to finance the costs of the pandemic (Amaglobeli et al., 2021; Sánchez-Páramo et al., 2021), with efforts to introduce a global minimum corporate tax gaining new momentum.

However, the call for effective global taxation and progressive resource mobilization is not new. Offshore wealth, tax evasion, and harmful consequences of tax competition have been central issues of a global tax agenda pursued by the Organisation for Economic Co-operation and Development (OECD), national governments, and G20 initiatives long before the current pandemic. This has led to a series of bilateral and multilateral agreements on information exchange, debates on global standards for taxation, and efforts to strengthen the regulation against tax havens. Nevertheless, the results of such debates and initiatives have hitherto been meager. Companies and private assets still evade comprehensive taxation, while personal income tax essentially

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burdens wages and salaries rather than capital income. Austerity budgets and growing economic disparities at the national and global levels have been the results, and pose serious threats to macroeconomic stability and social cohesion, thereby deepening social inequality and threatening political stability. These sobering outcomes suggest that we need to fundamentally rethink how we address the conditions for effective progressive taxation capable of mobilizing new financial resources for development.

Research has outlined important trends in global taxation and identified several obstacles for progressive resource mobilization, such as the so-called “race-to-the-bottom” (Avi-Yonah, 2000; Tanzi et al., 2008) or more specific challenges for developing countries for sufficient (Ahmad and Stern, 1991; Boskin and McLure, 1990) and progressive taxation (Corbacho et al., 2013; IMF, 2012). However, policy advice and (regional) political tax agendas following this rather technical and economic research have had limited impact in terms of additional fiscal resources and a decrease of inequalities. A growing literature has therefore brought back the question of power and politics into the discussion on progressive taxation, taking into account specific social, economic, and political power relations, especially in developing countries (see Atria et al., 2018; Bräutigam et al., 2008; Hujo, 2020; Flores-Macías, 2019a; Moore et al., 2018).

This book represents a contribution to the wider agenda both to rethink the broader embeddedness of taxation in the relations between state, society, and the economy, as well as to develop fresh insights into the political maneuvers (policy space) for crucial political actors. The embeddedness is referred to by the notion of tax regimes that captures the fiscal nexus of state, society, and the economy. Tax regimes shape both the relationship between tax systems and inequality and the political obstacles facing progressive resource mobilization.

The book focuses on Latin America. The subcontinent is a region where such problems are particularly pronounced, with tax regimes and inequality closely interlinked. It remains the most unequal region in the world today, where under-taxation remains a central feature of most economies, with recent tax reforms having achieved little to reduce income inequality, change low effective tax rates for the highest incomes, fight tax evasion, and strengthen taxation of wealth (CEPAL, 2021; CEPAL and OXFAM, 2016; Cornia et al., 2011). The top 10% of incomes in Latin America pay an average of 5% on their income (Amarante and Jiménez et al., 2016, pp. 62–63; CEPAL and OXFAM, 2016), and revenue losses from tax evasion correspond to 6.3% of GDP, particularly due to evasion of income taxes and taxes on profits (CEPAL, 2019, p. 37). While offshore wealth in some countries accounts for 60% of GDP, there is still barely any wealth tax (Alstadsæter et al., 2018). At the same time, the region has been a preferred location for international tax missions and global tax agendas (cf. Corbacho et al., 2013; Lledo et al., 2004, pp. 21ff.; OECD, 2021) without generating fundamental change in tax burden-sharing patterns.

This book contends that one reason that global tax agendas have failed is they bypass particular regional realities, specifically in the Global South, applied

by international financial institutions and organizations. By drawing on the political economy of tax regimes in Latin America, those necessarily specific social, political, and economic conditions of taxation are considered throughout the book. In Latin America, these are characterized not only by (extreme) social inequalities but also by the economic dominance of raw material sectors.

Latin America's economic insertion into the global economy has been considered in recent research as a problem of single revenue source dependency that exposes government finances to the volatility of world market prices (Flores-Macías, 2019b; Gómez Sabaini et al., 2018; Gómez Sabaini and Morán, 2017; Monaldi, 2019). It has also been a historical blockage of financial and political incentives to garner the political will to build strong fiscal institutions and to push for tax demands and reforms against influential sectors (Centeno, 2002; Centeno and Ferraro, 2013; Dunning, 2008; Saylor, 2014; 2018). However, the political economy implications of natural resource dependence for fiscal relations in Latin America require further consideration. Many tax administrations in the region are now among the most modern in the world (Flores-Macías, 2019c, p. 244; cf. Baer, 2006), making low direct taxation in several countries more a matter of politics and political economy than of administrative capacity. Furthermore, the common suggestion that other economic sources, such as income and profits, must be taxed in order to set development processes in motion and generate more-stable and progressive revenues overlooks the fact that there is hardly any independent economic dynamism outside the natural resource export sectors (see Bértola, 2016, p. 260; Ocampo, 2017, pp. 64ff.). Moreover, in this context, the state appears as a central actor that reallocates, to a large extent, economic surpluses from the raw material sectors to other sectors. This allocational dimension of taxation has so far been largely ignored by the political economy literature that has focused on the distributive dimensions of taxation (cf. Haffert and Mertens, 2019).

Taking on those less-considered questions, the book develops a political economy approach to tax regimes and focuses on two areas that still need further research in terms of their importance for fiscal burden-sharing: first, a detailed examination of the fiscal policy implications of the region's dominant raw material sectors, and, second, the intense discussion of the allocative dimension of fiscal and tax policy. Both areas are closely related since natural resource exports provide extensive economic surplus that can be channeled towards other economic sectors by taxation and additional allocational instruments, which accounts for horizontal (sectoral) rather than vertical (class) inequalities. This approach intends to explore the specific relationship between state, taxation, and society in Latin America, and thus provide new insights into distributional arrangements of tax regimes and political economy.

Following this approach, the various single and comparative country case studies in the book elaborate on different central issues of taxation, contributing to the two analytical axes. They allow an understanding of the way various raw material sectors are related to the overall tax regime of a country, how natural resource abundance shapes the allocative expectations towards the state

and its developmental strategies, how different actors adapt to those strategies and structures, and how it affects the distribution of the tax burden. In this way, the book reveals the political economy underpinning patterns of taxation and inequality, thus elaborating on the prospects and opportunities for progressive taxation.

This introductory chapter serves as a thematic entry point into the discussion. It discusses research streams on the topic and carves out black boxes where current research is challenged.

Challenges for (progressive) fiscal resource mobilization

Latin American tax regimes have been experiencing significant changes in public finance paradigms – from the Keynesian emphasis on redistribution and industrial development to the neoliberal paradigm of efficiency and neutrality, and once again to the emphasis of their redistributive function in the post-neoliberal era of leftist and progressive governments (summarized as the Latin American “pink tide”). The tax burden increased substantially between the 1960s and today (cf. Atria et al., 2018, p. 4) and the main tax instruments changed considerably, with a recent emphasis on direct tax instruments. However, this did not translate into a substantial change in the distribution of the tax burden. Indirect taxation, such as tariffs in the past and consumption taxes in the present, constitute the bulk of tax revenues, while the effective tax rate on the top 10% remains low and tax systems practically have no impact on incomes’ distribution, or a rather negative impact (Flores-Macías, 2019a, pp. 10ff.; Goñi et al., 2011).

With the debt crisis in the 1980s, and in the course of the 1990s, under pressure from international financial institutions (especially the IMF), the worldwide trend towards a supply-side readjustment of tax systems also took hold in Latin America (Mahon, 2004). With the goal of mobilizing sufficient resources to achieve balanced government budgets, reform packages aimed at expanding and deepening consumption taxation for effective government financing and largely abandoned progressive tax instruments. Until the turn of the millennium, the results of these regressive tax reforms were mixed. In some countries, significant increases in the tax burden were achieved through an expansion of taxes on consumption, as was especially the case in Argentina (OECD *Statistics*). In others, political obstacles prevented a substantial increase in the tax burden, as proved the case in Mexico (Martínez-Vázquez, 2001) and Guatemala (Schneider, 2012), where political and economic elites refused to increase the total tax burden. As a result, the readjustment of the tax systems also failed to generate a sufficient financing base.

By the end of the 1990s, tax regimes reached their limits in terms of revenue mobilization and governments once again feared being stuck in a severe payment and revenue crisis. At this point, tax regimes began to threaten and even suppress consumption. Furthermore, the tax regimes were marked by excessive regulatory simplification, which incentivized tax evasion and tax loopholes particularly

in the sphere of direct taxation. In the end, government revenues decreased (Shome, 1999). The mobilization of additional resources through increasing consumption taxes was no longer possible. Renewed budgetary problems and growing social (spending) pressures forced governments to resort to new taxation instruments and to expand income and corporate taxation through the renewed closure of exemptions and new gross minimum taxation strategies (see González, 2009). Thus, a moderate increase in revenue from direct taxes was achieved.

Only in the context of the historically unprecedented growth momentum that followed the commodity boom after 2002 was there a noticeable increase in tax revenues from income and profits, which made the region’s tax systems marginally more progressive (cf. Martorano, 2018) (Figure 1.1).¹ This was largely due to a sharp rise in world market prices for (renewable and non-renewable) natural resource exports and stronger government access to extractive rents (cf. Gómez Sabaini et al., 2017; Manzano et al., 2018; Monaldi, 2019; Flores-Macías, 2019c). As a result, in gas- and oil-rich Bolivia and Ecuador, for example, government revenues almost doubled between 2000 and 2013 (including social security). Against the Latin American average, tax revenues increased by 23.5% between 2000 and 2019 to a total fiscal burden of 23% of GDP. However, this did little to change the basic regressive structure of regional tax systems and is still far from the tax burden compared with the OECD average (Figure 1.2). Tax systems in Latin America continue to be characterized by a strong preponderance of consumption taxes, which contribute to the (re)production of existing inequalities and limit the progressive expansion of public finance.

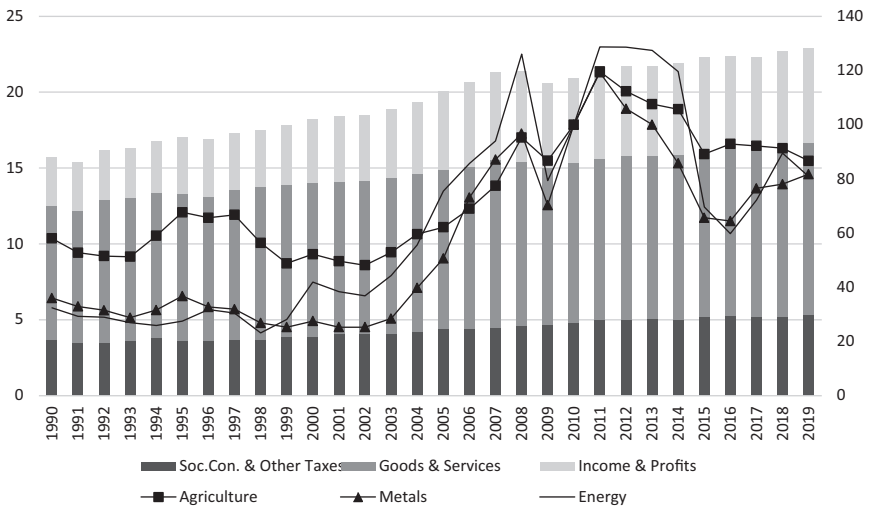


Figure 1.1 Latin American tax structure as a share of GDP and price indexes of main export commodities per year, 1990–2019. (Source: Author’s calculation based on OECD statistics for tax level, LAC 27; CEPAL for commodity prices.)

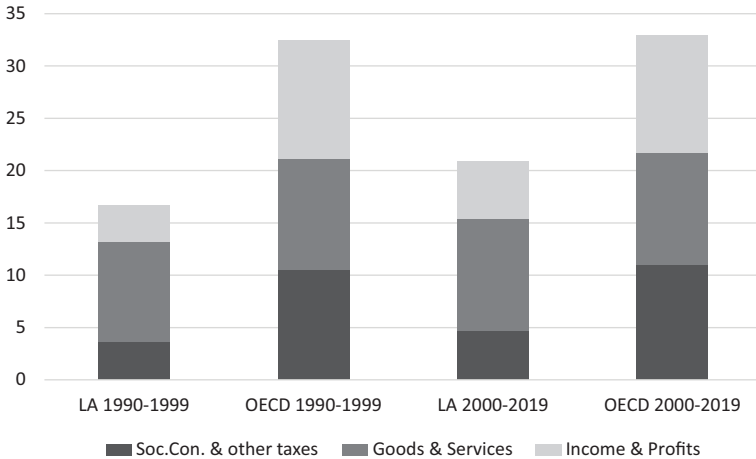


Figure 1.2 Latin American and OECD tax level and tax structure as a share of GDP, 1990–2019. (Source: Author's calculation based on OECD *Statistics*, LAC 27.)

There are substantial differences between the countries in the region regarding total tax revenue as a percentage of GDP (total tax burden) and the tax rates (Table 1.1). While Argentina and Brazil have tax burdens as a share of GDP similar to the OECD average, the Latin American member states of the OECD, namely Chile, Colombia, and Mexico, have a relatively low tax burden. Mexico has the lowest tax burden of these three countries and close to the small economies of Panama, Paraguay, and Guatemala. Several countries have relatively high marginal tax rates on labor income and business close to the industrialized countries of the West. Overall, there seems not to exist any systematic relation between tax rates and the size of the fiscal states in the region. The picture becomes even more complex when non-tax revenues from natural resources are considered. While in some countries natural resource revenues are generated almost entirely through tax instruments and are included in the total tax burden presented, as in the case of Ecuador, other countries have significant non-tax natural resource revenues, as is the case in Bolivia, Mexico, and Venezuela, which contributed government revenues of around 10% of GDP in 2008 and are not included in the total tax burden (CIAT-IDB Dataset). These additional revenues came to only around 4% of GDP in the case of Mexico and Bolivia in 2018, while Venezuela no longer had any non-tax government revenues in the same year.

Despite recent advances in reform and all the differences in the overall tax burden, under-taxation of higher income and wealthier sectors is almost universal in all tax regimes of the region. A central problem continues to be the low effective tax rates, especially for the highest incomes and wealth. In

Table 1.1 Corporate and top tax rates on labor income and total tax revenue (including social contributions) as a percentage of GDP for 18 Latin American countries in %, 2017.

Country	Corp Tax	Inc Tax	Total Tax	+ SocCon
Argentina	35	35	23.1	30
Bolivia	25	13	19.8	25.9
Brazil	max. 24	27.5	23.9	32.3
Chile	24	35.5	18.7	20.2
Colombia	34	33	17.5	19
Costa Rica	10–30	15	15.3	23
Dominican Republic	n/a	25	13.1	13.2
Ecuador	22	35	14.7	19.9
Guatemala	5–7	7	11	13.2
Honduras	25	25	18.4	21.7
Mexico	30	35	14	16.1
Nicaragua	10–30	30	18	23.8
Panama	25	25	9.2	15.1
Paraguay	10	10	10.3	14
Peru	29.5	30	13.3	15.3
Salvador	25–30	30	18.2	20.9
Uruguay	25	36	19.8	26.9
Venezuela	15–34	34	13.4	14.4

Source: Tax Rates CIAT; Total Tax Burden OECD *Statistics*. Total tax revenue for Venezuela is from 2013.

this regard, personal income tax is the “Achilles heel” of regional tax systems (ECLAC, 2018, p. 8). Although its level increased from 1.7% to 2.3% of GDP between 2007 and 2018, its importance remains low compared to the OECD average of 8.3% and the strong weight of indirect taxes in Latin America. Multiple exemptions, special deductions, and reduced tax rates for capital income undermine effective tax rates. Interest and capital gains, and in some cases dividends, are not infrequently exempt from tax (PKF Latin American Tax Guide 2018/19). Such tax exemptions (so-called *gastos tributarios*) under investment programs and other incentive schemes give rise to significant revenue losses. Removing such exemptions could raise additional revenues of 2% to 6% of GDP, depending on the estimate and country (CEPAL and OXFAM, 2019, p. 24). Tax evasion rates have historically been high and still account for 50% of potential revenues from income and profits (Centrángolo et al., 2017, p. 350). Most countries also do not impose a tax on wealth, leaving consolidated income largely untouched. Only Argentina, Colombia, and Uruguay currently impose a national wealth tax of 1% (Colombia and Uruguay) to 1.25% (Argentina). However, that tax does not effectively capture property and yields only insignificantly (OXFAM, 2020; cf. CIAT, 2018a). Moreover, it is precisely the decades-long failures in income and corporate taxation that

make a tax on wealth an indispensable building block for a fairer tax system that more fully avails the economic potential of redistribution (Amarante and Jiménez, 2016; ECLAC, 2018). The lack of skimming of high incomes has led to the transfer of gigantic fortunes to tax havens (Alstadsæter et al., 2018). This uniform pattern within the considerable differences in tax systems requires more explanation.

Where we stand, where we go

Tax research on Latin America has long been characterized by economic and technical approaches, which have given important indications of tax potentials in the fields of direct and indirect taxes and have recently strongly emphasized redistributive potentials (Corbacho et al., 2013; Goñi et al., 2011; IMF, 2012; 2021). This distributional reorientation of tax research has been accompanied by new political economy and fiscal sociological perspectives on taxation, following the early advice by Keynesian economist Nicholas Kaldor (1963, p. 418) that the fate of fiscal reform is not in the first place a question of technical knowledge about tax reform, but is “predominantly a matter of political power”. This new body of literature emerged in the 2000s, especially in the last decade, analyzing recent second-generation reform attempts, its political and institutional contexts and dynamics, and historically rooted failure. This literature has recently been compiled in illuminating books that have been published in the context of the political, social, and economic challenges and turmoil related to the end of the commodity boom (around 2013) and the disenchantment of the so-called “pink tide” (Atria et al., 2018; Flores-Macías, 2019a; Mahon et al., 2015). It is no longer limiting the scope of tax analysis to economic and technical questions of public finance, rather emphasizing the “embeddedness of tax systems within the wider social and political realms” (Atria et al., 2018, p. 12).

The starting point of political economy and most fiscal sociology literature are the classical fiscal functions of allocative market efficiency, stabilization, and distribution assigned to tax systems, and fiscal policy in general by modern public finance (Musgrave, 1959). In particular, the literature focuses on the distributional function of taxation, as is generally true for the political economy tax literature (Haffert and Mertens, 2019). This general distributional orientation is important for the question of additional fiscal resource potentials and directs attention to distributional conflicts which have been largely ignored by developmental literature on taxation, despite having accompanied the modern fiscal state and public finance literature since its inception (see Fehling, 2017). Furthermore, this orientation expresses the recent research program taking seriously the embeddedness of taxation to identify social, political, and historically sedimented power relations. To this end, it focuses on powerful business organizations and economic elites (Fairfield, 2015; Castañeda, 2017; Rius, 2015), historical and contemporary institutional bias and state capacity

(Kurtz, 2013; Saylor, 2014; Sokoloff and Zolt, 2006), and particularism and clientelism (Ardanaz et al., 2014; Hallerberg and Scartascini, 2019; Profeta and Scabrosetti, 2010). Tax avoidance cultures among elites (Torgler, 2005; Atria, 2019; Bergman, 2009; Nerré, 2008) and challenges for social fiscal contracts are also being increasingly scrutinized (Boylan, 1996; Mahon, 2019; Timmons, 2005). All these topics primarily aim at vertical lines of conflict and distribution and are implicitly or explicitly oriented towards the class division in society. Due to this research, we now have more knowledge about central issues and challenges for taxation in Latin America.

However, the orientation towards the classical fiscal functions of modern public finance suffers from a Western bias that limits the debate but also the prospects for more nuanced understandings taking into consideration regional contexts. To overcome these limitations, the book aims to reorient research on tax regimes and inequality. By questioning the appropriateness of traditional fiscal policy orientation, it opens the view for the specific conditions of fiscal statehood and tax regimes in Latin America.

Expanding on current literature, the present book suggests that tax state and policy analysis in Latin America should consider more the specific political economy conditions of production and extraction of economic surplus. The economic (re)production of societies in the region is highly dependent on raw material sectors, while other labor-absorbing branches of the economy benefit from subsidies that almost exclusively are taken from the natural resource sectors and related extractive industries. This is in strong contrast to the constellation of the high-income Western tax state. The latter is characterized by the state skimming off an economic surplus resulting from the production of wealth external to itself, in which economic surplus and taxable income are generated to a considerable extent by labor and knowledge. This constellation is closely linked to the genesis of Western capitalist societies (Preuß, 1981; Schumpeter, 1918). Private sector accumulation in capitalist societies is thus a central component of the state's *raison d'être* and is generally to be ensured through the disciplining of labor, the provision of infrastructure, and the creation of an independent legal framework (cf. Elsenhans, 1981, p. 116). The state taxes economic surplus, which involves the individuals in financing these general provisions through a variety of taxes imposed upon them without fundamentally interfering with the market economy order. In turn, the economic (re)production of Latin American societies is strongly characterized by the extraction and export of raw materials either by the state or private agents. In many countries in the region, there is hardly any independent economic dynamism outside the raw material sector (Bértola, 2016, p. 260; Ocampo, 2017, pp. 64ff.). In this context, economic growth in general and particularly the dynamics in non-raw material branches of the economy are closely linked to cycles of world market prices for raw materials. High prices translate into opportunities to appropriate differential rates, which in turn allows the state to reallocate rents within the domestic sphere (Bértola, 2016, p. 260; Ocampo, 2017, pp.

64ff.). As the developmental state literature points out, the state appears as the central actor that allocates economic surplus and therefore determines the nature of economic activities and social outcomes in general. By substituting the allocational mechanisms of the market, the state can be understood as the central space for negotiation over the allocation and distribution of economic surplus (cf. Bértola, 2016, p. 263; Coronil, 1997, p. 79; cf. Elsenhans, 1981, pp. 147–48). The book therefore challenges the usual focus of Western tax state theory that relies on the functional separation of state and society.

This has far-reaching implications for our understanding of taxation in Latin America and contributes to a shift in analytical focus: taxes, tax exemptions, transfers, and other mechanisms of resource channeling from one branch to another must be understood in allocative rather than solely distributive dimensions. Allocative politics that essentially depends on external income from raw material exportation potentially conflicts with the distributional function of taxation. This incongruence also structures society: regularly these patterns lead to conflicts that develop along horizontal disparities among competing social groups rather than to vertical cleavages and distributional conflicts out of which social classes would eventually emerge. At the same time, allocational politics are the very mechanism of social integration and reproduction since raw material export sectors usually do not sufficiently absorb labor and thus are not able to generate social cohesion and stability, thereby missing a central goal of traditional public finance as well as in research on development and taxation (cf. Bräutigam et al., 2008; Haldenwang, 2008; Hujo, 2020). Maintaining economic structures in terms of allocative politics can become the first distributional concern of policymakers. At the same time, it can prevent broad mobilization for tax equity in favor of sectoral inter-class alliances. As a result, broad tax exemptions and horizontal disparities in tax burden distribution, as well as subordinate prosecution of tax evasion, can undermine tax morale and shape a culture of tax evasion further deepening inequalities (cf. Torgler, 2005; Atria, 2019; Bergman, 2009; 2019). The book develops this perspective on taxation by analytically distinguishing the two thematic axes of the economic dominance of commodity export sectors and the importance of allocational politics.

Taxation and the dominance of commodity export sectors

Raw material sectors have historically played a central role in state financing in Latin American societies. Their global market orientation makes them relatively easy to tax in the “eye of the needle” (Neelsen, 1997, p. 132) of foreign trade. In the case of mining or fossil fuel extraction, it is also relatively easy to implement special levies or to nationalize corresponding sectors outright (see Manzano et al., 2018). The economic dominance of raw material sectors and their fiscal potential can therefore dispense with the need for more pronounced taxation of other sectors and the corresponding political conflicts

and negotiation processes with elites. This has proved the case both historically (Centeno, 1997) and during the recent economic super cycle of commodity prices (Bergman, 2019; Monaldi, 2019). The social and political power constellations on which potential political conflicts are based are themselves closely linked to the raw material sectors and their geographical and economic concentration (cf. Shafer, 1994; Gallo, 2008).

This political economy perspective transcends the exclusive focus on institutions and recognizes that institutions are not the only and sometimes not even the central mechanism for fiscal regimes. Therefore, the book aims to develop various concepts such as weak institutions as the outcome of social relations and political economy instead of setting them normatively. Moreover, many Latin American tax administrations are now among the most technically and organizationally advanced in the world (cf. Flores-Macías, 2019c, p. 244; cf. Baer, 2006). Therefore, the focus of current research should concentrate more on the political weakening of tax administrations, such as repeated tax amnesties or other political interventions (cf. Sanchez, 2011), and the political economy motivations for not taxing wealthy sectors presently. The high concentration of profitable economic activities, usually associated with the extractive sectors, forms the basis of a high concentration of wealth and influence, which generates strong political interests against deepening taxation (cf. Kurtz, 2013, p. 37; Sokoloff and Zolt, 2006) and complicates fiscal social contracts in terms of higher willingness to pay (cf. Breceda et al., 2009).

The volatility of the raw material exporting economy is closely linked in its overall dynamics to international price developments (including financial flows and direct investment). It exhibits a strong procyclical pattern and exposes total government revenues (beyond the extractive sectors) to the volatility of international prices (cf. Bértola and Ocampo, 2013; Gómez Sabaini et al., 2018; Ocampo, 2017, pp. 64ff.). It is precisely the absence of greater fiscal access by the treasury *vis-à-vis* other economic and social sectors that tempts governments to increase fiscal access to the raw material sector and stifle investment (cf. Manzano et al., 2018; Monaldi, 2019). The most prominent example in this regard is Venezuela (Peters, 2019). Global trends and decarbonization policies will pose further challenges for the future. The energy transition could stymie tax sources in the fossil fuel sector which at the same time exacerbates incentives for further fiscal dependence in the mineral resources sector. Given the procyclical patterns of income dynamics, however, the question arises as to which sources of taxation are less affected by macroeconomic volatility and how this volatility can be mitigated in the interest of greater stability.

Furthermore, the central role of raw material sectors can undermine tax morale and provide incentives for tax evasion. When tax revenues from these sectors allow governments to finance public spending aside from income taxes and taxes on profits, grant generous tax exemptions, and forgo government

enforcement of tax regulations, this impairs horizontal fairness and undermines tax morale (cf. Atria, 2019; Bergman, 2009; Torgler, 2005). At the same time, volatility and distortions in the overall economy make stable tax regimes difficult and undermine the institutionalization of a strong tax culture (cf. Gallo, 1997). Additionally, the extraversion nature of the Latin American economies provides extensive opportunities for tax evasion and capital flight (see Baunsgaard and Devlin, 2021; cf. Palan et al., 2010, chap. 1).

Taxation and allocative politics

In addition to their fiscal and distributional function, taxes can also have allocative motives and effects that create new (horizontal) inequalities. They can have a steering function in favor of certain economic activities at the expense of others (see Pätzold and Baade, 2008, p. 133). In terms of allocational politics, tax exemption regimes can serve to promote peripheral regions, individual industries, and even individual companies, especially in the area of foreign direct investment (CIAT, 2018b). Haffert and Mertens (2019) understand tax systems as an expression of specific growth models in conjunction with distributional preferences of social actors of corresponding sectoral coalitions. In this context, taxes can channel resources from one economic activity, e.g., domestic market-oriented consumption, to other sectors, e.g., export industries. Thus, taxes become an allocative interest of different economic sectors and sectoral coalitions (horizontal) and are not only subject to class-political (vertical) distributional issues (see Schneider, 2019).

The economic effectiveness of such tax incentives has been questioned in Latin America even in the heyday of import substitution (Tanzi, 1966). The ratio of tax exemptions to tax revenues is very high in many Latin American countries, sometimes exceeding 50% of tax revenues in extreme cases, as in Guatemala and Mexico (Gómez Sabaini and Rossignolo, 2015, p. 55; cf. Garita, 2018). If such allocational policy interventions serve rent-seeking (cf. Krueger, 1974; Weede, 1997) or the establishment and promotion of industrial structures, technological, or knowledge-centered development (Botta, 2010; Di Maio, 2009), ultimately it depends on whether they are politically tied to economic targets and can be implemented accordingly against the interests of existing industrial coalitions (cf. Kahn and Blankenburg, 2009, p. 348).

However, when allocative politics in favor of branches other than raw materials are a condition for overall economic dynamism (Bértola, 2016; Ocampo, 2017), this affects the political economy of tax regimes. If social reproduction depends in a substantial sense on the political instead of market allocation of resources, the phenomena of particularism, clientelism, and corruption that have undermined Latin American fiscal policies and systems can be understood as factors in allocative politics. Thus, the numerous tax exemption regimes and special tax treatments that undermine tax systems, tax reforms, and tax culture in the interest of corporate sectors (Hallerberg and Scartascini, 2019) or in the

interest of local clientelistic configurations (Ardanaz et al., 2014; Ardanaz and Scaratascini, 2013; Melo, 2007; Bonvecchi, 2010; Tomassi et al., 2001), are not primarily an expression of weak political institutions (cf. Sanchez, 2011); rather an expression of the political economy of natural resource exporting societies.

With this shift in perspective in favor of horizontal disparities, cross-class industrial coalitions become at least as relevant as class-political vertical distributional conflicts, which have been the focus of research on taxes and economic elites (cf. Fairfield, 2015; Rius, 2015; Castañeda, 2017).² This must be broadened to include specific sectoral corporate interests, political alliances of different capital fractions (cf. Schneider, 2012; 2019), as well as inter-sectoral conflicts. Tax regulations can be understood as expressions of complex and contradictory allocative arrangements that cannot be reduced to distributional issues. They can be part of an allocative structure that keeps non-viable firms afloat, financed by subsidies and other allocative mechanisms (cf. Bértola, 2016, p. 263). This raises questions about the political economy of growth models and investment regimes in the region's fiscal systems: how were competing models of development, evident today in different levels of state intervention, politically enforced? What (inter-)sectoral patterns of associational power can be discerned in contexts of tax reform and its blockage?

Finally, the allocative politics debate on tax regimes also proposes to consider non-tax instruments for the allocation of resources and wealth distribution. Taxation serves to finance government spending, which, in addition to financing infrastructure and security, also serves welfare state income security and economic policy interventions. However, if the latter can also be achieved through other, equivalent instruments, these must be understood as part of the political economy of tax regimes. Most obvious non-tax instruments are different forms of royalties in the case of mineral resources (cf. Manzano et al., 2018). Other non-tax instruments of resource channeling historically include differential exchange rates at the expense of traditional agricultural exports (Ocampo, 2017, p. 53) and other instruments of primary appropriation and reallocation of extractive rents, such as price policy interventions or currency overvaluation (cf. Iñigo Carrera, 2007, chap. 3). The allocational perspective on tax regimes and inequality allows us to consider these types of resource mobilization and assess their relevance in relation to taxation, thus contributing to new perspectives on political economy and taxation in Latin America.

Political economy and tax regimes in Latin America: content of the book

The book is organized in three sections. The chapters of the book respond to one of the two thematic axes, examining different tax issues that are related either to natural resource export sectors and (re-)distribution or allocative

politics and development models. Each part begins with chapters studying more general patterns and challenges regarding raw material sectors' dominance and development in Latin America, followed by chapters focusing on special taxation and quasi-taxation issues, including comparative and single-case analyses. The concluding chapters elaborate on the empirical findings of the book and link back to the theoretical considerations from this introduction.

The *first section* elaborates on the relation of taxation, inequality, and the economic dominance of raw material sectors. Luis Bértola, Cecilia Lara, and Camilo Martínez open the first section with a historical examination of the relationship between raw material-based modes of development and their fiscal structure throughout the twentieth century until the present in Latin America. Juan Pablo Jiménez and Andrea Podestá follow with an overview of different fiscal regimes in raw material sectors and the distribution of such resources, reflecting on fiscal challenges of international trends of decarbonization. Verónica Paz Arauco and Wilson Jiménez Pozo analyze the political economy conditions for progressive tax reforms and elaborate on prospects of a new fiscal contract for Bolivia beyond natural gas extraction and its windfall revenues. Jorge Atria addresses the culture of tax avoidance in the world's leading copper producing country, Chile, in the context of historical and current social ruptures and the need for new tax resources, and, finally, Verónica Grondona adds to the book a political economy analysis of tax havens and elusive structures of tax fraud within Argentina and Latin America.

The *second section* elaborates on the relation of taxation, development, and allocational politics. Rafael Domínguez Martín analyzes the political economy of failed progressive fiscal reforms in Latin America, giving explanations for the lack of progressive social and economic structural change on the region's insertion into the global economy and social inequality. Gabriel Ondetti gives a historical political perspective to the section tracing influential business preferences for different development models and their respective fiscal architectures to historical experiences with distributional conflict. Mónica Unda Gutierrez analyzes the history of the poor Mexican tax state, discussing state-business alliances and the structural power of business as a competing explanation against the importance of revenues from the oil sector. Néstor Castañeda discusses how inter-sectoral and inter-firm conflicts can open the way for more progressive tax structures, while highly coordinated business communities can effectively oppose structural tax reforms at the same time as transferring the tax burden to less-organized business sectors. Finally, two chapters of this section are dedicated to the primary distribution of the economic surplus from the agro-export sector by different reallocation mechanisms that are to the detriment of landowners. Gastón Caligaris examines the main distributional conflicts in the political allocation of economic surplus from the agricultural export sector in Argentina, showing that the most concentrated industrial capitals are resource-receiving rather than taxpaying entities. Taking the case of Uruguay, Gabriel Oyhançabal Benelli shows that tax instruments have played

a secondary role for the appropriation and reallocation of agrarian rent, the country's main source of wealth.

The *third section* of the book sheds light on new perspectives on political economy and taxation in Latin America by taking up central aspects and challenges resulting from the previous contributions. Hans-Jürgen Burchardt analyzes the conditions for a natural resource-based development model that is compatible with sustainability requirements, identifying tax reforms as one of the central challenges for Latin America's development in the twenty-first century. Finally, in the concluding chapter, Philip Fehling analytically elaborates the book's concept and draws the contours of what might be called "rent-based societies", bringing together the various findings of the book's contributions and providing new perspectives on political economy and taxation in Latin America. The book aims to contribute to the current debates on tax policy in Latin America and beyond, and thus to a topic that is being recognized in importance almost daily, given the current dynamics of tax inequity and its consequences in the region and wider world.

Notes

- 1 This is partly explained by the specific tax buoyancy effect of growth induced by the raw material sector. "[H]igh natural rents tend to boost income taxes rather than consumption taxes" (Castañeda Rodríguez, 2018, p. 4).
- 2 This focus also provides an explanation why a government's ideological orientation has so far not revealed clear patterns of tax burden distribution or allowed for corresponding forecasts in the region (see Hart, 2010 vs. Stein and Caro, 2017).

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Part I

Taxation and the dominance of raw material export sectors



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2 Natural resource wealth and fiscal institutions in Latin America since independence

Luis Bértola, Cecilia Lara, and Camilo Martínez

Introduction

Throughout history there have been important changes in the ways that societies produce, exchange, distribute, and consume the goods and services that are necessary for their reproduction and development, what can be defined as modes of development. There have been significant changes in the technological, productive, organizational, institutional, political, and cultural spheres, as well as in the ways these spheres are articulated.

These changes have to do with the conformation of the public and private spheres and with relations between the collective and the individual. Development models reflect different relative influences of each of these spheres. In the case of the public sphere, the evolution of its administrative, military, economic, and social structures also influences the trajectory of a region's development.

Taxation is a critical component of this issue. What is financed, how it is financed, and who finances it are key aspects that are strongly intertwined with the characteristics of the productive and social structures of each era. Nevertheless, societies that are productively similar, such as industrial societies, can be based on different social and property structures and confer different financing and spending roles to the state.

In this chapter, we will mainly focus on the relation between taxation and development models in Latin America, paying less attention to expenditure and debt.

Latin America as a whole bears common features alongside significant diversity. Among the common features we can identify, in addition to its colonial heritage and diverse cultural aspects that are connected to it, are several characteristics of its productive structures and forms of international insertion. As a result of these characteristics, Latin America has, on average, historically maintained per capita income levels around the world average, but increasingly lower in relation to more advanced countries. Related to the particularities of its productive structure and some institutional aspects, we can also see how Latin America distinguishes itself by its high levels of inequality as much as by its high volatility and a marked pattern of cyclical behavior.

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Taxation in Latin America has a clear correlation with these structural long-term features. It has been cyclical – in fact, procyclical – following the fluctuations of the export sector’s demand and prices. From the beginning, there were strong obstacles to direct taxation due to the weakness of the national states and to the flip side of this weakness: the strong *de facto* power of the diverse capital-owning groups that controlled markets and exercised strong corporate pressures. Taxation’s marked cycles were linked to internal and external state debt, which made this debt a critical component of both the financing and the structure of public spending. As we will see in the following pages, even when there have been important advances in the direction of a modern fiscal system, and even when economic cycles have generated advances and setbacks, the structural long-term features mentioned have hitherto remained relevant.

While in more-developed countries taxation and state spending contribute to the significant reduction of inequality, in Latin America these two elements, themselves being highly unequal (see, for example, Abad and Lindert, 2017; Amarante and Prado, 2017; Lindert, 2021), have made a minor contribution to reducing inequality.

Throughout Latin America’s development, we can highlight three major periods: the agro-export period, which lasted up until the transition of 1913–1929; the period of state-led industrialization, from 1930 to approximately 1970–1980; and the period of export reorientation, which continues to the present day. Within each of these periods there have been different cycles, with expansionary and recessionary phases. We will pay particular attention to the period of nation-state formation, as well as to the last expansive cycle that occurred at the beginning of the twenty-first century.

Within each of these periods, development models have varied greatly by region. Various typologies have been employed to understand the diverse trajectories. In this paper we use the typology of Bértola and Ocampo (2012), based on the original proposal of Cardoso and Pérez Brignoli (1979). Basically, this typology recognizes the existence of three main regions: the Indo-American (consisting of the regions where the most advanced pre-Columbian civilizations were concentrated, in the Andes, Central America, and Mexico), the Afro-American region (in various coastal tropical zones, the Caribbean, and particularly in Brazil), and the Euro-American region (in particular, the mild-weather regions in the south, although we can also include Costa Rica). These societies were based on different structures of property and labor relations (the predominance of mining, hacienda, and indigenous peasant communities in the Indo-American regions; the slave labor plantation economy in the Afro-American regions; and free labor in the Euro-American regions), resulting in different levels of per capita income, wages, and patterns of income distribution. These economies have participated in different commodity markets and have achieved varied levels of development of their fiscal and spending structures, with varied social safety nets. Once the industrialization process began, the size and internal markets of these countries became important elements of differentiation between their

respective performance, favoring the medium and large countries, connected to the above characteristics.

Colonial heritage and nation-state formation (c. 1820–1870)

At the beginning of the nineteenth century, the struggles for independence in the different territories of the region opened a complex historical process of nation-state building and the establishment of the rules of the game in the political, economic, and social spheres. This stage was marked by strategies of population settlement, the defining of property rights, and the creation of factor markets. All of this occurred in a changing international context: the independence of the 13 North American colonies, the French Revolution, the expansion and spread of the industrial revolution and its impact on production, finance, and commerce, and the Napoleonic wars, which particularly impacted Spain.

In this context, the path towards the formation of the nation states was winding; it took decades of conflicts to arrive at the current configuration of Latin American nations. Despite the formation of these states as republics, instability was a dominant feature. Power was defined by military force, under the influence of significant *de facto* national and international powers, a process that was accompanied by various attempts, for the most part unsuccessful, to consolidate new rules of the game (Irigoin, 2009; Bértola and Ocampo, 2012). During the first five decades following independence, Latin America's economic performance was poor and far below the living standards of early industrialized countries and other global peripheries: Latin America's per capita GDP went from just over 50% to just over 30% of that of the most advanced countries in the West (Bértola and Ocampo, 2012; Table 1.1). Even until 1870, the regions that showed a good export performance, located in coastal areas, in particular the Atlantic, represented a much smaller proportion of the Latin American population (less than 10%) despite having had a much higher demographic growth than the rest of the continent. Therefore, the results of independence were far from the expectations generated by political and economic freedom from the old colonial powers. It was also a period in which the differences between the Latin American republics deepened in favor of those that had greater political autonomy, that suffered less from the independence wars, that had exploitable resources, and that were well located with respect to transport routes.

In this framework of institutional fragility, violence, the rebuilding of economic spaces, and scarce economic activity, building a new fiscal structure in the young republics was no easy task. As Irigoin (2009) points out, the dissolution of the colonial regime in Spanish America and the disappearance of the silver peso standard did away with the world's principal unit of currency. The new nation states were built around the tax collection centers of the colonial era. The political disintegration of Spanish America into different states and regional powers led the way for the local elites to take control of the local

systems of monetary emission. The regions that did not have mints tended to install forced-tender paper money systems. The weak governments had recurring budget deficits that tended to be resolved in an inflationary manner, shifting the fiscal burden increasingly onto the consumers, through the growing share of tariffs within tax revenue. In turn, this form of taxation contributed to a greater fragmentation of political spaces, markets, and currencies, hindering further economic growth. Garavaglia (2010) highlights the lack of administrative capability and coercive mechanisms for establishing transitions to modern tax systems. As a result, the main sources of tax revenue shifted towards various taxes on domestic and international trade which took the form of a small number of border posts that were easier to administer.¹

Table 2.1 eloquently illustrates two of the features that have been mentioned: the disparate commercial and economic performance of different Latin American regions and the importance that custom tariffs acquired, approximating and/or exceeding 50% of fiscal resources. Barring exceptions, international trade tariffs were mainly on imports, primarily affecting consumption and the import of intermediate goods. Thus, taxation had a certain protectionist impact and was supported by those who controlled natural resources and who made very few tax contributions, as well as by certain local industries that benefited from tariff protection. This was specifically the case in Peru, where up until the

Table 2.1 Per capita tax revenue in pounds sterling and taxes on foreign trade relative to total tax revenue (%) (1820–1870).

Country	1820		1850		1870	
	Per capita tax revenue	Tariffs (% of total tax revenue)	Per capita tax revenue	Tariffs (% of total tax revenue)	Per capita tax revenue	Tariffs (% of total tax revenue)
Argentina	0.79	58	1.20	94	1.59	90
Bolivia	s/d	s/d	s/d	s/d	0.24	85
Brazil	0.11	80	0.41	77	0.89	74
Chile	0.41	50	0.59	61	1.05	54
Colombia	s/d	s/d	0.33	24	0.24	52
Ecuador	s/d	s/d	0.24	52	0.48	57
Mexico	0.26	84	0.38	46	0.37	68
Peru	0.21	70	0.55	37	1.82	18
Uruguay	4.77	80	3.73	63	3.25	85
N–W average	1.09	70.33	0.93	56.75	1.10	64.78
Argentina, Chile, Uruguay	1.99	62.67	1.84	72.67	1.96	76.33
Brazil	0.11	80	0.41	77	0.89	74
Bolivia, Colombia, Ecuador, Mexico, Peru	0.24	77	0.38	39.75	0.63	56

Source: Prepared by the authors based on different national studies and international databases. The details can be requested from the authors.

explosive emergence of guano, public financing was strongly based on a very conservative protectionism.

This was a slow process, given that continuity with the colonial tax system was initially the rule. In Bolivia, for instance, between 1825 and 1870, approximately 35% of tax income came from indigenous contributions, imposed on male adults between 18 and 60 years of age; it was not until late in the second half of the century that customs duties became more significant (Bértola, 2011, pp. 238–239).

The Peruvian tax system, during the first stage until the mid-nineteenth century, was characterized by a high dependence on indigenous taxes. Subsequently, with the rise and consolidation of guano exports, the fiscal apparatus was built on the basis of the profits that came from these exports which had a monopolistic or quasi-monopolistic nature (Contreras, 2020, p. 61).

In Argentina, two different administrative models coexisted, one in Buenos Aires around its port, and another in the so-called Argentine Confederation of Provinces, which had recently been unified into one bureaucratic and fiscal structure, leading to a significant increase in the per capita tax collection (Garavaglia, 2014, p. 43). These two systems were in conflict concerning the appropriation and distribution of the revenues of custom tariffs and hindered the unification of the national space.

Lastly, with respect to public spending, two features are common to Latin American countries: the high share of military spending and the systematic payment of interest from national and international borrowing (see, for example, Velazco Herrera, 2013, p. 122, on Ecuador; Jauregui, 2010, p. 259, on Mexico; López, 2013, pp. 158–160, on Chile; and Martínez Rodríguez, 2021, pp. 22–23, on Uruguay).

Globalization and institution-building (c. 1870–1930)

In the last third of the nineteenth century, commodity export-led growth was consolidated in Latin America. This process was not uniform throughout the continent. The characteristics of the social-economic systems varied according to the predominance of the slave economy, the hacienda-peasant system, or the economic system of European origin. These elements were combined with distinct factor endowments and geographical characteristics. Therefore, the confluence of internal and external factors gave rise to different patterns of development.

The transport revolution led to a sustained decrease in the costs of maritime and land freight; Latin American countries became more competitive in order to meet the expansion in industrialized countries' demand for raw materials and food products (meat, grain, fibers, minerals, energy sources). This attracted a significant flow of foreign investment, contributing to technology transfer and the increase of productivity, and immigration, which brought technological and organizational knowledge as well as knowledge about the export destination markets.

During this period, liberal reforms and state consolidation made significant progress in: (i) the abolition of slavery, which advanced at different speeds – more slowly in the slave centers; (ii) the formation of land markets, with the delimitation of private property in rural and urban areas; and (iii) greater mobility of free labor within and between countries. During this period, political and state power structures were consolidated, providing the economies with a framework of political and social stability, which was an influential aspect in the accumulation of capital and the channeling of external capital flows, typical of a dynamic of economic globalization that began in the final decades of the nineteenth century and continued until the first decades of the twentieth century.

This process generated a significant increase in inequalities, both between and within the regions and countries, according to the forms of appropriation and characteristics of the surplus from raw-material exports. In most cases, these processes occurred through the consolidation of coercive and political power of the states, in the form of oligarchic governments. A power coalition was institutionally formalized, which encompassed the interests of landowners, miners, local traders and moneylenders and foreign capitalists, local agents and parties or caudillos, rising military bodies, and, in some cases, agents that belonged to the religious organizations (Bértola and Ocampo, 2012, pp. 102–104).

In this framework of international trade expansion, the fiscal structure remained closely linked to import dynamics. Table 2.2 shows that, until the mid-1910s, import levies represented at least 50% of the fiscal resources that came from taxation (for examples of national cases, see Regalsky and Salerno, 2009, pp. 209–210, for Argentina; Peres-Cajías, 2014, pp. 83–85a, for Bolivia; Azar and Bertoni, 2007, p. 53, for Uruguay).

It is therefore possible to highlight transversal pillars of Latin American taxation in the first century after independence. Taxes on foreign trade, and import tariffs in particular, were at the heart of public finances, deepening some of the aspects of the first stages after independence that have been highlighted. Another issue that is linked to the external forces of globalization was the external financing of recurrent fiscal debts, aggravated by episodes of national and international conflict, and the volatility of foreign trade. Finally, a large portion of public spending was concentrated in the primary functions of the state, especially in its coercive functions (both external and internal, including military pensions), the creation of basic administrative supports (bureaucratic structures and the first ministerial posts), and interest payments on debt resulting from various domestic and international loans. On the other hand, public spending on education was meager.

However, different patterns of taxation coexisted in large countries, with important regional asymmetries. In Argentina, for example, the dual system v: the Buenos Aires region concentrating taxation on foreign trade and the provinces of the so-called “interior” relying more on local taxation of domestic consumption (Cetrángolo and Jiménez, 2004).

Table 2.2 Per capita tax revenue in pounds sterling and taxes on foreign trade relative to total tax revenue (%) (1900–1930).

Country	1900		1910		1930	
	Per capita tax revenue	Tariffs (% of total tax revenue)	Per capita tax revenue	Tariffs (% of total tax revenue)	Per capita tax revenue	Tariffs (% of total tax revenue)
Argentina	6.69	68	8.62	63	10.05	50
Bolivia	0.26	66	0.28	73	0.36	53
Brazil	0.57	52	0.90	51	1.57	51
Chile	2.25	32	3.02	31	7.90	42
Colombia	0.13	23	0.32	84	1.95	25
Ecuador	0.61	91	0.82	60	1.28	39
Mexico	0.47	47	0.72	47	1.63	39
Peru	0.03	57	0.06	45	1.42	22
Uruguay	3.66	62	4.16	81	9.32	22
N–W average	1.63	55.33	2.10	59.44	3.94	38.11
Argentina, Chile, Uruguay	4.20	54	5.27	58.33	9.09	38
Brazil	0.57	52	0.90	51	1.57	51
Bolivia, Colombia, Ecuador, Mexico, Peru	0.30	56.80	0.44	61.80	1.33	35.60

Source: Prepared by the authors based on different national studies and international databases. The details can be requested from the authors.

In conclusion, it is important to highlight two points. First, this period was characterized by a profound redistribution of economic power and property structure. It was not a matter of maintaining the colonial elite's power, but rather of the emergence of a new power structure that was closely linked to the control of natural resources and the supply chains necessary for their exploitation. The new elites were sufficiently powerful to avoid direct taxation, a trait that, as we shall see, would persist. Second, linked to the importance of custom tariffs is the alleged protectionism that prevailed in the region. There is no doubt that tariffs had a protectionist impact; however, the main motive for their introduction was not protectionism, but rather the fiscal needs of the state and the ease of their implementation (Bértola and Williamson, 2007). Therefore, the arguments that these tariffs slowed the development of export activity are wrong since they mainly affected the consumer and avoided directly taxing the owning class.

State-led industrialization (c. 1930–1980)

The world trade crisis that took place in the interwar period, especially in the 1930s, shook the financial structure of Latin American states, which were heavily dependent on taxes on foreign trade. The transition to new ways of financing the activities of the state, at a time when the state was acquiring a

more relevant role, was a complex process that combined diverse modalities and that is therefore very difficult to describe in quantitative terms.

Especially since the Great Depression, Latin American countries experienced difficulties in maintaining economic growth based on the export of commodities. The international economic scene had changed: there were economic crises in central countries, global trade flows fell, the gold standard was abandoned, foreign capital in the periphery was withdrawn, and the states played a more central role in the economies.

Furthermore, other political and economic ideas that were opposed to liberalism had gained strength. In developing economies, it was hoped that countercyclical policies would serve to manage the balance of payments, rather than having to do so through aggregate demand (Bértola and Ocampo, 2012).

Due to this international situation and the current account deficits, Latin American governments encouraged industrialization. According to the literature, this stage began in the 1930s and culminated in 1980, when the region entered the so-called “lost decade.” However, there is ample evidence that supports the idea that an “early industry” existed in countries such as Argentina, Uruguay, Chile, Mexico, and Brazil before the 1930s.²

Thorp (1998) and Cárdenas et al. (2003) characterize the industrialization stage in Latin America according to two central features: the presence of a state that became actively involved in the country’s economic and social activity and the prioritization of the industrial sector as an engine of growth and development.

In terms of economic performance, we can distinguish two periods: 1930–1945 and 1945–1980. In the first, per capita GDP remained almost stagnant (0.6% annual growth), due to slow economic growth and the expansion of the population. Import substitution and the recovery of domestic demand were two features of this period. However, after World War II, Latin America experienced the most rapid growth in its history: GDP increased by 5.5% annually, while per capita GDP increased by 2.7% annually (Bértola and Ocampo, 2012). The industrialization process in this second period followed a different pattern, based on a greater expansion of domestic demand. Import substitution and external demand made a small contribution to the growth of GDP, which in turn contributed to the closing of Latin American economies.

Economic policy applied a range of tools. Trade protectionism differentiated tariffs according to the production that was meant to be incentivized or discouraged mainly for the sake of foreign exchange, established import quotas according to regions and currencies, and implemented multiple exchange rates. Some of these policy tools were supported by the emergence of new institutions of state control. In turn, the state supported the national industry and the production of various inputs with subsidies and with financing by the new development banks or were directly involved in production through state-owned enterprises. The expansion of infrastructure and public services contributed to the consolidation of the local market, which was necessary for industrial growth (Thorp, 1998).

This expansion of public policies and the changes in the ways of financing them were reflected in the structure of fiscal revenues and expenditures. The fall in trade flows led to severe crises in the tax revenues that were based on foreign trade (Bulmer-Thomas et al., 2007) and the states began to attach a greater importance to other kinds of taxes, such as direct taxes on income and indirect taxes on goods and services.

According to available data, tax revenue, measured as central government revenues in relation to GDP, remained stable in most countries until the 1970s. On average, this indicator hovered around 11% until the 1960s and rose to 15% in the 1970s (see Table 2.3).

Behind this apparent stability, significant changes took place. As shown in Table 2.4, there was a sharp drop in customs revenue, which was replaced by other kinds of taxes, in particular new kinds of direct taxes, such as taxes on income, profits, and capital gains (see Table 2.5). According to the results presented by the OECD et al. (2018), the share of revenue from these direct taxes relative to GDP in Latin America grew from 2.2% to 3.8% of GDP between 1940 and 1980.

Income taxes appear as of the 1930s and end up having a larger weight in tax revenue (see Table 2.5). This is the case for Argentina and Colombia, among others. In particular, the Colombian tax system was reformed early on, and income taxes increased. At the end of the 1930s, income taxes, together with taxes on the consumption of certain goods and taxes on wealth, exceeded customs revenue. On the other hand, in Mexico and Brazil, the vitality of trade with the United States kept the share of custom tariffs high, and in Mexico export taxes increased (Cortes Conde, 2007). In Argentina, conservative forces that opposed direct taxes in the 1920s ended up implementing them while in government in the 1930s.

In addition, several countries of the region, such as Argentina, Brazil, Colombia, and Uruguay, began to generate more non-tax revenue, such as through the multiple exchange rate system, the issuance of local currency, and/or income from natural resource exports. The revenues are difficult to estimate, but these were powerful tools, especially the use of the multiple exchange rate system whenever the export product prices were booming.

After World War II, changes to the tax regime consisted in taxes on wealth and on domestic consumption (sales taxes), with the goal of obtaining a more stable source of income.³

As an example, in Brazil, sales taxes began to rise in 1957. In Mexico, starting in 1951, there was a sharp increase in income taxes and new taxes on the consumption of certain products; later, in 1970, the value added tax was introduced. In Uruguay, indirect internal taxes were consolidated with fuel taxes in 1938 and with sales taxes in 1941.⁴ In addition, changes to direct taxation were implemented with the creation of the tax on high earnings in 1945 and the income tax system in 1960 (Azar and Bertoni, 2007).

Attempts at fiscal reform were slow and insufficient for covering the expenses taken on by the governments (especially for those that developed a

Table 2.3 Tax revenue relative to GDP (%) (1930–1979).

Country	1930–1939	1940–1949	1950–1959	1960–1969	1970–1979
Argentina	8.67	8.18	8.79	9.03	10.23
Brazil	9.09	7.94	7.63	8.68	10.63
Chile	s/d	13.81	14.05	17.51	26.18
Colombia	5.87	6.07	7.78	8.47	10.95
Mexico	6.59	7.53	8.72	8.01	11.4
Peru	6.08	8.38	13.63	15.13	15.41
Dominican Republic	s/d	23.01	20.83	16.37	16.1
Uruguay	11.23	10.65	10.61	11.12	19.92
N–W average	8.16	9.43	11.5	11.79	15.1
Argentina, Chile, Uruguay	9.95	10.88	11.15	12.55	18.78
Brazil	9.09	7.94	7.63	8.68	10.63
Colombia, Mexico, Peru, Dominican Republic	6.18	11.25	12.74	12.00	13.47

Source: Prepared by the authors based on MOXLAD.

Table 2.4 Customs taxes relative to central government revenue (%) (1930–1979).

Country	1930–1939	1940–1949	1950–1959	1960–1969	1970–1979
Argentina	33.56	13.06	17.05	s/d	20.84
Brazil	32.8	14.63	18.11	7.75	7.22
Chile	32.29	18.86	21.99	14.34	7.5
Colombia	45.87	23.16	32.46	25.46	15.92
Mexico	27.19	27.22	27.09	20.44	12.24
Peru	29.92	29.25	29.48	20.21	22.91
Dominican Republic	30.87	24.11	33.64	41.94	42.56
Uruguay	39.64	28.73	27.68	17.99	6.92
Venezuela	39.27	24.37	22.1	13.57	5.72
N–W average	34.60	22.60	25.51	20.21	15.76
Argentina, Chile, Uruguay	35.16	20.22	22.24	16.17	11.75
Brazil	32.80	14.63	18.11	7.75	7.22
Colombia, Mexico, Peru, Dominican Republic, Venezuela	34.62	25.62	28.95	24.32	19.87

Source: Prepared by the authors based on MOXLAD.

Table 2.5 Income taxes relative to central government revenue (%) (1930–1979).

Country	1930–1939	1940–1949	1950–1959	1960–1969	1970–1979
Argentina	10.39	28.15	23.63	19.38	14.07
Brazil	6.15	23.31	20.18	23.44	25.09
Chile	13.49	22.60	23.00	37.97	21.89
Colombia	12.49	36.82	31.97	48.84	36.74
Mexico	14.07	22.78	21.37	35.86	39.01
Peru	11.80	23.21	22.31	28.73	28.56
Uruguay	19.99	22.80	26.83	35.71	10.86
Venezuela	0.03	12.73	13.41	42.09	58.15
N–W average	11.05	24.05	22.84	34.00	29.30
Argentina, Chile, Uruguay	14.62	24.52	24.49	31.02	15.61
Brazil	10.39	28.15	23.63	19.38	14.07
Colombia, Mexico, Peru, Dominican Republic, Venezuela	9.60	23.89	22.27	38.88	40.62

Source: Prepared by the authors based on MOXLAD.

greater welfare state), resulting in fiscal deficits. Fiscal pressures, with greater borrowing to finance the deficits, led to a marked economic crisis that closed the period of industrialization in Latin America (Cortes Conde, 2007). On the other hand, taxation was markedly procyclical, especially in relation to the different taxes that were linked to international price dynamics, as in the case of multiple exchange rates.

We did not set out to study expenditure in this paper. The efficiency of spending during the period of industrialization, and, in particular, the cost of industrialization policies, has raised particular interest. First, it is important to note that during the period of industrialization, social spending increased significantly in different countries, which resulted in significant improvements reflected in the Human Development Index (Bértola and Gatti, 2021). The expansion of social security, on the other side, provided the state with increasing income flows, helping to finance the whole fiscal system at this early stage.

There has been an intense debate about industrial protectionism, and the stimulus of agricultural activity that produced industrial inputs. On the one hand, the “black legend of industrialization” has been created, which attributes the poor performance of the economy to rent-seeking practices and the misallocation of resources, deviating from the logic of comparative advantages. Other views, while recognizing that these factors played an important role in the political economy of the region, have highlighted the achievements of these periods in terms of economic growth, particularly in periods when international demand had collapsed. In turn, when world demand and commodity prices recovered in the post-war period, it did not seem unreasonable to direct income from natural resources to the promotion of structural change and export industrialization. Beyond the theory and the successive drifts of industrialization towards the external market, political economy permanently produced the proliferation of corporate behavior, often successful in the face of relatively weak states that had few management capabilities (see Bértola and Ocampo, 2012, chap. 4). Finally, inflation played an important role in financing the state budget through inflationary taxes and seigniorage.

Structural reforms during the second wave of globalization (c. 1980–1998)

The period between 1973 and 1982 is referred to as “debt-led growth”. These were years during which economic growth was sustained by external indebtedness from growing trade and fiscal deficits. External debt contraction intensifies in the 1970s in the context of low, even negative, real interest rates and the expansion of the Eurodollar market due to high commodity prices, particularly oil (Palma, 1998). More than half of the private debt that flowed towards the developing world during this period was received by countries in Latin America. This stage culminated in the so-called “debt crisis” of 1982. The

triggers of this crisis were the crippling of the interest rate between 1978 and 1980, the decline in the terms of trade (25% between 1977 and 1981), and the contraction of global trade in 1981 – for the first time since 1958 (Bértola and Ocampo, 2012). Other domestic factors, such as the institutions controlling capital flight, played a decisive role in the impact of the debt crisis. As a result, the external debt ratios increased in Latin American countries, in large part to cover the debt repayment and the ever-increasing interest burden (Marichal, 2010).

International management of the debt crisis was based on a strategy of bank debt restructuring and the provision of new loans under the conditions of an agreement with the International Monetary Fund, leading to several rounds of negotiation (Baker Plan in 1985 and 1987, Brady Plan in 1989). The inadequacy of these negotiations led to an increase in the share of debt in the Latin American economy in the 1980s, peaking at 50% of GDP in 1987. From then on, it began to decrease, reaching around 30% in the mid-1990s.⁵ For Latin America, this crisis resulted in greatly negative economic and social outcomes: GDP fell sharply, unemployment increased, and real wages fell, poverty increased (by 40% in the 1980s and by 48% in the 1990s), and inequality increased. The Gini coefficient went from 0.49 in 1980 to 0.53 by the end of the 1990s (Bértola and Ocampo, 2012).

Therefore, a new international landscape began to take shape in the 1980s,⁶ which, in addition to the weaknesses of industrialization in Latin America, led to a change of course in the development model. More precisely, an early deindustrialization that began in the 1980s was accompanied by a return to the strong predominance of natural resource exports in the 1990s, especially the countries of South America. Therefore, the region's productivity went back to having a mediocre performance, moving away from the path of convergence (McMillan and Rodrik, 2011).

This model, oriented towards the export of traditional commodities to the detriment of the industrial sector, was developed within the framework of the application of strong commercial and financial openness, based on the recommendations of the Washington Consensus for developing countries.⁷

As the Washington Consensus saw inflation as a monetary phenomenon, it encouraged controlling it and therefore it restricted the expansion of demand, especially in the public sector, through fiscal discipline. It was understood that fiscal deficits generated inflation, balance-of-payments deficits, and capital flight. Thus, external openness was promoted through trade liberalization, a competitive exchange rate, and openness to foreign direct investment. The role of the state was to be limited through a process of deregulation, privatization, and efficiency-based taxed reforms.

In order to achieve fiscal surpluses, the reforms sought to reduce public expenditure. Chile was the first country that emphasized fiscal discipline as early as the 1970s. Cuts in public spending imposed by the Pinochet regime in the 1970s, especially to salaries and subsidies, intensified in the 1980s, expanding

to health and education spending, but not to defense spending. On the other hand, despite spending cuts, foreign debt interest remained a very significant component of public spending in countries such as Argentina, Brazil, Mexico, and Colombia (Lora, 2001; 2012). As a result, central government deficits have gone down since the second half of the 1980s and have remained between 1% and 3% of GDP (Bértola and Ocampo, 2012).

Tax reforms were less significant in the commercial and financial spheres due to the heterogeneity of the countries' tax structures; and they occurred later, between 1989 and 1994. One of the major changes that occurred in the 1980s and 1990s was the reduction of marginal rates applied to personal income and corporate profits,⁸ which reduced direct tax rates. Value added taxes, with relatively uniform rates, also spread to most countries, replacing the old sales taxes, which had more disparate rates and were more distortionary. Until the end of the 1990s, these reforms sought neutrality, legal and administrative simplification, and increased revenue collection based on a larger tax base. In some countries this ultimately resulted in increased tax revenue, with clear changes in structure: increased value added taxes and reduced foreign trade and direct taxes.

Table 2.6 shows the share of custom taxes, indirect taxes on goods and services, and direct income taxes in relation to central government revenues. First, we can see (with some exceptions) a drop in the share of custom taxes and a more significant presence of indirect taxes followed by direct taxes. Second, central government revenue as a percentage of GDP is around 18% (Table 2.6), with great variability between countries. While in Chile, Uruguay, Brazil, and Mexico it is above 20%, in countries such as Costa Rica, Nicaragua, and Ecuador it is below 15%.

The tax structure observed in Latin American countries is different from that of more-developed economies, which depend less on indirect taxes and base their fiscal structure on direct taxation, with tax collection levels relative to GDP that are significantly higher than in countries in the Latin American region.

The main explanation for this could be the persistence of a long-standing feature: the state's inability to tax the property-owning classes, and the latter's ability to elude direct taxation, concentrating tax collection on indirect taxes focused on consumption. This historical trend is exacerbated by two factors. First, the belief by economists and politicians that the structurally low rate of investment must be reversed through "fiscal dumping". Second, the growing role, both in Latin America and at a global scale, of transnational and financial corporations, which exert strong pressure on international organizations and local governments to weaken direct taxation mechanisms as much as possible.

The implementation of these structural reform packages led to fiscal improvements and prepared economies for the intensification of financial globalization that began in the 1990s. However, these one-size-fits-all policies gave little importance to improving the public sector and focused on a

Table 2.6 Fiscal indicators in Latin America (1980–1999).

Country	Custom taxes relative to central government revenue (%)		Property taxes relative to central government revenue (%)		Income taxes relative to central government revenue (%)		Central government revenue relative to GDP (%)	
	1980–1989	1990–1999	1980–1989	1990–1999	1980–1989	1990–1999	1980–1989	1990–1999
Argentina	13.10	5.60	12.80	24.60	6.60	9.60	12.50	15.90
Brazil	3.90	1.20	14.50	4.40	29.10	7.50	21.40	20.30
Chile	7.70	9.40	7.90	9.50	16.90	18.00	26.80	22.00
Colombia	14.50	10.20	21.50	31.50	24.20	36.30	11.90	13.20
Costa Rica	9.30	12.10	11.20	21.60	9.90	10.70	12.00	13.00
Ecuador	11.20	5.30	20.70	10.00	47.40	28.50	12.00	15.00
Mexico	8.80	5.50	13.20	10.40	28.40	32.50	25.60	26.20
Nicaragua	9.60	14.70	21.60	29.90	11.10	10.50	14.00	13.00
Paraguay	8.30	5.50	14.30	11.00	11.60	13.20	15.00	18.00
Peru	21.80	9.90	24.30	16.10	23.20	27.50	7.60	16.10
Uruguay	9.60	4.40	25.80	23.10	12.10	14.40	22.60	28.00
N–W average	10.71	7.62	17.07	17.46	20.05	18.97	15.54	17.00
^a Southern Cone and Costa Rica	8.72	6.54	14.44	16.64	14.92	12.04	17.30	18.97
^b Large and medium countries	15.03	8.53	19.67	19.33	25.27	32.10	16.60	16.10
^c Small countries	9.70	8.50	18.87	16.97	23.37	17.40	13.67	15.33

Source: Prepared by the authors based on MOXLAD.

Notes: ^a Includes Argentina, Brazil, Chile, Costa Rica, and Uruguay. ^b Includes Colombia, Mexico, and Peru. ^c Includes Ecuador, Nicaragua, and Paraguay.

limited number of tools to address multiple objectives. In the 1990s, the region maintained meager economic growth coupled with strong inflationary pressures, which led, together with the outbreak of the Mexican financial crisis in 1994, to another half “lost decade” in the 1990s. According to Clifton et al. (2017), between 1960 and 1998, the impact of fiscal policies on inequality was regressive or insignificant. In particular, personal income taxes had a regressive impact.

Progress and limitations during the commodity superboom (c. 1998–2019)

As in previous cycles, the growth of the 1990s culminated in a deep crisis. The exit from the crisis was driven by the commodity “super-cycle”. The commodity price boom lasted just over a decade, until 2014. The boom coincides with a period of low interest rates for foreign financing. Different governments in the region underwent ideological changes in response to the impact of the cycle of structural reforms. Paradoxically, growth was accompanied by a general decrease in inequality at a time when inequality was increasing in other regions in the world.

As powerful as it was, this expansive cycle culminated in a way similar to many others: with a significant slowdown, or even deep crises, that had already been going on when Covid-19 and its dramatic economic and social consequences erupted (Bértola and Ocampo, 2022).

It can be concluded that Latin America has not managed to break away from its historical development patterns that are characterized by significant boom and bust cycles, which contribute to political instability; continued divergence from advanced economies and the inability to achieve convergence with other countries and regions; and progress in the area of human development that has led neither to stable growth nor to a permanent reduction in poverty and inequality due to the high percentage of the population that is in vulnerable situations and that quickly falls into poverty when the phase of the cycle changes (Bértola and Ocampo, 2022).

During the last cycle, taxation made significant progress. As Table 2.7 shows, since the 1990s, taxation maintained a rapid growth rate in all the countries of the region. The change in the phase of the cycle can be clearly seen from 2015 onwards. This rapid growth led to an increase in tax revenue relative to GDP. As already seen, the differences between groups of countries are significant and in some cases widened. The smallest increase took place among the large and medium-sized countries. In any case, one can see the persistence of a relative lag in Latin America compared to the OECD, highlighting the paradox that those which most need to make public policies are those that have the fewest resources – not only in absolute terms but also in relation to the size of their GDP.

Table 2.7 Tax revenue growth rate and tax revenue relative to GDP (%) (1990–2019).

Growth Rates	<i>Time period</i>			
	1990–2000	2000–2015		2015–2019
Southern cone and Costa Rica ^a	8.9	8.2		0.3
Large and medium countries ^b	9.3	8.5		2.3
Small countries ^c	11.4	10.3		3.8
Unweighted average	9.9	9.3		2.7
% of GDP	1990	2000	2014	2019
Southern cone and Costa Rica ^a	20.1	22.3	26.5	27.0
Large and medium countries	14.2	14.0	17.5	17.6
Small countries	11.2	15.0	18.5	18.4
Unweighted average	14.9	17.5	21.5	22.1
OECD	31.1	33.3	33.2	33.8

Source: Prepared by the authors based on OECD et al., 2021.

Notes: ^a Includes Argentina, Brazil, Chile, Costa Rica, and Uruguay. ^b Includes Colombia, Mexico, and Peru. ^c Includes Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and Dominican Republic.

Tax structure follows a similar pattern. As can be seen in Table 2.8, there were some advances in the taxation of income and profit, which almost doubled its share of GDP. However, the main increase was due to taxation of companies, the less direct of direct forms of taxation. Despite this increase, the share of these taxes in the GDP does not even reach half of the OECD figures. Relative to total tax income, the share of taxes on income and profits increased by 7 percentage points, a notable result. The share of these taxes among large and medium-sized countries (Colombia, Mexico, and Peru) is striking, reaching similar levels to that of OECD countries. This is notable because it could lead one to believe that these countries have an advanced tax structure. However, at the same time, their tax revenue is still low relative to GDP. It is possible that these features are due to the large size of the informal sector in the economy, which does not allow for the collection of other kinds of indirect taxes.

Lastly, if we observe the breakdown of tax revenue in 2019 (Table 2.9), we can see the persistently large share of indirect taxes: 14 percentage points above the OECD average.

In some countries, significant qualitative changes took place. For instance, Viñales (2019) shows how, in 2007, Uruguay finally carried out a tax reform that introduced the personal income tax, replacing a diverse set of taxes and tax exemptions and resulting in greater horizontal and vertical equity.

Table 2.8 Income and profit taxes relative to total tax revenue (%), and total tax revenue relative to GDP (%) (1990–2019).

Income and profit taxes relative to total tax revenue (%)	Time period				
	1990	2000	2010	2018	2019
Southern Cone and Costa Rica ^a	2.6	3.9	5.6	6.4	6.4
Large and medium countries ^b	2.7	3.5	5.5	6.5	6.5
Small countries ^c	1.8	2.5	3.8	4.8	4.8
Latin America	3.1	3.2	4.6	5.6	5.6
OECD	11.8	11.7	10.4	11.5	s/d
Total tax revenue as % of GDP	1990	2000	2010	2018	2019
Southern Cone and Costa Rica ^a	12.3	17.6	22.4	24.4	24.4
Large and medium countries	23.2	26.1	34.3	37.9	37.6
Small countries	17.3	17.6	22.8	26.0	25.8
Latin America	20.8	20.4	25.0	27.6	27.5
OECD	37.2	34.5	32.6	34.3	s/d

Source: Prepared by the authors based on OECD et al., 2021.

Notes: ^a Includes Argentina, Brazil, Chile, Costa Rica, and Uruguay. ^b Includes Colombia, Mexico, and Peru. ^c Includes Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and Dominican Republic.

In summary, the latest economic cycle in Latin America, which in many countries coincided with populist or progressive governments, allowed for some progress in taxation and generated movement towards more modern taxation, but it did so in a procyclical manner, in a context of increasing rents from natural resources, while maintaining its principal long-term characteristics. It is possible to imagine that, had the expansive cycle lasted longer, these changes could have been consolidated. However, yet again, the economic cycle led to a new crisis. Although this crisis was not as profound as the one that occurred at the turn of the century, it was still very significant, slowed the aforementioned process, and led to radical political changes in many countries, such as Argentina, Brazil, Chile, and Uruguay, which took on more liberal-conservative positions. In fact, the positive changes in terms of income distribution took place during a short period of time and were quickly halted.

At the end of the cycle, Latin American economies were once again faced with a significant fiscal deficit and a growing external indebtedness. From the distributive point of view several important advances took place, although it was never certain whether they could be sustained over time or whether they depended on the economic situation (Bértola and Williamson, 2017). From a strictly fiscal point of view, Clifton et al. (2017) argues that between 1999 and 2012 both tax revenue and the structure of spending contributed to a reduction in inequality.

Table 2.9 Tax revenue structure (% of total tax).

	<i>Income and profit</i>	<i>Social security</i>	<i>Wages</i>	<i>Property</i>	<i>Goods and services</i>	<i>Other</i>	<i>Total</i>
Southern Cone and Costa Rica ^a	24.4	22.8	1.6	5.6	44.5	1.2	100
Large and medium countries ^b	37.3	11.9	1.3	4.4	42.4	2.5	100
Small countries ^c	25.7	21.3	0.6	1.9	48.8	1.7	100
Unweighted average	26.8	20.0	1.2	3.3	46.2	2.4	100
OECD	34.0	26.6	1.2	5.6	32.2	0.3	100

Source: Prepared by the authors based on OECD et al., 2021.

Notes: ^a Includes Argentina, Brazil, Chile, Costa Rica, and Uruguay. ^b Includes Colombia, Mexico, and Peru. ^c Includes Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and Dominican Republic.

Conclusion

This overview of the economic history of Latin America focused on the relation between patterns of development and taxation. It allows us to note the presence of certain structural characteristics that have persisted to the present day. This does not underestimate the significant historical changes that have taken place both within Latin America and in the relations between Latin America and the rest of the world.

Despite significant differences between the economies of the region, there are shared features between almost all the countries. First, the continent continues to have a productive structure and an international insertion that is based on what we could refer to as price competitiveness; that is to say, it is mainly based on access to natural resources and/or relatively cheap labor. This so-called structural heterogeneity has persisted until the present day.

Second, a strong concentration in the control of natural resources and the industries that process, trade, and finance them took place early on. These sectors have had a significant negotiation power vis-à-vis the states, which were born weak, and, despite what has been said to the contrary, have remained so. In addition, the states have acted without regional coordination, which also differentiates them from the large economic entities of more-developed countries. An important difference is found when the states have control of natural resources, opening up more opportunities for the appropriation and use of rents.

Third, in this context, the historically weak tax structures have strongly favored indirect taxes over direct taxes. Moreover, public spending has had a much less favorable distributive impact than in developed countries, and in some cases was even regressive.

Fourth, the characteristics of the productive structures, together with the state's weak management of external financial shocks, have meant that Latin American economies have been highly volatile and markedly cyclical, at the same time that fiscal policies have been strongly procyclical. Thus, strong fluctuations have gone hand in hand with diverse radical political changes, with advances and setbacks that threaten the stability of growth and institutional learning. In this context, the corporate pressures of powerful agents, in the face of a weak state, have contributed to inefficiency in the areas of tax collection and spending, and, on other occasions, have exacerbated the abrupt political changes.

Notes

- 1 Sanchez Santiró (2009) asks why a regime that prided itself on being liberal failed to carry out a modern tax reform and based the new state's fiscal system on the institutions of the Catholic Monarchy. Between 1824 and 1830, direct taxes contributed to only 17% of Mexico's tax revenue, while taxes from tobacco shops and others from domestic trade amounted to 59%. Between 1841 and 1844, indirect taxes still amounted to 53.4%, and direct taxes only accounted for 6.4%.

- 2 According to Lewis (1986), Bulmer-Thomas et al. (2007), and Bértola and Ocampo (2012), the manufacturing industry was clearly well established before 1930. Industrialization and urbanization were strongly linked from the last decades of the nineteenth century. As more people began migrating to cities, the labor supply for industry and services increased, as did the demand for consumer goods, which provided a growing internal market for industrial production.
- 3 According to data available in MOXLAD, the share of indirect taxes on goods and services amounted to almost 20% of the total central government's income in Uruguay in the 1970s, and reached values of 30% in Brazil and Venezuela. On the other hand, in Argentina and Colombia, the share remained around 10%.
- 4 By the 1930s, Uruguay had already increased indirect domestic tax rates on specific consumption goods (alcohol and tobacco) and on acts and transactions (stamps, stamped paper, and seals).
- 5 The external public debt of Argentina, Brazil, Chile, and Mexico steadily grew between 1970 and 1990, with its highest peaks occurring between 1987 and 1989 (Marichal, 2010). In 1982, the external debt of Brazil reached 87,000 million dollars, making it the most indebted developing country, followed by Mexico, which had an external debt of 81,000 million dollars (Marichal, 2014).
- 6 We can cite the petrol crisis in the 1970s, in addition to the fall of the Bretton Woods accords, the economic crisis of developed countries, and the spread of liberal policies.
- 7 This term was coined by John Williamson in 1989 (Williamson, 1990). It refers to the set of economic policies formulated by the US Congress and leading members of the US administration, international financial institutions, the US government's economic agencies, the Federal Reserve Board, and ideological think tanks.
- 8 In addition, tax incentive systems for different activities, sectors, or regions were prominent in the region – for example, free trade zone regimes (Lora, 2012).

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3 Fiscal revenues from hydrocarbons and minerals in Latin America

Challenges in an era of unprecedented decarbonization and growing digitalization

Juan Pablo Jiménez and Andrea Podestá

Introduction

The global and regional economic outlook is surrounded by significant uncertainty due to the dynamics and consequences of a series of extreme events such as Covid-19, climate change, and armed conflicts.

These extreme events arrived in Latin America at a time of heightened social conflict, due to growing public awareness of the significant economic inequalities and the low coverage and quality of public intervention in fundamental areas such as infrastructure, education, health, and social protection. Likewise, at the local and intermediate levels of government, large-scale environmental and distributive conflicts have emerged over the exploitation of natural resources, the control of environmental standards, and the allocation of the resulting fiscal revenues. In countries specializing in natural resources, the extractive industry and its tax and regulatory institutions have been at the center of the last two decades' economic, fiscal, and distributive debates (Damonte and Schorr, 2021).

In a context marked by the uncertainty that stems from the crisis and the social risks associated with its asymmetric impact on different sectors of the population, there is a broad consensus that in the immediate future a greater and better-quality public intervention will be needed. In the first instance, an increase in indebtedness was required to deal with the pandemic and the need for sustainable economic recovery. Still, shortly, governments will have to resort to increasing the tax burden if they wish to tackle post-pandemic recovery with a sustainable, inclusive, and environmentally friendly growth strategy.

This crisis generated significant fluctuations in the international prices of oil and minerals that countries in the region produce, which has created an additional challenge for managing fiscal policy. This volatility has affected not only the central levels of government, but also the sub-national governments of hydrocarbon and mineral-exporting countries that depend on this source of income to finance part of their spending and investment projects.

Against this backdrop and given a future with growing financial needs, coupled with structural factors that limit a greater mobilization of resources, fiscal policy debates have renewed their attention on the need to take advantage of the

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tax bases that have been historically underutilized and that have expanded considerably during the pandemic crisis. Therefore, the post-crisis context could provide a favorable opportunity to re-examine tax systems and tax bases in general and the fiscal instruments that are applied to the extractive sectors in particular.

In the process of creating a new fiscal institutional framework for the extractive industry, new challenges are added to the traditional ones posed by the volatility of commodity prices. These new challenges are associated with two processes that should go hand in hand: necessary decarbonization and the growing digitalization of the economy. This requires a separate examination of fiscal resources from hydrocarbons – whose use will decrease in the coming years – and from mining – whose demand and use in new technologies is growing.

Currently, the prices of raw materials are at high levels. However, in the medium and long term, countries will have to replace a significant drop in revenues from the exploitations of fossil fuels, as the global decarbonization process will entail a reduction or even the disappearance (stranded assets) of this exploitation, for there will be no international demand for it. Likewise, increasing digitalization significantly impacts the demand and prices of minerals that are intensively used in new technologies (such as copper, aluminum, magnesium, nickel, and iron ore). These two processes will affect countries specializing in hydrocarbons and those specializing in minerals differently.

It should also be noted that Latin America already had high levels of inequality prior to the pandemic, both between and within countries, reflected in individual and regional income levels, opportunities, and the provision of goods and services. The high inequality between regions is reflected in the fiscal sphere through differences in income, public spending, and access to financing, which underlie the capacity of sub-national governments (SNGs) to provide public goods and services.

Several factors cause this high level of structural regional income inequality, but above all the geographical concentration of non-renewable natural resources. In the Andean region, the ratio between the highest and lowest GDPs of the region exceeds 6:1, whereas in developed countries, this ratio rarely exceeds 3:1 (Brosio et al., 2018; CEPAL, 2017; Bone et al., 2016). The more prosperous SNGs and/or those with greater natural resources have buoyant tax bases that allow them to collect more of their own revenues or receive larger transfers from the exploitation of natural resources. When these fiscal resources are not adequately allocated and distributed, they tend to exacerbate the high structural regional inequality, and other economic imbalances between jurisdictions within the same country. This highlights the importance of the allocation of taxing powers and spending responsibilities and the distribution of fiscal revenues from hydrocarbons and minerals among the different levels of government.

In this context, this paper hypothesizes that the combined effects of inevitable decarbonization and gradual digitalization will significantly impact fiscal revenues and infrastructure spending in countries that specialize in these

commodities. This requires a disaggregated analysis of these effects and rethinking the current financial institutional framework.

For this reason, this paper first examines the characteristics of the fiscal instruments used by Latin American countries to appropriate rents generated by the exploitation of non-renewable natural resources. It differentiates between the cases of mining and hydrocarbon revenue. We subsequently analyze the allocation, distribution, and use of fiscal revenues across different levels of government and between producing and non-producing jurisdictions. The following section then provides an overview of the evolution and current situation of these kinds of fiscal revenues through different indicators, and their relationship with the hydrocarbon and mineral price cycles. Lastly, we make a series of policy recommendations aimed at reshaping and strengthening these fiscal regimes to make them compatible with the decarbonization and digitalization processes, while steering them towards a post-pandemic recovery and inclusive and environmentally sustainable growth.

Description of the fiscal instruments used to appropriate rents generated by the exploitation of non-renewable natural resources

The traditional literature on the taxation of non-renewable natural resources has tended to group all the fiscal instruments used in the extractive industry without differentiating between the hydrocarbon and mining sectors. In keeping with the objective and hypothesis of this paper, it is necessary to distinguish between the instruments used in each of these two sectors, taking into account the ways in which they diverge.

Hydrocarbon fiscal regimes

In Latin American countries that have significant hydrocarbon endowments, the most direct ways in which governments appropriate export revenues and transform them into fiscal resources have historically been through direct participation in hydrocarbon exploitation, either through state-owned public companies or by holding equity stakes (Hanni et al., 2018). These companies tend to be subject to a special tax regime, which may consist of rent or canon payments, additional taxes for public companies, or special taxes on oil production.

Furthermore, the region's countries have other mechanisms for state appropriation of rents, such as royalties, specific taxes, taxes on rents, and other levies. Royalties and taxes ensure that both these countries' national and sub-national governments receive a minimum payment from these resources.

All the countries analyzed (Argentina, Bolivia, Brazil, Colombia, Ecuador, Mexico, and Peru) have a type of hydrocarbon royalty that has the gross production value as taxable base (see Table 3.1). In general, variable rate scales are applied based on easily verifiable criteria, such as production levels, location

Table 3.1 Latin America (seven countries): fiscal regimes for hydrocarbons.

Country and product	Royalties (rates)	Income tax (general rate)	Other taxes on revenues (rates)	Other levies	Public participation
Argentina	12%–18%; 5% for marginal fields	Income tax: 35%		Export duties: hydrocarbons: 0%–8%, depending on the international price. Canon (annual fee per km ²)	YPF
Bolivia	Departmental royalties: 11% National compensatory royalties: 1% National royalties (National Treasury): 6%	Corporate income tax (IUE): 25%	Tax on profits – foreign beneficiaries: 12.5%	Direct tax on hydrocarbons (IDH): 32% Special tax on hydrocarbons and derivatives (IEHD) Patents: annual fee per hectare, depending on the phase.	YPFB
Brazil	5%–15% of the value of production	Income tax: 15%, plus a surcharge of 10% if profits are higher than R\$240,000 per year. Social contribution on net profit (CSLL): 9%.	Special contributions: 10%–40% on net income. Income tax –foreign beneficiaries: 15% (or 25% for payments to tax havens)	CIDE (contribution for intervention in the economic domain) – fuels, signing bonus, and area occupancy fee	PETROBRAS

Colombia	8%–25%	Corporate income tax: 31%	ANH economic rights; rights for high prices (30%–50%), and right for the use of the subsoil	ECOPETROL
Ecuador	12.5%–18.5% (of gross crude oil production)	Income tax: 25%	Sovereignty margin: 25% of the gross income of the contract area (in the event of a drop in the international price); Windfall tax (70%) Profit-sharing duty (PEMEX): 54%	PETROECUADOR
Mexico	Base royalty (contractors) / hydrocarbon extraction rights (PEMEX), on the value of hydrocarbons: Oil: 7.5%, if price is less than US\$48 per barrel; [(0.125*contractual price) + 1.5]% if price is greater than US\$48 per barrel Associated natural gas: (contractual price/100)% Non-associated natural gas: from 0% to (contractual price/100)% Additional royalty or compensation (for contractors, determined in each license)	Income tax: 30%	Contractors: signing bonus (only for licenses); contractual fee for the exploitation phase PEMEX: Hydrocarbon exploration and extraction rights Hydrocarbon exploration and extraction activities tax (contractors and PEMEX)	PEMEX
Peru	5%–25% of the production value at the wellhead	Income tax: 29.5%	Additional income tax on indirect distribution of profits: 5%	PETROPERU

Source: Prepared by the authors based on Gómez Sabaini et al. (2015) and official legislation.

and depth of the wells, type of resource extracted, or other variables related to cost structure. Mexico is an exception, as the base royalty rate depends on the price of the product and contractors pay an additional royalty or compensation specified in each license contract.

There is a wide range of rates for oil and gas royalties among the countries analyzed. Argentina, Brazil, and Peru have the lowest minimum rates of 5%; Colombia and Peru have the highest maximum rates of 25%. In Bolivia, the share obtained by the state reaches 50%: 32% from the direct tax on hydrocarbons (IDH) and 18% from departmental, compensatory, and national royalties.

Regarding the taxing power over royalties, in Argentina the hydrocarbon- and mineral-producing provinces have full power over royalties, although the national government establishes the general legal framework. By contrast, in the other countries, royalties are established and collected at the central government level and then distributed, in part, to the sub-national levels of government, as will be explained in the next section.

Moreover, in all of these countries, a traditional income tax is also applied, together with other levies on revenues or certain special taxes. For example, with respect to other taxes on revenues, in Brazil, concessionaires of oil- and natural gas-producing fields with a large volume of production and or/high profitability pay a special contribution that is calculated according to progressive rates (which vary according to the location of the field, the number of years of production, and the volume of production) on the net income, taking into account certain deductions (such as royalty payments, investments in exploration, operating costs, depreciation, and taxes).

Argentina's export taxes stand out among the other taxes applied in these countries. In 2020, Argentina lowered the withholding taxes applied to hydrocarbon exports.¹ As of May of that year, the rate for export duties if the price of a barrel is equal to or less than US\$45 is 0%, and 8% if it reaches a price of US\$60 or more. If the price is between US\$45 and US\$60, taxes are calculated according to a formula, resulting in rates that range from 0.53% if the price per barrel is US\$46, to 7.47% if the barrel reaches US\$59.

In addition to the aforementioned instruments, the fiscal systems applicable to hydrocarbons in these countries include other payments, generally annual, and calculated as an amount per hectare or per km². Depending on the country, they are called canons, patents, fees, duties, etc. Additionally, some countries (such as Brazil, Ecuador, and Mexico) have a signing bonus or entry premium that is charged at the beginning of the contract. In turn, in Mexico, both the contractors and the state-owned company PEMEX must pay a tax for the exploration and extraction of hydrocarbons, which is calculated according to the size of the area of exploitation and distinguishes between exploration and extraction phases.

On the other hand, given the high volatility of international crude oil prices, some countries, such as Argentina, Brazil, Colombia, and Ecuador, have also considered applying taxes, duties, participations, or contributions linked to prices or extraordinary windfall profits. Although there is wide heterogeneity

in this domain, the countries that introduced this type of fiscal instrument did so primarily during the price boom period (2003–2008),² as a clear response to the tremendous increase in the economic rents generated by this sector. These mechanisms only impact the producer when a certain threshold price level is reached. Their goal is to provide greater flexibility to fiscal regimes and ensure that the state receives more of the rents generated by the extractive industries, especially in periods when the rent is temporarily extraordinary (Gómez Sabaíni et al., 2015).

Mining activity fiscal regimes

Although in some countries in the region public companies participate directly in mining, the capture of resources by way of state-owned companies is less significant than in the oil and gas sector. Therefore, royalties, specific taxes, income tax, and other levies are particularly important in mining activity (see Table 3.2).

Regarding royalties and specific taxes on mining, some countries, such as Argentina, Bolivia, Colombia, and Ecuador, have the gross value of production as their taxable base. On the other hand, Chile's and Peru's mining royalties or specific taxes are levied on profits. In Brazil, the taxable base of the financial compensation for mineral exploitation (CFEM) is the gross sales revenue less sales taxes. In Mexico, a special mining tax is applied on the value of revenue less certain allowable deductions.

In some countries, different rates are determined according to the kind of mineral (such as in Bolivia, Brazil, Colombia, and Ecuador) or the scale of production (Chile, Colombia for coal mining, and Ecuador). In some cases, there is a progressive scale that takes into account the international price (Bolivia) or profit margins (Chile and Peru). In Mexico, in addition to the special mining tax (7.5%), an extraordinary tax (0.5%) is levied on the value of income derived from the sale of certain minerals (gold, silver, and platinum). Meanwhile, in Argentina, the National Mining Law does not establish different rates according to the type of mineral, nor does it consider different rates based on different scenarios of international prices of each mineral.

The rates of this instrument also vary among countries. The lowest minimum rates are between 0% and 1% (in Argentina, Bolivia, Brazil, Chile, Colombia, and Peru) and the highest maximum rates on the value of production or sales of minerals are of 8% and 12%, in Ecuador and Colombia respectively. The highest rates of operating profits are 12% in Peru and 14% in Chile.

As with hydrocarbons, mining activities in all countries in question are subject to income tax, other levies on revenues, and certain special taxes. For example, in periods when international prices are high, the mining sector in Bolivia pays an additional surcharge of 12.5% on top of the 25% established for the corporate income tax (IUE), bringing the total tax rate to 37.5%. Argentina also levies export duties on minerals, the rates of which are 3% and 8%.

Table 3.2 Latin America (eight countries): fiscal regimes on mining.

Country and product	Royalties (rates)	Tax on income (general rate)	Other taxes on revenues (rates)	Other levies	Public participation
Argentina	0%–3%	Income tax: 35%		Export duties: 3% and 8% Canon (annual fee per km ²)	
Bolivia	Sliding scale from 1% to 7% of gross value according to official quotation and type of mineral	Corporate income tax (IUE): 25%	Income tax – foreign beneficiaries: 12.5% Corporate income tax additional rate (AA–IUE): 12.5% in the case of favorable prices (except for mining cooperatives)	Mining patents: annual fee per grid (progressive during the exploitation stage)	COMIBOL
Brazil	CFEM: 1%–4% of the sales value, less taxes.	Income tax: 15%, plus a surcharge of 10% if profits are higher than R\$ 240,000 per year Social contribution on net profit (CSLL): 9%	Income tax – foreign beneficiaries: 15% (or 25% for payments to tax havens)	Annual fee per hectare (TAH)	
Chile	Specific tax on mining activity: sliding rates from 5% to 14% of the operating rents (rates of 0.5% to 4.5% for small projects)	Income tax: 27%	Tax on profit withdrawals or on remittances (35%) and on interest remittances (4%) Public companies: Special 40% income tax	Tax for financing the armed forces (Ley Reservada): 10% of CODELCO's copper export sales ^a Patents (annual fee per hectare)	CODELCO

Colombia	1%–12%	Corporate income tax: 31%	Surface canon
Ecuador	5%–8% for large-scale metal mining; 4% for medium-scale; and 3% for small-scale	Income tax: 25%	Labor tax: the state receives 12% of profit, except in the case of small-scale mining, where it receives 5% Mining patents: per hectare, (depending on the modality and phase) Mining concession fee: per hectare (according to the period of validity) Additional fee on non-productive concessions
Mexico	Special mining fee: 7.5% of net income (less allowable deductions) Extraordinary mining fee: 0.5% of income from sales of gold, silver, and platinum.	Income tax: 30%	ENAMI EP
Peru	1%–12%, calculated on the operating profit Special mining tax (IEM): 2%–8.4%, and Special mining levy (GEM): 4%–13.12% (calculated on the operating profit)	Income tax: 29.5% Additional income tax on indirect distribution of profits: 5%	Good standing fee (US\$3 per hectare)

Source: Prepared by the authors, based on Gómez Sabaini et al. (2015), and official legislation.

Notes:^a According to Law 13.196, 10% of returns on overseas sales of copper and byproducts must be transferred to the armed forces. In 2019, Law 21.174 was published. It repeals Law 13.196 but establishes that this tax will continue to be in effect for nine years and will then be reduced at a rate of 2.5% per year, becoming defunct as of 2033.

Mining companies, as oil companies, must make payments related to the surface of exploitation – such as canons, patents, fees, duties, etc. In Mexico, an additional mining fee is applied to mining concessions that have not carried out exploration or exploitation activities for two years, which, depending on the age of the settlement, consists of a payment of 50% or 100% of the maximum mining fee charged according to the surface area of the concession.

As noted by Gómez Sabañi et al. (2015), a recurring obstacle to the effective implementation of these instruments is related to the pre-existence of tax stability contracts or clauses granted by several countries in the region in the past decades to attract foreign investment. In some cases, these included excessively lax exploitation conditions.

For example, in Peru, reforms in the mining sector had to adapt to pre-existing tax stability agreements because these give rise to discriminatory treatment of new investments. In Peru, mining companies may have signed legal stability agreements (generally applicable to all private investors, including mining companies) and/or tax stability contracts under the General Mining Law, which is specific to the sector. When changes were introduced to strengthen the sector's taxation, the validity of these tax stability contracts made it necessary to create the special mining levy (GEM), specifically aimed at companies protected by stability contracts. In essence, this instrument has the same design as the special mining tax (IEM) – both are applied on a progressive scale according to the operating margin. However, their rates differ in order to make the effective burden equal to that of companies subject to the general taxation regime.³ Moreover, the GEM is not strictly a tax (in fact, it is a voluntary payment that only becomes enforceable if such companies sign a framework agreement with the government), as this would violate the rights granted through the tax stability contracts.

In the case of Chile, although the specific tax on mining activity (IEAM) came into effect on January 1, 2006, it was not mandatory for any of the large mining projects already in operation since they were all under the regime of tax invariability. Thus, regardless of the general application rates of this tax (currently between 5% and 14%), the ten big copper mining companies have been subject to a 4% rate between 2006 and 2009 (50% creditable against income tax in 2006 and 2007), rates in the range of 4% and 9% between 2010 and 2012, a rate of 4% between 2013 and 2017, and rates in the range of 5% and 14% through 2023.⁴

Policy for allocating fiscal resources

When examining the fiscal consequences of the exploitation of non-renewable resources, it is crucial to review the way in which each country allocates and distributes this mass of resources, which frequently leads to conflicts between different levels of government.

When the theoretical recommendations made by the specialized literature on the allocation of these revenues among different levels of government are

combined with what happens in each country, two policy directions emerge (Brosio and Jiménez, 2012; Gómez Sabaíni et al., 2015). These directions are primarily based on two principles: on the one hand, the producing region should take a share of the rents, even if only to compensate for the cost, and, on the other hand, the central government has the best instruments for taxing these resources. However, these policy directions do not provide a complete answer as to what should be the vertical allocation (between different levels of government) of these powers and resources, what should be the horizontal allocation (between various jurisdictions at the same level of government), nor whether and how sub-national governments should tax these sectors.

In practice, as well as in the design of the respective fiscal regimes, Latin American countries implement a wide variety of solutions for distributing hydrocarbon and mineral revenues, which are associated with different inter-governmental arrangements.

Despite this heterogeneity, it is possible to identify some general trends in the regional distribution of these resources, linked to each country's historical trajectories and specific social and political processes. Tax powers and the distribution of fiscal resources from extractive rents are asymmetrically allocated to producing regions or localities concerning non-producing ones (Brosio and Jiménez, 2015). There is also a scarcity of compensation mechanisms or equalization transfers for allocating resources to the latter (see Table 3.3).

In the case of Argentina, each hydrocarbon-producing province (such as Chubut, Mendoza, Neuquén, Río Negro, and Santa Cruz) collects its own royalties and has its own system for sharing them with its municipalities. Between 7% and 16% of the mass of resources coming from the hydrocarbon sector are distributed to municipalities, depending on the province. In some cases, the royalties only benefit the producing municipalities; in others, they are distributed to non-producing municipalities according to criteria such as population, salary per inhabitant, etc.⁵

The IDH (direct tax on hydrocarbons) in Bolivia is distributed as follows: 4% for hydrocarbon producing departments, 2% for non-producing departments, and if a producing department has a lower IDH income than a non-producing department, the General Treasury of the Nation (TGN) levels its income up to the maximum amount of a non-producing department. The remainder is distributed to the TGN, the indigenous and native population, peasant communities, municipalities, universities, armed forces, national police, and others. The resources received from the IDH must go towards education, health, and road sectors, economic development, and everything that contributes to generating sources of employment. In this country, 85% of collected mining royalties are distributed to the producing department, and 15% to the producing municipality. Of the 85% allocated to the producing departments, 10% must go towards mining prospecting and exploration activities in the respective department.

In Brazil, 10% of the resources collected from the CFEM are distributed to the administrative bodies of the Union (the central government in Brazil),

Table 3.3 Latin America (eight countries): legal frameworks that govern the distribution and allocation of fiscal revenues from the extractive sectors.

<i>Countries</i>	<i>Distributed revenues</i>	<i>Distribution to producing regions</i>	<i>Mechanisms for compensating other regions</i>
<i>A. Hydrocarbons</i>			
Argentina	Royalties	Yes (collected by the provinces)	No
Bolivia	Royalties and IDH (direct tax on hydrocarbons)	Yes	Yes
Brazil	Royalties	Yes	No
Colombia	Royalties	Yes	Yes
Ecuador	Royalties	Yes (minimal)	No
Mexico	All fiscal revenues	Yes	Yes ^a
Peru	Royalties, the Camisea Fund for Socioeconomic Development (Focam), and income tax (oil canon and gas canon)	Yes	No
<i>B. Mining</i>			
Argentina	Royalties	Yes (collected by the provinces)	No
Bolivia	Royalties	Yes	No
Brazil	Royalties (CFEM) ^b	Yes	No
Chile	Specific Tax on Mining Activity	No	No
Colombia	Royalties	Yes	Yes
Ecuador	Royalties	Yes	No
Mexico	All fiscal revenues	Yes ^c	No
Peru	Royalties, mining good standing fee, and income taxes (mining canon)	Yes	No

Source: Prepared by the authors based on Brosio et al. (2018), and official information.

Notes: ^a Access to fiscal resources through the Fiscal Coordination Law. ^b Financial compensation for the exploitation of minerals. ^c Includes both states and municipalities.

and the rest to the states, the Federal District, and the municipalities of the area where the mineral is exploited. These resources can be applied to projects that benefit the local community, such as infrastructure improvement, environmental quality, health, or education. Of the portion received by the Federal District, the states, and the producing municipalities, at least 20% must be allocated to activities related to economic diversification, sustainable mining development, and scientific and technological development.

The allocation of resources from the special taxes on large hydrocarbon exploitations is made according to the type of oil field, as follows: 50% goes to the Union, the Federal Government, or the Pre-Salt Social Fund, as appropriate; 40% goes to the producing states or those facing the producing continental shelf; and 10% to the producing or bordering municipalities, as appropriate.

A portion of the revenues from oil and natural gas royalties and from the special taxes should be allocated to public education, with priority given to elementary education, and to health.

Chile has been characterized by a high centralization of fiscal resources from mining exploitation. The Regional Investment and Reconversion Fund was only created during the 2010 reform. Its resources must be used to finance development projects of regional and municipal governments, and one-third must be allocated to the country's mining regions. However, the Ministry of Finance controls the Fund's resources, while the regional and central governments only establish the priorities for the investment projects.⁶

In Colombia, the General Royalties System (SGR), created in 2011, modified the distribution of royalty resources to favor all departments and municipalities in the country, rather than producers and ports. Then, as of January 1, 2021, direct allocations for producing departments and municipalities and ports were increased from 11% to 25%. Furthermore, 15% of royalty resources are earmarked for the poorest municipalities in the country, 34% are for regional investment projects, and the rest are for other allocations related to the environment, science, technology and innovation, savings for pension liabilities, and investment stabilization, among others. At least 5% of direct allocations must go towards educational infrastructure or projects that improve the coverage, permanence, and quality of public higher education. In addition, indigenous peoples, Black, Afro-Colombian, Raizal and Palenquero communities, and the Roma or Gypsy people are the direct beneficiaries of a percentage of the allocation for local investment.

In Ecuador, royalties from the exploitation of construction materials directly benefit the municipal governments. As for mining royalties, 60% must be allocated to productive and sustainable local development projects through municipal governments and parish councils. Where appropriate, 50% of this percentage must go to the governing bodies of the indigenous communities and/or territorial districts. The distribution of these resources must prioritize the needs of the communities in areas directly affected by mining activity.

In Mexico, the resources collected from the tax on hydrocarbon exploration and extraction activities are allocated to the Fund for the Hydrocarbon Producing States and Municipalities, 100% of which is allocated to the producing state, which in turn must distribute at least 20% to the producing municipalities. All of the resources must be invested in infrastructure that compensates for the effects on the social and ecological environment, among other purposes. Concerning the funds collected from mining royalties (special, extraordinary, and additional), these may only be used in activities that improve the

conditions of educational centers and health services, as well as for capital investment that has a social, environmental, and urban development impact.

In Peru, only the sub-national governments in regions where natural resources are exploited receive tax revenues through the mining canon, gas canon,⁷ oil canon and surcharge, and mining royalties. The mining canon is comprised of 50% of the corporate income tax paid by mining companies. It is distributed to regional and local governments of producing areas (10% to district municipalities, 25% to provincial municipalities, 40% to departments, and 25% to regional governments, which must transfer 20% to the national universities in their jurisdiction). Sub-national governments located in the departments of Loreto, Ucayali, Piura, Tumbes, and Puerto Inca receive transfers from the oil canon and surcharge that benefit regional and local governments, national universities, state higher education institutions, and the Peruvian Amazon research institute.⁸ The resources from the canon and royalties must be used to finance investment projects that provide universal-access public services that generate community benefits.

Beyond each country's particularities and the instruments used to capture extractive revenues, asymmetric allocation occurs in several countries in the region. For example, royalties, which are the basis for the allocation of part of the extractive rent to sub-national governments, are collected solely for the benefit of the producing provinces in the case of Argentina, while in Bolivia and Brazil, royalty revenues are allocated in their entirety to the regions where the natural resource is found. In Peru, through the mining and gas canon, the producing sub-national governments receive, in addition to royalties, 50% of the corporate income tax paid by the producing companies.

The asymmetric allocation, that is, greater allocation and/or distribution to producing jurisdictions than non-producing territories, consolidates and amplifies territorial disparities in some cases. This asymmetric allocation, coupled with the lack of equalizing transfers, means that the significant concentration of regional GDP is also expressed in a high concentration of tax revenues in the countries of the region. According to the available evidence, the fiscal revenues that show the highest degree of concentration are those related to the exploitation of minerals and hydrocarbons. This is also seen through indicators derived from the Gini coefficient that capture the relative share of income sources on sub-national fiscal revenue inequality, as one can note a high share of fiscal revenues from hydrocarbons and minerals in sub-national fiscal revenue inequality (Brosio et al., 2018).

The high impact that resource allocation at different levels of government has on inequality makes it important to consider the design of equalization transfers as an alternative to improve inter-jurisdictional equity (Searle, 2007), particularly in Latin America.

In this respect, Brosio and Jiménez (2015) and Brosio et al. (2018) – taking as a reference the theoretical principles of interregional fiscal equalization – review the high impact of natural resource exploitation on the territorial distribution of income and the effect of implementing equalization systems, which include

tax revenues from natural resources, at the level of intermediate governments in Argentina, Bolivia, and Peru. Territorial inequality decreases significantly in all three cases if these revenues are distributed with equalization mechanisms.

On the other hand, concerning the use of fiscal resources from the extractive sector by sub-national governments (Gómez Sabaíni et al., 2015; CEPAL, 2014), there is a prioritization towards capital spending rather than current spending, which is generally established through specific provisions in the current legislation (Colombia, Ecuador, and Peru). In some cases, legislation even indicates the specific sectors to which decentralized resources are allocated. However, there is a propensity to spend them in the present, with a weak commitment to their financial management through funds for savings, stabilization, or intergenerational equity purposes, although these mechanisms have multiplied in recent times, mainly at the central government level.⁹

Overview of fiscal revenues from hydrocarbons and minerals in Latin America and their allocation

The trends in fiscal revenues from the exploitation of hydrocarbons and mining in the region's countries have been strongly influenced by the cycle of international crude oil, mineral, and metal prices (Figure 3.1).

The rapid growth of developing countries, particularly China and other Asian economies that drove international demand for the raw materials produced by the region, resulted in a boom in these prices between 2003 and 2008. This led to a significant increase in fiscal revenues generated by the exploitation of non-renewable resources. The appropriation of rents by the government was also reinforced by reforms in the fiscal regimes applied to these sectors in order to guarantee an appropriate capture of these revenues.

The upward cycle of international prices was abruptly interrupted by the global financial crisis of 2008–2009, which generated a drop in tax revenues from the exploitation of these resources. After the crisis, there was a significant recovery in prices and in the collected revenues, which lasted until approximately 2012. Thus, between 2011 and 2012, the eight countries in question collected, in total, US\$126 billion per year in revenues from hydrocarbon extraction, and around US\$23 billion per year from mining. At the beginning of the century, the collective revenues for this set of countries amounted to about US\$29 billion and US\$1.2 billion respectively; after the reforms and increases in international prices they grew 4 and 19 times respectively.

Hydrocarbons mining

However, from 2013 onwards, the global economy showed a slowdown, particularly from lower growth and investment rates in China, which resulted in a rapid decline in prices and tax revenues until 2016. Then, in 2017 and 2018, conditions in international prices improved, allowing for a rebound in fiscal revenues from the extractive industries, although these remain well below the levels reached at the beginning of the decade.

The evolutions of international oil prices and mineral prices were relatively similar until 2018, as illustrated in Figure 3.1. However, as of 2019, they diverge, with oil prices showing a downward trend and the price index for minerals showing an upward trend.

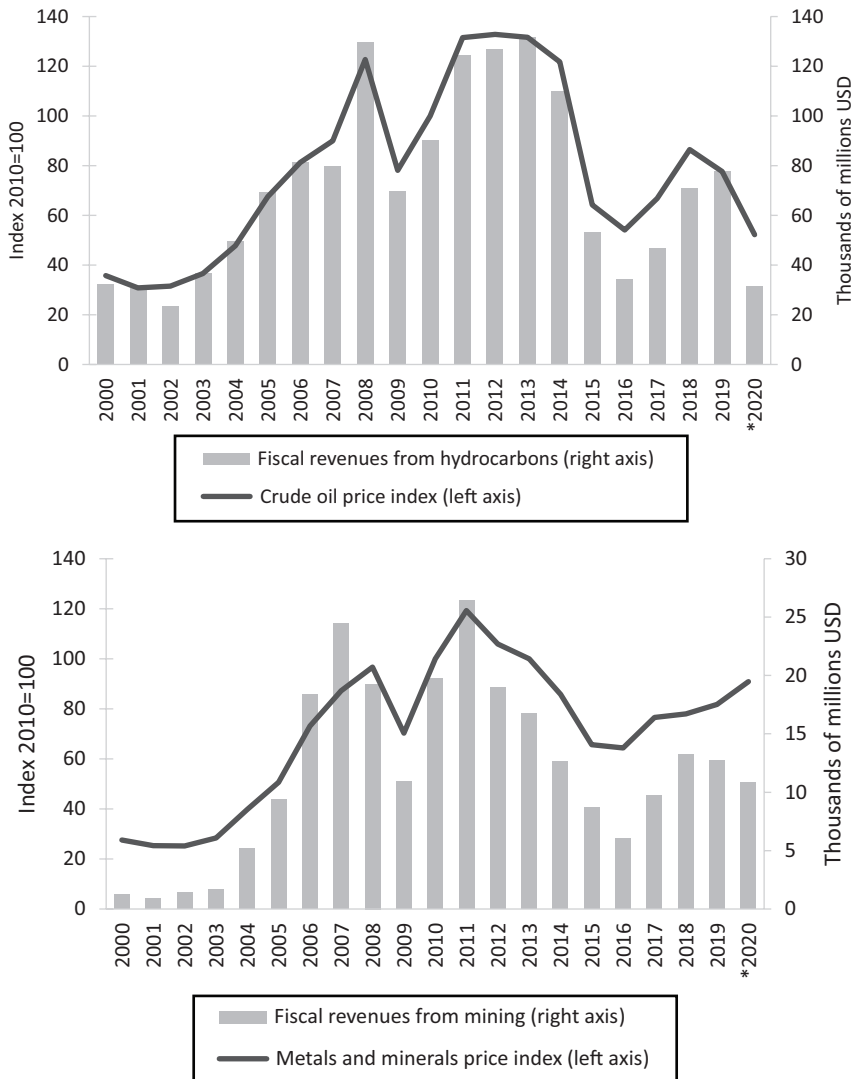


Figure 3.1 Latin America (8 countries): fiscal revenues from hydrocarbons and mining, and international prices – in thousands of millions of dollars, with base year of 2010 = 100. Note: *The fiscal revenues in 2020 correspond to our own estimation based on official information of the countries. (Source: Prepared by the authors based on CEPAL.)

In 2019, one notes unfavorable conditions in the global economy, which became further accentuated towards 2020 with the economic debacle caused by the Covid-19 pandemic. The significant contraction in demand, primarily in advanced economies, provoked a sharp drop in crude oil prices and a resulting contraction in fiscal resources from hydrocarbons. In contrast, international mineral and metal prices recovered quickly after an initial decline, thanks to China's acceleration of industrial production.¹⁰ However, fiscal revenues from mining also suffered a drop in 2020 due to lockdown measures and the stoppage of mining activities, which contributed to lower production.

When fiscal revenues from non-renewable natural resources are calculated as a share of GDP, the evolution in the last two decades is similar to that described above (Figure 3.2). At the beginning of the century, these revenues reached, on average for the 8 countries analyzed, 2.7% of GDP, then reached a level of 6.8% of GDP in 2008, before falling during the global financial crisis of 2009 and then recovering to reach 6.6% of GDP in 2011. Since the collapse of the crude oil price in the second half of 2014, there has been a significant drop in the revenues related to these commodities, reaching 2.2% of GDP in 2016. Although there was a slight recovery until 2018, in 2019 and 2020 the revenues contracted again, falling back to 2016 levels. Most of the contraction in these public revenues can be explained by the decrease in revenues generated by the exploitation of hydrocarbons, since the reduction of resources coming from mining has been of a lesser magnitude.

Although these regional trends are also observed when analyzing data for each country, the significance of these resources relative to the size of the economy

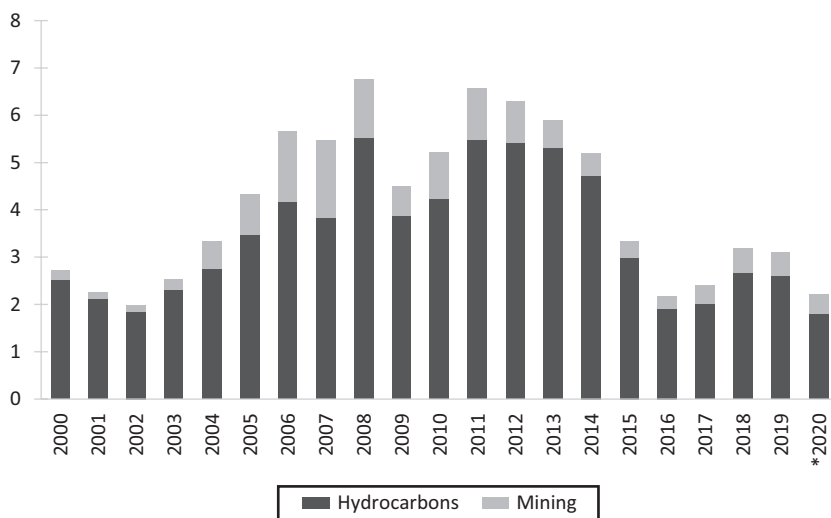


Figure 3.2 Latin America (8 countries): fiscal revenues from the exploitation of non-renewable resources, by commodity, as percentage of GDP (2000–2020). Note: *The fiscal revenues in 2020 correspond to our own estimation based on the official information of the countries. (Source: Prepared by the authors based on CEPAL.)

varies in each case (Figure 3.3A). Furthermore, in Bolivia, Colombia, Ecuador, and Mexico, the relative share of hydrocarbon revenues is significant, whereas in Chile and Peru, fiscal revenues generated by mining are predominant.

Hydrocarbons as percentage of GDP (2000–2019)

The volatility of international commodity prices impacts revenue collection and fiscal policy management in these countries, where fiscal resources originating from the extractive sector have constituted a greater share of total revenues during the price boom period. On average, from 2011 to 2013, fiscal revenues from non-renewable natural resources accounted for almost 25% or more of total revenues in Bolivia, Ecuador, and Mexico, and close to 15% in Chile, Colombia, and Peru; in contrast, in Argentina and Brazil, they represented a smaller share. However, in recent years the relative share of this source of income has seen a marked decline (Figure 3.3B).

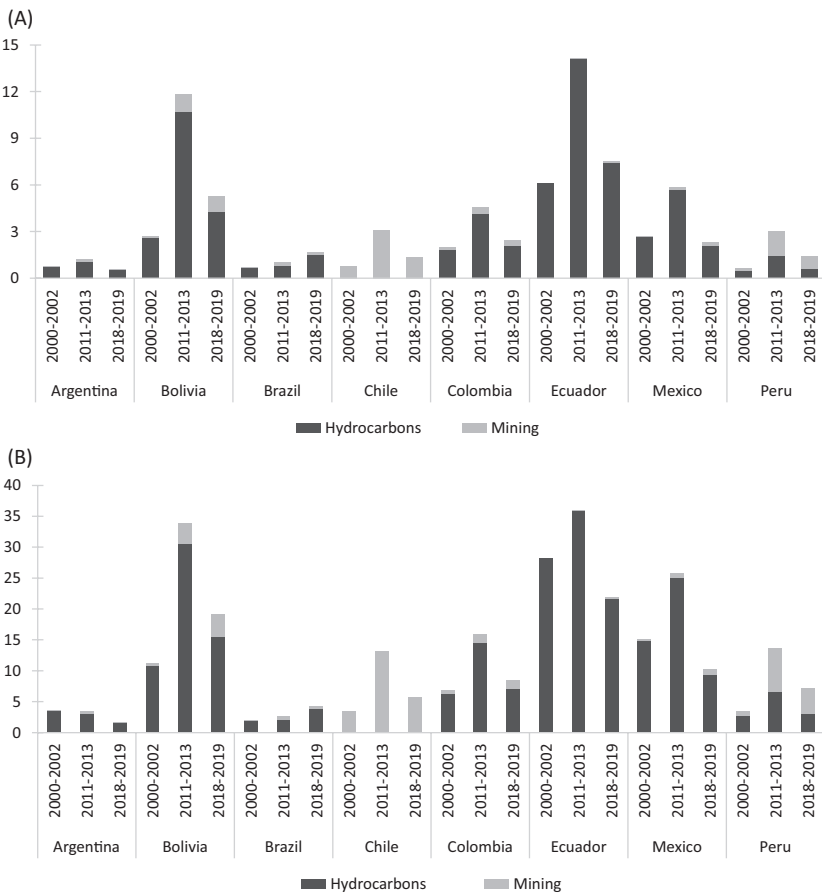


Figure 3.3 Latin America (8 countries): fiscal revenues from the exploitation of non-renewable resources, by country and commodity. (Source: Prepared by the authors based on CEPAL.)

As explained in section 2, there are different fiscal regimes for the appropriation of rents generated by mining and hydrocarbon activities, which results in different revenue structures in these sectors in the countries analyzed (Figure 3.4). As for hydrocarbon exploitation, more than 75% of revenues are obtained from non-tax instruments, mainly royalties or rents from state-owned companies (such as Yacimientos Petrolíferos Fiscales Bolivianos (YPFB), Petrobras, Ecopetrol, Petroecuador, Pemex, or PetroPerú) or through production contracts with private companies. In contrast, tax instruments, such as corporate income taxes for oil companies, are of relatively less importance.

On the contrary, the mining sector mainly consists of private companies, so the tax regime is primarily based on corporate income tax and royalties. Thus, the share of tax revenues is higher than that observed in the revenue structure of the hydrocarbon sector. In Argentina, Bolivia, Brazil, Chile, Mexico, and Peru, tax revenues such as corporate income taxes accounted for 60% or more of the sector's total revenues in 2019, while in Colombia and Ecuador, around a third of the fiscal revenues generated by the mining sector come from this kind of tax instrument.

Furthermore, the fiscal resources received by sub-national governments of these countries are also sensitive to the volatility of commodity prices, given that part of their revenues are from royalties and transfers of rents from hydrocarbons and minerals, coming from the central government.

The sub-national governments of Bolivia and Peru are the ones that receive the greatest amounts of fiscal resources from the exploitation of hydrocarbons and minerals. In Bolivia, the departmental governments' revenues from

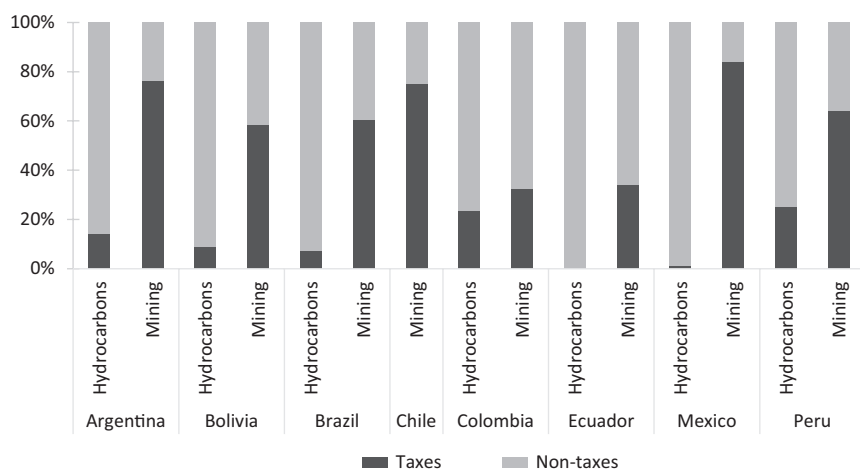


Figure 3.4 Latin America (8 countries): structure of the fiscal revenues from the exploitation of non-renewable natural resources, by type of instrument – percentages (2019). (Source: Prepared by the authors based on CEPAL.)

hydrocarbon royalties and from the IDH reached 1% of GDP, accounting for 46% of their total revenues. However, in periods of international price booms, these indicators have exceeded 4% of GDP and accounted for two-thirds of the total departmental revenues. The local governments in Bolivia depend less on revenues from hydrocarbons: in 2019, their share in the total municipal revenues was 10%, which amounted to 0.7% of GDP (Table 3.4).

In the case of local governments in Peru, the revenues from transfers generated by the exploitation of minerals, petrol, and gas totaled 0.6% of GDP in 2020, representing 19% of the total revenues at this level of government, where the significance of the mining canon and royalties stand out. However, in the price bonanza cycle, these resources reached a peak of 1.6% of GDP and represented 46% of the total revenues. At the regional government level, these revenues are less significant relative to both GDP and to the total revenues.

The fiscal revenues from non-renewable resources received by the sub-national governments of Argentina, Brazil, Colombia, and Ecuador in 2020 were between 0.2% and 0.3% of GDP, and they accounted for 2% to 6% of the total fiscal revenues at this level of government. Meanwhile, in Mexico, these indicators are significantly lower. In periods of more favorable global conditions, these indicators have increased for the sub-national governments of this group of countries. Of note are the highs reached by Colombia's departmental governments in 2014: after the SGR was completely functional, these resources reached 1.1% of GDP and represented 28% of the total resources.

As analyzed in the previous section, the sub-national governments of the region are generally supposed to allocate part of their revenues from the exploitation of non-renewable natural resources to the financing of infrastructure investment. Therefore, a significant correlation between fiscal revenues from extractive activities and public investment in infrastructure can be seen (Figure 3.5).

Thus, the evolution of the prices of hydrocarbons and minerals has an impact not only on the volatility of fiscal revenues but also on the execution of public investment projects in infrastructure at the sub-national levels of government, with a subsequent impact on economic activity, employment, and revenue collection levels. During a commodity boom period, there is an increase in public investment spending by sub-national governments, which can be explained by a confluence of three factors: a growing reallocation of spending responsibilities (including infrastructure responsibilities) to the sub-national level; increased revenues from the exploitation of natural resources; and growth in earmarked transfers. However, at the bottom of the cycle, when the prices fall drastically, so does the sub-national government's infrastructure investment spending (Figure 3.6).

Therefore, taking into account the importance of investment and infrastructure spending as a driver of economic growth, the participation of sub-national governments in this type of spending requires an improved analysis of the factors that determine its evolution, as well as strengthening financing mechanisms and evaluations of the quality of the investment.

Table 3.4 Latin America (seven countries): fiscal revenues from non-renewable natural resources received by sub-national governments – percentage of GDP and of total revenues (2000–2020).

Country	Government level	Sector or instrument	2000–2002		2006–2008		2011–2013		2019–2020	
			% GDP	% total revenue	% GDP	% total revenue	% GDP	% total revenue	% GDP	% total revenue
Argentina	Provinces	Royalties	0.4	4%	0.6	5%	0.4	3%	0.3	2%
	Departments	Hydrocarbons	0.8	30%	3.6	70%	3.0	71%	1.0	46%
	Municipalities	Hydrocarbons	1.6	22%	2.2	27%	0.7	10%	0.7	10%
Brazil	States	Royalties	–	–	0.3	2%	0.2	2%	0.3	2%
	Municipalities	Royalties	–	–	0.2	3%	0.2	2%	0.2	3%
Colombia	Departments	Royalties	0.4	11%	0.5	14%	0.6	17%	0.2	6%
	Municipalities	Royalties	0.2	4%	0.3	5%	0.4	6%	0.3	4%
Ecuador	GADs	Oil	–	–	–	–	0.2	4%	0.2	4%
	(decentralized autonomous governments)									
Mexico	States	Hydrocarbons	–	–	0.03	0.3%	0.03	0.3%	0.02	0.3%
	Regional governments	Hydrocarbons	–	–	0.2	5%	0.2	6%	0.1	2%
Peru	Local governments	Mining	–	–	0.3	9%	0.2	6%	0.1	4%
		Hydrocarbons	–	–	0.3	9%	0.5	14%	0.2	6%
	Local governments	Mining	–	–	1.0	28%	0.7	20%	0.4	14%

Source: Prepared by the authors based on official information.

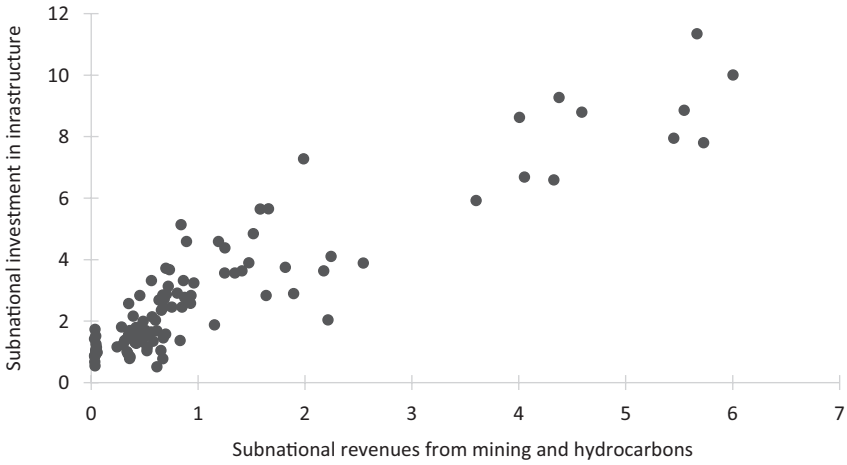


Figure 3.5 Latin America (6 countries): sub-national fiscal revenues from extractive activities vs. sub-national public investment in infrastructure, as percentage of GDP (2000–2020). (Source: Prepared by the authors based on official information.)

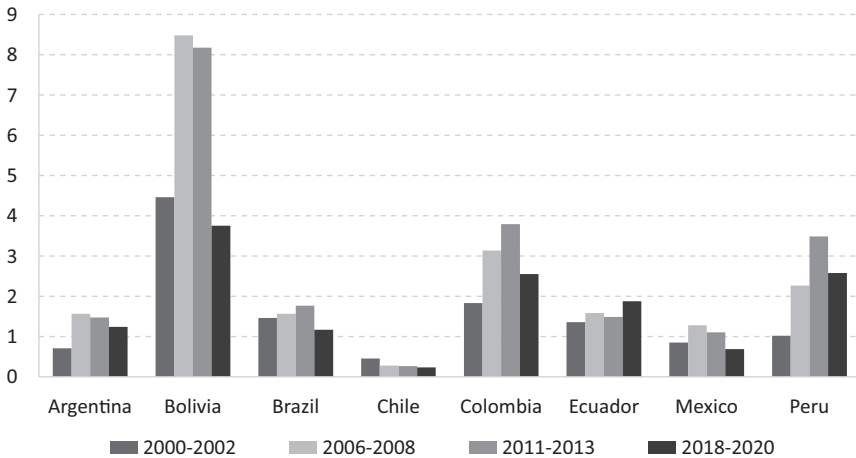


Figure 3.6 Latin America (8 countries): sub-national public investment in infrastructure as percentage of GDP (2000–2020). (Source: Prepared by the authors based on official information.)

Conclusions, challenges, and recommendations

In the last decades, the economies that are highly specialized in natural resources have faced the challenge of designing tax regimes that balance two priorities: the need for a flow of public revenues that captures the sector's economic rents and contributes to closing fiscal gaps, and the need to guarantee the sustainability of investment and production. This also entails finding a balance between the need for fiscal revenues and the rest of the usual tax criteria, such as efficiency, progressivity, equity, stability, and flexibility. In addition, the high volatility of international commodity prices translates into great variability in the procurement of public resources, which complicates the management of public policy and leads to problems of fiscal sustainability.

Despite efforts to diversify production, some Latin American countries are characterized by high specialization in products from the extractive sector. This trait, added to the highly volatile prices of these goods, has led to strong fluctuations in fiscal revenues, at both the central and sub-national government levels.

In recent years, these usual challenges have been compounded by the need to attend, in the medium term, to the growing divergence between the evolution of revenues from the exploitation of fossil fuels, which will sharply decrease due to the inevitable process of decarbonization, and those generated by minerals that are intensively used in the adoption of digital technologies, and which have seen their demand increase.

This new context means that not only is there a decreased fiscal relevance of hydrocarbon revenues in the medium term but also a necessary rethinking of the objectives to follow and the tools to use in order to prioritize both fiscal outcomes and sustainable investment and production in the sector. Thus, while in the boom period, governments sought to increase the fiscal pressure on the sector and its share of the generated economic rents, as the prices began to fall, these efforts slowed or were even reversed as governments sought to protect production and investment.

Against this background, it is of vital importance to strengthen fiscal institutions so that governments, both central and sub-national, have a strategy that will help confront the effects of the pandemic, digitalization, and decarbonization. It is vital that the new fiscal institutional framework for the extractive sectors differentiate its treatments and analyses for hydrocarbons and mining, addressing their divergent trends and establishing a foundation for adequate management of resources, diversified revenues, and the sustainability of public finances. On the other hand, although higher fiscal revenues from mining and hydrocarbons received by sub-national governments facilitated a greater decentralization of infrastructure spending in recent years, this also meant a high concentration of revenues in producing jurisdictions and significant volatility of these resources.

Thus, when it comes to the allocation and distribution of these revenues, the challenges are related to avoiding the high concentration and significant volatility of these resources. To this end, it is important to review extremely

asymmetric allocations of fiscal revenues from the exploitation of non-renewable natural resources. If these allocations promote a high concentration of revenues, the design of equalization transfers that compensate for the resulting different capacities can be of great help.

The high volatility of these resources may require instruments that help attenuate their variability, particularly at the local and intermediate levels of government. There are different ways to reduce this variability and its impact on the equity and efficiency of sub-national budgets (Jiménez and Ter Minassian, 2016). A first and more ambitious one could be for sub-national governments that receive revenues from hydrocarbons and mining to accumulate stabilization funds in order to soften the impact of the price cycles of these resources. The rules for the accumulation and use of these funds would have to be clearly specified and their compliance monitored by an intergovernmental body. However, we recognize the political and institutional difficulties of implementing this type of fund at the sub-national level in the region. A simpler and less ambitious approach would be to use transfers based on moving averages of effective values, which would mitigate the volatility of transfers over the course of the cycle.

The increasing decentralization of infrastructure investment, especially in the countries that decentralized their revenues from natural resources, reinforces the need to avoid strong adjustments in this spending at the sub-national government level. This is especially important in times of high volatility of commodity prices, given the desirability of ensuring public investment as a bridge towards future growth. The current context represents an opportunity for the countries of the region to lay the foundations for post-pandemic recovery with investments that will drive sustainable growth. Hence, it is important to align the mechanisms for extracting rents and allocating and distributing the fiscal revenues from the extractive industry with the new fiscal framework (generally expressed through fiscal rules), so as to support public investment at a sub-national level as a key tool for sustainable growth.

Notes

1 Decree No. 488/2020.

2 In the boom period, the reforms aimed at ensuring public ownership and control of hydrocarbons included measures such as the nationalization of hydrocarbons in Bolivia (2006), the renegotiation of oil contracts in Ecuador (2010), and compensated expropriation of 51% of the Yacimientos Petrolíferos Fiscales (YPF) shares in Argentina (2012). In 2010, private oil companies operating in Ecuador had to change their participation contracts to service providing contracts. However, the new Regulation of Hydrocarbons Law (Reglamento de la Ley de Hidrocarburos) of February 2022 granted a deadline (until April 11 of that year) for companies to voluntarily request to migrate the Specific Services Contracts they held with the Ecuadorian state to Participation Contracts, through which they receive part of the oil production to compensate for their investments.

- 3 The marginal rates of the special mining tax (IEM) range from 2% to 8.4%, and those of the special mining levy (GEM) range from 4% to 13.12%.
- 4 For more details, see Jorratt (2021).
- 5 For more details, see <https://mase.lmneuquen.com/regalias/como-reparten-las-regalias-cada-provincia-petrolera-n817805>.
- 6 See Paved Bonilla (2019).
- 7 Comprised of 50% of the income tax, 50% of royalties, and 50% of the state's contribution to service contracts for the exploitation of natural gas and condensates.
- 8 12.5% of the value of production obtained by the state from the exploitation of oil, associated natural gas, and condensates in the aforementioned department; paid with royalties derived from their exploitation.
- 9 Currently, nine instruments of this kind exist in the following countries in the region: Brazil, Chile (2), Colombia, Mexico, Panama, Peru, Trinidad and Tobago, and Venezuela. For more details, see Rossignolo (2015). At the sub-national government level, the province of Neuquén in Argentina has created an anticyclical fund: the Stabilization Fund of Neuquén (FODEN) that came into effect on January 1, 2022, and is comprised of revenues generated by royalties from oil and gas exported from the Vaca Muerta Field.
- 10 For more details, see OECD/CEPAL/CIAT/BID, 2021.

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4 The political economy of mobilizing tax resources in Bolivia

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Introduction

At the onset of the new decade, Bolivia faced the Covid-19 pandemic in the midst of an unfriendly and uncertain international climate on top of internal financial and institutional difficulties. Since late 2020, the new government has reinstated its expansionary fiscal policy adopted in 2006, and guided efforts towards economic recovery grounded in boosting public spending.¹

After eight years of fiscal surplus, public finances suffered a shortfall in 2014 (−3.4% GDP) and then continued to plummet: in 2020, it dropped to −12% of GDP and −5.9% of the current account deficit.² At the same time, economic activity slowed down and, in 2020, the economy contracted by −8.8%, reflecting the severity of the crisis, in large part caused by containment measures against the Covid-19 pandemic and a rollback of the tax incentives that were at the heart of the economic model in effect between 2006 and 2019.³ Since 2015, principally due to a fall in international gas and oil prices and the subsequent contraction of the tax revenue of hydrocarbons, the fiscal space shrank, affecting the state on a central level as well as on the level of the Autonomous Departmental and Municipal Governments.

This chapter analyzes the principal tensions of the political economy of the tax reforms adopted in Bolivia in the context of dependency on hydrocarbon rents and at a moment of contraction of the fiscal space. The Bolivian tax system's structure will be described, as well as the importance of hydrocarbon rents in the public sector's revenue and its redistributive bent. Through the identification of sectoral actors and interests, the chapter also explores the political possibilities and limits of tax policy options geared towards increasing effectiveness and progressivity in tax collection. What is the structure of public revenue generation in the presence of extractive sectors? What economic interests are at play with regard to the different tax collection options? What are the main tensions in the political economy presented by tax reform processes? And what are the possible progressive and sustainable alternatives that would lead to greater tax revenues?

To guide this discussion, this chapter draws on references from different studies that address the political economy of tax reforms in Latin America. It probes

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the extent to which the economic context, institutions, cultural and ideological features, and the relations between state and society can reshape the direction of the reforms (Gomez Sabaini and O'Farrell, 2009). Additionally, a discussion is presented on the situation of natural resource dependence, which assumes that rents from these resources reduce the need to levy taxes and also encourage corruption and rent-seeking behavior (Di John, 2006). Finally, state–society relations are explored from the perspective of tax morale, a concept which is based on citizens' perception of how fair the tax system is and the connection between tax payment and the public goods and services provided by the state (Levi, 1988).

The chapter is organized in three parts: the first analyzes the historical context of the abundance of natural resources in the country, describing attempts and milestones in tax reform between 1986 and 2005 in dialogue with certain theoretical concepts and explanations of the political economy of tax reforms. The second analyzes the composition of tax revenues, including rents from gas during the 2006–2020 period under the Economic, Social, Communitarian, Productive Model (MESCP, acronym in Bolivia). The third section analyzes tax reforms' scope and restrictions with support from interviews with key informants.⁴

Tax reform and the curse (blessing) of natural resources in Bolivia (1986–2006)

One characteristic of the financing of the Bolivian state is a dependency on natural resources and on the corresponding conditions for generating public revenue. This dependency dates back to rubber extraction and silver mining at the end of the nineteenth century and the tin cycle from the early to mid-twentieth century (BCB, 2005), and, later, is continued with hydrocarbon extraction.⁵ One of the consequences of natural resource dependence is that it led to the scant institutional development of the Bolivian tax system (PNUD, 2007).

A study of five economies, including Bolivia's, suggests that an abundance of natural resources does not necessarily lead to fiscal dependency, given that other elements like external shocks, the expansion of extractive sectors, political decisions to impose more taxes on natural resources, as well as negotiations between political groups also exert an influence (Peres-Cajias et al., 2022). Other views, like Radhuber's (2014), recognize that the importance of natural and strategic resources causes states, in addition to collecting taxes, to have a notable redistributive function. Naturally, the redistributive function of public finances is defined in the political field as a point of connection between the state and society. According to this understanding, a negative relationship between revenues from natural resources, fiscal capacity, and political institutions could be counteracted by well-functioning institutions based on transparency and accountability to the public (Masi et al., 2018).

In this section, we explore four crucial moments of tax reforms and attempted tax reforms in Bolivia, contributing to an understanding of the

political economy tax reforms in the country at different political, social, and economic moments.

An important moment for the tax structure in Bolivia came with the tax reform stipulated by Law 843 in 1986. In the early 1980s, the nascent Bolivian democracy faced a severe crisis that manifested in a contraction in economic activity for five consecutive years, a non-financial public sector deficit close to 14% of GDP (−25% in 1984) and inflation that reached 11,750% in 1985 (UDAPE, n.d.). These outcomes eroded the purchasing power of income, generated losses in assets, and nearly destroyed the economy's price system (Mann, 1989). In 1985, the new government, which took over following snap elections, approved a stabilization plan that contained fiscal measures (hydrocarbon price adjustments), exchanges (a real and flexible exchange rate regime with a flotation mechanism), labor measures (the rejection of wage increases, abrogation of job security, and establishment of free contracting), foreign trade (freedom to import and export, establishing importation rights and eliminating protectionist measures), and financial measures (authorization given to banks to make deposits in domestic and foreign currency), which changed the economic prospects of economic agents (BCB, 2005).

While this measure proved effective for reducing the inflation rate, the fiscal measures were reinforced with the implementation of a structural adjustment program supported by international agencies. In 1986, Law 843 of the Tax Reform was introduced with the aim of reversing the fall of the internal tax revenue which had fallen below 1% of GDP in 1984 as well as in order to improve the rest of tax revenues through widening the tax base, applying the principle of universality, and simplifying the system to avoid evasion. It was a comprehensive reform that was configured based on a value added tax (VAT) with a uniform 10% rate (years later it was adjusted to 13%), a complementary regime to the VAT applied to revenue sources with the possibility of deducting VAT payments, a 1% tax on the gross value of transactions, and taxes on luxury goods. Furthermore, presumed taxes on revenue were introduced on 2% of companies' net wealth, a tax on land ownership, and taxes on real estate and vehicles with variable rates (these last two features now fall under the authority of the municipal governments). Finally, an estate and donations tax was established at a basic rate of 1% (Mann, 1989) (Ley 843 de Reforma Tributaria, 1986).

This reform was carried out by a government that was geared towards the interests of business elites and supported by international entities. It also involved using political pacts and power to face down opposition from workers' organizations that, in a popular referendum (of 1.4 million people), resulted in a near total rejection of this reform (Ramos Sanchez, 1986). Despite this fact, the stabilization measure and the tax reform arranged public finances and established the foundations for modernizing tax collection activities. The reform, which was comprehensive in nature and called for the creation of different taxpayer regimes,⁶ was put into effect despite political tensions, siding with arguments for the viability of tax reforms in times of (intense) crisis, as well as

with Mahon's hypothesis (1997) on the importance of international pressure to attain tax reforms in the region in the 1980s and 1990s.⁷

In the early twenty-first century, nearly two decades after this reform was passed, tax revenues were not sufficient to finance the growing needs of the population in terms of access to basic services, education, health, and a way out of poverty. These needs were marginally alleviated by means of the financing of public spending through external sources (Paz Arauco, 2016). Bolivia continued to put off modifications geared towards progressivity in the tax regimes' structure (Gomez Sabaini and O'Farrell, 2009). In early 2000, the economy faced external shocks that resulted in recurring public deficit. At the end of 2000, political pressure and social movements thrust new tensions in resource mobilization and management under public scrutiny. In the midst of a moment of political, economic, and social crisis in 2003, a tax reform was announced, called "*el impuestazo*" (the "mega-tax") by social organizations, which proposed to reduce the fiscal deficit by taxing salaries, including those of the middle class. This announcement constituted a triggering moment for protests and would lead that same year to what would be called the "Gas War".

Between February and October 2003, high levels of state repression and violence were recorded that marked social consciousness and gave rise to strong feelings about the new social pact. This reform was perceived to be unjust for different reasons (Daroca Oller, 2016). (i) The measure was taken without exploring alternatives to increasing taxes and royalties paid by transnational companies or of controlling tax evaders, which included large businesses in debt to the state, or mechanisms to bring in part of the informal sector that profits from contraband, and (ii) because ambiguity was seen between tax payments and the benefits received, thus reinforcing the thesis that when reforms are perceived as exclusively coercive, the relationship between the state and the citizenry tends to deteriorate. During this period, the economic crisis coincided with the profound loss of legitimacy of the governing party and of the whole party system as well as with citizens questioning the state's role in taking in surpluses from natural resources and redistributing them to benefit large companies and the elite.

In an atmosphere of social and political unrest due to the gas issue, in July 2004 a national referendum was held to offer a response to the tensions of the moment, which included the nationalization of hydrocarbons for the benefit of Bolivians. The popular consultation carried out through the Gas Referendum⁸ included an accord on taxes and/or royalties on oil companies and their use towards health, education, roads, and employment.⁹ This demand was partially met with the approval of the tax on hydrocarbons (IDH, in Bolivia) in 2005 and its redistribution through transfers from a central level to sub-national levels. In this manner, the idea of the fair distribution of gas revenues to all Bolivians was solidified in the social consciousness. This eliminated, at least in the medium term, alternative social pacts like the one proposed by Levi (1988) in which citizens tie tax payments to the state's provision of goods and services, given that this social demand was met through the recovery of hydrocarbons that, at the same time, established the foundations for a new social pact.

The structure of tax revenues: from boom to bust in tax collections (2006–2020)

Between 2006 and 2014, there was a growing mobilization of resources from hydrocarbon taxes and revenues. During this period, IDH revenue tripled and over US\$13 million were collected. These resources contributed to a fiscal surplus during several consecutive years.¹⁰ In this same period, the tax burden¹¹ grew from 19.3% to 28% of GDP (OECD et al. 2020), and internal and customs revenue increased, rising from 16% to 22% of GDP as a result of growing economic activity (see Table 4.1). The government credited this result to the application of MESCP, based on the use, appropriation, and distribution of the economic surplus of strategic sectors to income- and employment-intensive sectors. This exceptional period of rising hydrocarbon revenue left little room for advancing tax reforms (Paz Arauco, 2018). At the end of 2010, the government established adjustments to hydrocarbon subsidies that meant a rise in the final cost of fuel, arguing that high demand for fuel leads to the illicit sale of this product. Four days after this measure was enacted, facing resistance from social sectors, the government reversed course and upheld the subsidy.

In this period, tax system reforms were geared towards reducing evasion and encouraging tax compliance, notably the step to incorporate companies that provide interdepartmental cargo and passenger services into the General Regime (whereas before they were part of the integrated regime) as a way of growing the taxpayer registry.¹² Additionally, the modification in tax legislation in the financial system allowed the deduction of corporate income tax (IUE, in Bolivia), limiting the carryover of losses for a maximum of three years, with an additional rate of 12.5% established for entities that exceed a profitability coefficient of 13%.

Under the application of this economic model (MESCP), which financed public spending and the redistribution of gas surpluses, Bolivia enjoyed sustained economic growth that contributed to poverty reduction (more than 20 percentage points). This combination of incentives and redistribution became internalized in the social imagination, to the extent to which there was no need to establish, for example, a wealth or personal income tax that most likely would have entailed greater redistribution.

Between 2016 and 2020, the international situation worsened following a drop in raw material prices, which led to a reduced speed of economic growth (see Figures 4.1a and 4.1b). Fewer people were climbing out of poverty and redistribution came to a halt.¹³ With decreasing public resources, it became more difficult to sustain an increase in spending, and public finances once again fell into deficit. Prior to the pandemic, there was a sharp contraction in economic activity, particularly starting in the second quarter of 2019 (see Figure 4.1b), which intensified with the political crisis that followed national elections in October of the same year (and which were cancelled in the end). With the Covid-19 pandemic, the economy experienced a significant retrogression, and an abrupt contraction occurred in the second quarter of 2020 coinciding with the Covid-19 containment measures. A slow recovery began only recently, starting in mid-2021.

Table 4.1 Selected indicators during the 2006–2021 period.

	GDP growth (%)	Tax revenue (% of GDP)	Hydrocarbon taxes (% of GDP)	Social expenditure (% of GDP)	Moderate poverty (%)	Extreme poverty (%)	Gini Index
2006	4.80	16.21	11.60	16.55	59.9	37.7	0.59
2007	4.56	16.51	11.31	17.13	60.1	37.7	0.56
2008	6.15	17.93	10.59	18.01	57.3	30.1	0.52
2009	3.36	17.12	9.82	n/a	51.3	26.1	0.50
2010	4.13	16.95	9.30	18.10	n/a	n/a	n/a
2011	5.20	19.21	9.72	17.47	45.1	21.0	0.47
2012	5.12	20.10	11.61	18.35	43.3	21.6	0.47
2013	6.80	20.90	12.78	20.09	38.9	18.7	0.48
2014	5.46	21.62	12.07	22.24	39.1	17.2	0.48
2015	4.86	22.32	8.96	23.56	38.6	16.8	0.46
2016	4.26	20.60	5.53	22.21	43.0	19.0	0.46
2017	4.20	18.98	4.98	19.57	42.2	18.4	0.46
2018	4.22	18.29	5.47	19.64	39.9	15.3	0.43
2019	2.22	18.04	4.48	n/a	37.2	12.9	0.42
2020	-8.74	15.07	4.56	n/a	39.0	13.7	0.45
2021	6.11	16.35	3.95	n/a	36.4	11.1	0.42

Source: Prepared by the authors based on the UDAPE and the Ministry of Economy and Public Finances.

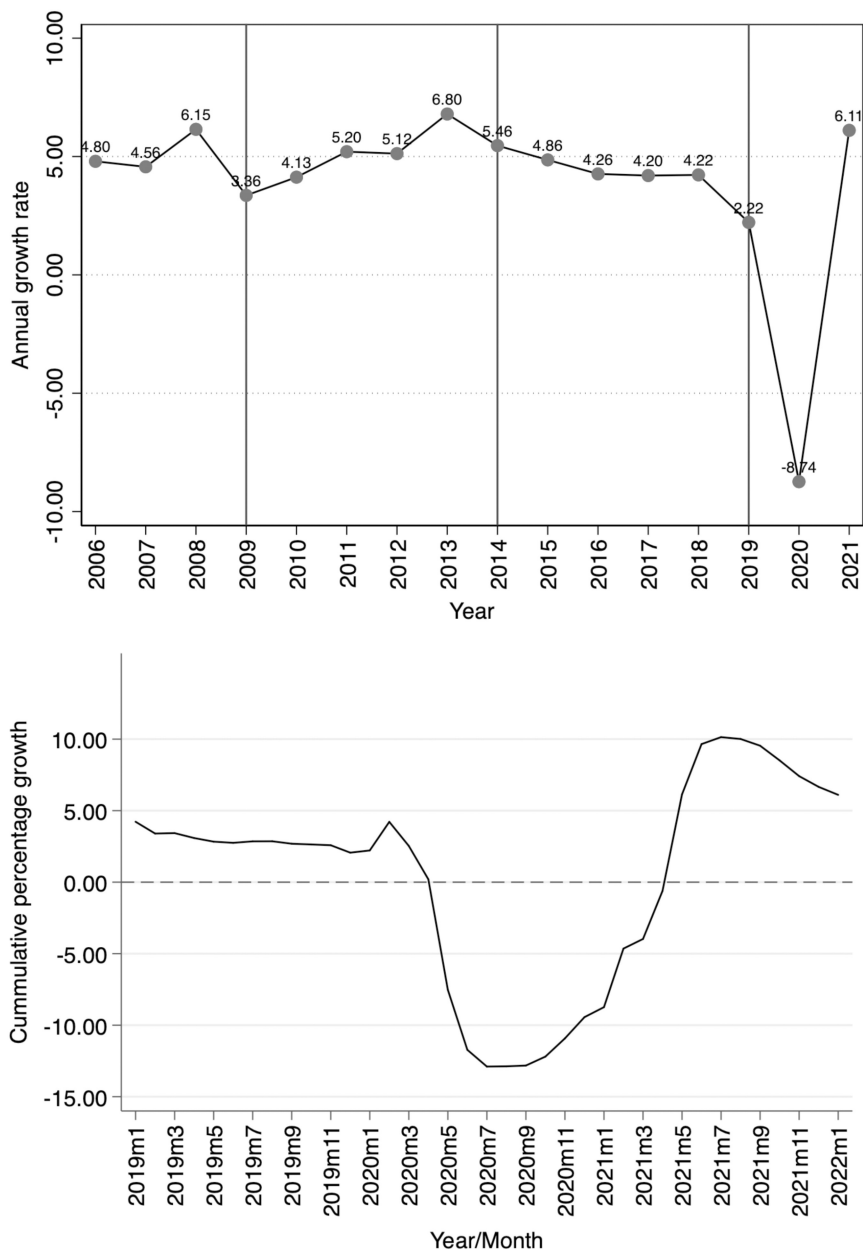


Figure 4.1 Annual GDP and global index of economic activity (a) var % annual GDP (b) var % accumulated from the IGAE. (Source: Produced by the authors based on the National Institute of Statistics.)

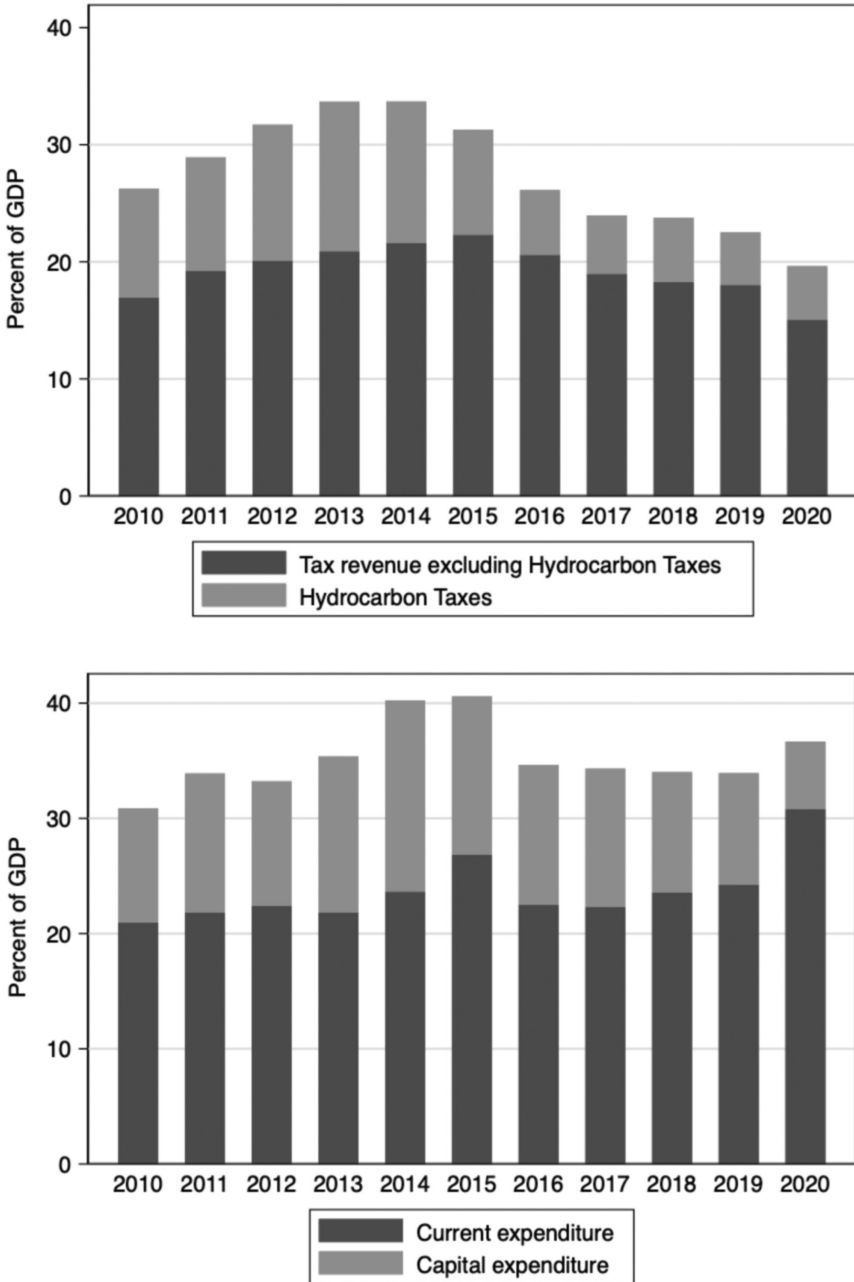


Figure 4.2 The general government’s revenue and spending (as % of GDP) (a) general government revenues (b) general government expenditures. (Source: Prepared by the authors based on MEFP-BCB.)

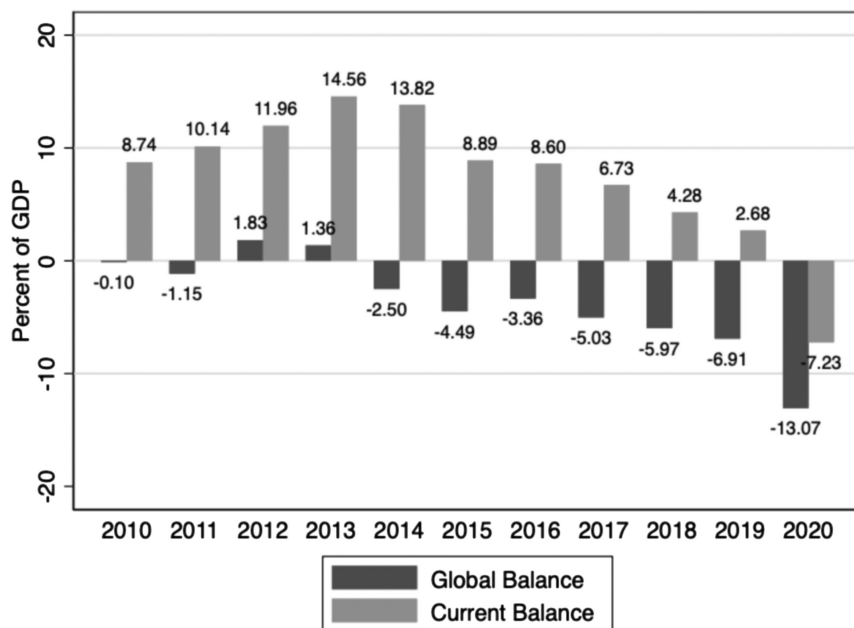


Figure 4.3 General government balance (as % of GDP). (Source: Prepared by the authors based on MEFP-BCB.)

Both the institutional crisis of 2019–2020 and the pandemic explain the economy’s rapid decline, which was also reflected in the fiscal situation (see Figures 4.2 and 4.3). Starting in 2015, tax revenues fell, primarily due to the fall in gas surpluses (measured by magnitude of IDH), affecting the rest of the revenues.

Crisis, the new setting for generating tax reforms: between emergency and opportunity

Following 2020, in response to the crisis and faced with the urgent need to respond to the worsening economic situation, the new government changed the direction of the political economy from what the transitional government had instituted. Three aspects stand out from this change: (1) the reinstating of an expansive fiscal policy, (2) grounding economic recovery in public investment, supporting the productive sector through access to credit for micro and small businesses, vouchers to combat hunger, which cushioned the fall in household incomes and stimulated internal demand, and, (3) the emblematic recovery measures that were concentrated in the value added tax cash refund (Re-IVA, acronym in Bolivia), which provided benefits to people with income of Bs 9,000 or below, with the aim of encouraging internal demand,

and through the tax on large fortunes (IGF, acronym in Bolivia), which applied to individuals with fortunes over Bs 30 million, a measure the government justified as a means to contribute to economic recovery and to strengthen actions that benefit underprivileged sectors.

At the end of 2021, the government presented the Economic and Social Development Plan (PDES, acronym in Bolivia) that set forth government actions for rebuilding the economy and re-establishing social and macroeconomic stability. Investments of US\$33.197 billion were projected, 53% of which were earmarked for the productive sector, 34% for infrastructure, and 11% for social investment. This investment program was tied to financing needs, with 39% of the money coming from foreign sources. Due to the economic contraction in 2020 and the slow economic recovery that began mid-2021, the government faced the dilemma of seeking out internal and external sources for obtaining resources. In this context, in June 2021, Bolivia's Central Bank (BCB, acronym in Bolivia) demonstrated the country's solvency based on the nominal and present value of the public sector's foreign debt (between 31% and 32% of GDP), which was still below the International Monetary Fund's established criterion for foreign indebtedness, while its debt servicing was still within the margins that allowed it to acquire resources on international markets (see Table 4.2).

In spite of opportunities for financing the needs included in the PDES, a few aspects warrant attention: (1) a revision of the tax system with greater redistributive potential; (2) reforms in public spending, increasing effectiveness to reduce extreme poverty and inequality; (3) institutional agreements with the Autonomous Territorial Entities (departmental and municipal governments) to generate incentives to improve tax collection through the widening of the tax base, furthering the decentralization of spending and promoting greater effectiveness in local management. These aspects represent alternatives for increasing tax collection while preserving a redistributive focus and support for social development.

Table 4.2 Solvency indicators of the public sector's foreign debt (%).

<i>Indicator</i>	<i>December 2020</i>	<i>June 2021</i>	<i>Threshold</i>
<i>Public sector external debt</i>			
– Nominal value (% of GDP)	31.7	31	–
– Present value (% of GDP)	30.9	30.2	40
– Present value (% of exports of goods and services)	156.8	148.4	180
<i>Debt service</i>			
– % of exports	10.8	7.9	15
– % of export tax revenues	6.5	5.6	18

Source: Bolivian Central Bank.

Note: The thresholds used for the debt sustainability analysis correspond to the classification of intermediate policies according to the debt sustainability framework of the Bretton Woods Institutions (IMF and The World Bank).

Taxes on work and capital

Since 1986, the Bolivian tax system has had a structure similar to the prevailing system in Latin America (CEPAL, 2021): there is a focus on collection from indirect taxes concentrated in sales taxes, in particular value added tax (VAT), which makes up 40% of total tax revenue, with limited direct tax collection and little to no taxation of individual income.¹⁴

Additionally, the Complementary Regime to VAT (RC-IVA, acronym in Bolivia), which taxes income from individuals' wages, makes up only 1% of total tax collection (MEFP, 2021). This tax, beyond taxing income from wage labor, promotes the enforceability of consumption billing and VAT collection as well as aids in formalizing economic activities.

As a result of the Covid-19 pandemic and in order to address the need to kick-start the economy by improving the tax system's progressivity, in late 2020 the tax on large fortunes (IGF, acronym in Bolivia) was put into place for the first time and came into effect starting in 2021.¹⁵ While Bolivia had no historical precedents of wealth taxes, the Panama Papers leak marked an important milestone in investigations into large fortunes. In 2016, the Plurinational Legislative Assembly (ALP, in Bolivia) created a special mixed commission with the mandate of investigating the Panama Papers case in Bolivia. This was a little known fact in the country up until that date and it piqued the interest of authorities to find out the magnitude of the problem of capital flight. The report provided by the commission on the Panama Papers was presented alongside a Draft Law on the Fight against the Use of Tax Havens, which was stated would be aimed at the laundering of illegal earnings. The presented report was unanimously approved by the ALP plenary and a law proposal was drawn up with three objectives: (i) to amend the lack of linkage and coordination between different state institutions involved with the issue; (ii) to restructure the Financial Investigations Unit (UIF, in Bolivia); and (iii) to supply a list of tax havens to Bolivia.¹⁶ The immediate actions undertaken by the executive bodies included more intense investigation into the relevant cases delegated to the UIF and the National Tax Service (SIN, acronym in Bolivia).

A notable result of the investigation were the links that were found between 360 registered businesses.¹⁷ It was estimated that US\$989 million were transferred from Bolivia to tax havens in 2016, making up 2.9% of GDP. The report also asserted that tax havens facilitate tax avoidance, evasion, and fraud for large businesses, diminishing the Treasury's revenues and limiting the state's redistributive possibilities for financing social and economic policies. The report also established the need for strengthening regulation through updating the Commercial Code in regards to the formation of corporations and the constitution of bearer shares, as well as through tax legislation and the Securities Market Act to anticipate businesses' and nationals' use of tax havens. At present, the state has improved tools for detecting and preventing transactions and operations that could be linked to the laundering of illicit earnings.

While the IGF far surpassed authorities' expectations for tax collection, it made up a small fraction of what neighboring countries manage to collect. In Bolivia, the introduction of direct taxes, like the attempt to include an income tax in 2003, faces strong social resistance and carries a high political cost, as was mentioned in the second section. As such, the government sought not to affect socioeconomic groups that could cause political conflicts. In 2021, tax collection fell below 0.5% of the taxes collected in 2019 (less than 0.1% of GDP). The adoption of the measure faced public resistance but did not lead to social conflict, given that only 206 people are recorded as having paid this tax.

In the future, in order to attain greater efficiency in collections from this tax, it will be necessary to review aspects of its design, such as the income threshold subject to taxation, which is four times greater than what is usual in Latin America for this type of tax. It also will be important to introduce measurement, accounting, and recording methodologies for the population's wealth and assets.

Due to its structure, which is focused on indirect tax collection, the Bolivian tax system leans towards neutrality and regression and has limited tax collection capacity. While it has been shown that there is a narrow tax base, this feature correlates with the structure of the economy and labor market, which reflects a high participation of single-owner businesses and the informal sector. It is also noted that the tax system is unequal due to the fact that the burden falls on a small number of taxpayers. In that regard, following the digital registry of taxpayers that was instituted in 2012, the number of taxpayers in the general regime has barely increased (from nearly 295,000 taxpayers in 2012 to 308,000 in 2020), while the simplified regime expanded.

The health crisis caused by Covid-19 caused repercussions in the economy and affected public and private consumption. As a result, tax revenues from VAT fell about 40% between 2019 and 2020 for this reason. On the consumption side, there apparently was not much room for increasing tax revenue.

The expansion of the taxpayer base and its relation to economic and labor structure

One of the central issues in tax system reform is the composition and need to expand the tax base. The taxpayer registry in Bolivia is made up of 428,000 natural and legal persons.¹⁸ These fall into four major groups: (i) the General Regime, which includes large taxpayers (GRACOS, acronym in Bolivia); (ii) the Integrated Tax Regime; (iii) the Unified Farming Regime (RAU, acronym in Bolivia); and (iv) the Simplified Tax Regime.

The last three categories are special regimes that, according to the 2018 registry, make up approximately 25.4% of the total number of taxpayers. These taxpayers contribute with periodic payments based on the capital, motorized vehicle units, or number of hectares of agricultural property they possess. According to the Ministry of Economy and Public Finances, there are 106

principal taxpayers and 5,258 GRACOS that contribute over 80% of collected taxes (MEFP, 2019).

In the last few years, the rise in tax revenues and the growth of the registry can be explained by economic growth and the strengthening of the National Tax Service. This entity carried out a number of measures to expand the tax base: in 2018, it lowered the capital and sales amounts necessary to be part of the Simplified Tax Regime and it improved registry and tax return services.¹⁹ In large part, this registry structure reflects the characteristics of the Bolivian economy and of a segmented labor market that results in a smaller number of taxpayers (Fundación Milenio, 2021).

Bolivia is among the countries in the region that does not have a direct tax on revenue coming from individuals' work-related income. Under this current scheme, structural distortions prevent a more equal and efficient treatment between two worker populations: on the one hand, taxation on work-related income applies through the RC-IVA to salaried workers, who make up 30% of the employed population in Bolivia and only 0.9% of total tax contributions. Due to the possibilities for exempting consumption bills, this tax allows for significant discounts and does not meet the criteria of "progressivity" normally associated with taxes on work-related income. The remaining 70% of the working population are engaged in labor activities characterized as self-employment, of which, while they could fall under the taxpayer registry through VAT, IT, or IUE, the majority of this population is either not registered or is part of the special regimes. A comparative analysis concludes that the tax burden from work-related income borne by self-employed workers fluctuates between 22% and 36%, while employed workers shoulder a burden that ranges from 0% to 12.71% (Fundación Milenio, 2021).

As such, there is a need to inspect the tax regimes associated with work and wealth revenues, where there are a small number of taxpayers and distortions that result from segmentation in the labor market as well as from the size of the informal economy that preclude a more effective and progressive approach to tax schemes.

Reducing evasion

In spite of the National Tax Service's efforts to modernize tax registration and collection, Bolivia remains one of the countries with the largest informal economy (Schneider, 2015), characterized by economic activity that is neither registered nor declared for tax purposes. According to national authorities, the estimated tax gap in the case of VAT (the difference between actual and potential tax collection) amounted to nearly one-third of net proceeds (MEFP, 2015).

This widespread presence of informal employment is explained not only by the narrowness and exclusion of modern forms of economic activity, but also by the complexity and costs that entails entering into the tax system (Perry et al., 2007). In this sense, informality is a choice that economic agents opt for when faced with a costly and inefficient system.

According to a recent study, one of the features of tax behavior in the Bolivian case can be attributed to an increase in fines and controls placed on already registered taxpayers, while other agents resist joining the General Regime, creating zones or sectors with different tax burdens (Herbas Torrico and Gonzales Rocha, 2020). This same study recommends making a distinction between the tax morale encouraged by an attitude of voluntary compliance and one that is forced and which leads to tax avoidance and evasion, highlighting the roles played by the development of information, trust in institutions, and risk-aversion among agents.

More broadly, recent studies gear the discussion towards the tax morale that contributes to closing the tax gap and curbing evasion (Castañeda, 2017). While taxpayers' moral perspective is part of citizenship, it may have multiple facets linked to the common good, democratic commitments, and solidarity, for example (Labraña Baeza, 2019). Although evasion, a deliberate illicit act of commission or omission that reduces fiscal responsibility, is different from tax avoidance, which arises from legal uncertainty in regards to tax rules, its identification proves complex. In any case, sustaining high levels of tax evasion leads to distortions throughout the entire economy: (1) the effectiveness of economic policies is reduced; (2) the allocation of resources is altered; and (3) it places limits on redistribution and social policies. Consequently, the analysis of evasion and avoidance implied in closing the tax gap must start with an identification of the possibilities for promoting tax morale among citizens, voluntarily incorporating taxpayers, and establishing transparent and simple tax rules that are perceived as just as possible.

Fiscal policy in the local sphere

Another alternative for addressing the challenges of resource mobilization from the perspective of the political economy is found in the decentralized nature of the Bolivian state, which involves the interests of different actors at the local and central levels. The Constitution defines the Plurinational State as a decentralized state with autonomies. From this perspective, the source of tax collection on a national level is made up of revenues from three levels: the Central Government, the Autonomous Departmental Governments (GAD, acronym in Bolivia), and the Autonomous Municipal Governments (GAM, acronym in Bolivia).²⁰

In the framework of the autonomies, revenues from natural resource exploitation through taxes and mining royalties constitute a central pillar in the Autonomous Governments' and public universities' tax balance.

Transfers from the central level to universities and the GAD and GAM represent the main source of revenue for these entities. In 2020, 53% of revenue depended on tax distribution, 33% from the direct tax on hydrocarbons (IDH, acronym in Bolivia) and 14% from the remaining tax share. However, in the years of the greatest revenues attained by the IDH, these resources made up one-third of the GAM's total revenues (see Figure 4.4).

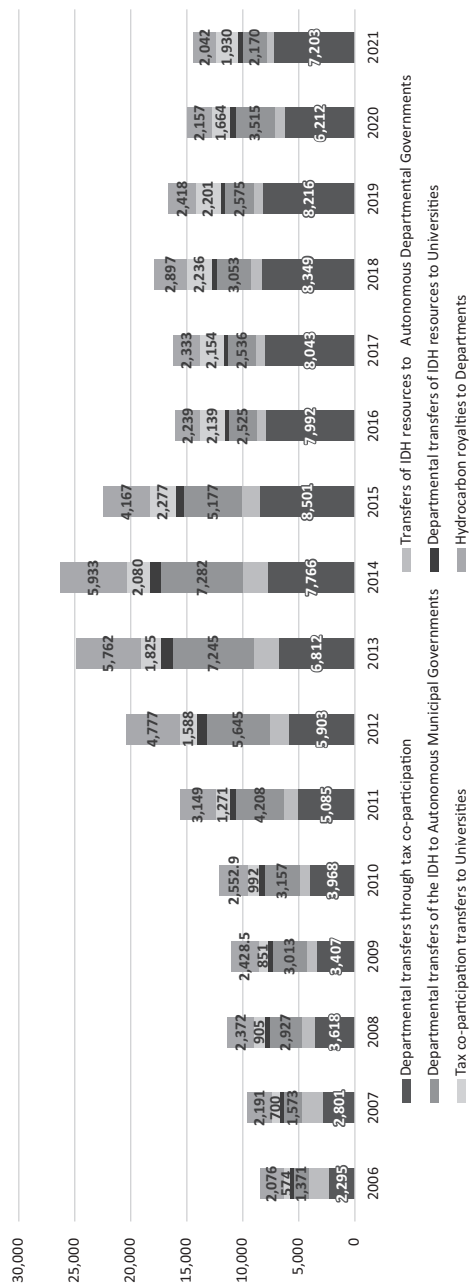


Figure 4.4 Transfers to autonomous governments and universities, by royalties and IDH tax sharing (millions of Bolivianos). (Source: Prepared by the authors based on MEFP.)

The GAD's financial dependence on rents from gas and mining in the form of royalties and taxes is even higher: in 2014 and 2015, the years that marked the height of the hydrocarbons boom, over 90% of departmental and university revenues came from two accounts: hydrocarbon royalties and the IDH.

The high dependence of local levels of the state on transfers from the central government, and especially on those that come from royalties and taxes on natural resources, introduces great volatility in the departmental and municipal governments' overall balance, which at the end of the day is tied to variability in international gas prices. Between 2011 and 2014, international prices of a barrel of crude oil were high (over US\$90), while lower levels were recorded between 2015 and 2017 (below US\$50). The years of the greatest hydrocarbon price boom brought along greater transfers at the local levels since the gas volume sales were guaranteed.

On this issue, there are a few different proposals for tax policy design associated with the potentials for tax collection based on the decentralized nature of the Plurinational State as a mechanism through which greater efficiency and progressivity in the tax system can be achieved (Finot, 2016; Villarroel Böhr, 2018). The proposals for modifying tax policy based on changes in the conferring of fiscal policy to different state levels are framed by highly complex political debates, since they involve movements in the playing field that affect the interests of economic actors in the private sector as well as territorial public actors capable of shifting power balances between the local governments and the central government.

Reflection is needed on changes in Bolivia's tax system based on a new fiscal pact that defines the rules of distribution and transfer of public revenue and the criteria of efficiency and equity in public spending, and that advances the expansion of funding sources.

Conclusion

This paper describes the political economy of tax reforms in Bolivia between 1986 and 2020 as well as the political tensions caused by dependence on natural resources. In the 2006–2020 period, the Bolivian economy went through a super-cycle of high prices for hydrocarbon resources that fell in 2014 and subsequently experienced a period of decline in tax revenues and lower rates of economic growth that slowed down advances in inequality and poverty reduction.

On the analytical side, this article sets forth three central hypotheses: first, that natural resource dependence shaped tax reform proposals to the point that it managed to affect taxpayers' fiscal morale; second, that exceptional circumstances in the hydrocarbon sector increased the tax burden and created surpluses that financed public investment, social programs, fuel subsidies, and sustained increases in public spending that established a kind of social pact and,

from the official perspective, are part of the communitarian productive social and economic model. Finally, the third hypothesis notes that in the context of decreasing fiscal resources from the hydrocarbon industry, proposals for a new tax structure and social pact are needed.

With the aim to contribute to reflections on future tax reform, four elements are proposed here: (1) the reorientation of direct taxes, strengthening those that are applied to labor and capital; (2) a widening of the taxpayer base taking into account the labor and economic structure; (3) a reduction in tax evasion; and (4) an evaluation of the local sphere for tax policy reforms.

Notes

- 1 Between the end of 2019 and October 2020, Añez's transitional government adopted fiscal adjustment measures that translated into a decrease in public investment that, in combination with measures to limit movement to contain the pandemic, led to a drop in output.
- 2 Data drawn from official statistics issued by the Ministry of Economy and Public Finance and the Central Bank of Bolivia.
- 3 Official statistics from the National Statistics Institute (INE, acronym in Bolivia), available at www.ine.gob.bo.
- 4 The arguments presented in this chapter are based on a review of the documents available as well as testimonies from four key informants, which include former advisors to national authorities and sectorial experts that participated in and/or were involved in making decisions related to the issue of taxes in Bolivia. Interviews were carried out between the months of April and May of 2022 following an unstructured interview questionnaire guide.
- 5 Recently, prospects for lithium mining have been discussed as the basis for an upcoming cycle of resources for financing public policies. According to the Economic and Social Development Plan (Plurinational State of Bolivia, 2021), the Bolivian state spent around US\$703 million between 2008 and 2020 in two phases of lithium industrialization. In 2017, it formed the public company Yacimientos de Litio Bolivianos (YLB), which was in charge of the prospecting, exploration, concentration, operation, funding administration, and industrialization of this resource. This public company faced production stoppage and reduced sales revenue and obtained funding from the Central Bank of Bolivia. Although YLB is of strategic importance in the PDES, its viability depends on market conditions and negotiations carried out by the state.
- 6 In 1987, for example, a simplified tax regime was established for taxpayers who were unable to provide fiscal invoices, facilitating their entry into the tax base.
- 7 In the early 1990s, tax revenues recovered to over 6% (OECD et al., 2020).
- 8 The Gas Referendum was carried out in July 2004. In compliance with this referendum, the enactment of the Hydrocarbons Law stipulated the re-establishment of YPFB and the creation of the IDH. Later, the nationalization of hydrocarbons, enacted in May 2006, re-established state control over the production, commercialization, distribution, and industrialization chain of hydrocarbons.
- 9 The nationalization of hydrocarbons, while it did not affect oil companies' assets, created a more favorable scenario for the state in negotiations under a mixed participation scheme in utilities (Daroca Oller, 2016). Some of the implications of this scheme included that companies assumed the risks associated with exploration, development, and production; and once the period of investments amortization is over, the fixed assets would pass over to YPFB without charges or duties (Velasco, 2022).

- 10 The Multilateral Debt Relief Initiative (MDRI) also contributed to improved public finances, with forgiveness of part of the stock of multilateral external debt resulting in debt service being freed from the budget.
- 11 The tax burden includes tax revenue of General Government (without Hydrocarbon Tax) and Hydrocarbon taxes.
- 12 Between 2010 and 2021, the National Tax Service carried out measures to raise tax revenue, widening the tax base through gambling activities, modifying tax rates on excise taxes (ICE), and through adjustments to taxes on financial transactions (ITF). Other measures, like the modernization of the Fiscal Information System on the web platform and the national system of tax information, according to the opinion of the Ministry of Economy and Public Finances, improved tax culture (MEFP, 2019).
- 13 In 2015, international oil prices dropped to around US\$49 per barrel, while between 2011 and 2012 they reached over US\$101, progressively diminishing down to US\$37 in 2020. In 2021, prices reached US\$69 and finally robustly recovered in 2022.
- 14 Law 843 of the tax reform was introduced with the aim of simplifying the tax system's "density" through the simplification of the number of hitherto existing taxes and the widening of the tax base.
- 15 This tax, established by Supreme Decree in 2020, resulted in the collection of 240 million Bolivianos in 2021, representing an amount equivalent to the total RC-IVA (1% of total taxes collected). Paradoxically, no wealth tax was set up in the 2006–2019 period. However, this can be explained by the illusions over the natural resource surpluses which put off the need to raise tax collections, including from the rich. The Covid-19 pandemic opened up discussions about various different sources for additional tax collection, such as taxes on digital transactions, as well as from the IGF.
- 16 <https://web.senado.gob.bo/prensa/noticias/asamblea-legislativa-aprueba-resoluci%C3%B3n-de-informe-de-comisi%C3%B3n-que-investig%C3%B3-los>.
- 17 Some of the most important cases based on the linkages and the sums involved include large businesses in the agro-industrial sector (oilseed), telephone cooperatives associated with business elites' capital, the national telecom company, and capital movements through the sale of businesses with capital belonging to political leaders of the traditional elite.
- 18 MEFP (2021). *Memoria de la Economía Boliviana 2021*.
- 19 Supreme Decree No. 3698, October 25, 2018.
- 20 Since 2017, following the formalization of the Indigenous and Aboriginal Farming Autonomy of three indigenous autonomies, transfers also include these autonomous entities.

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5 Tax culture: a conceptual proposal and empirical approach to the economic elite in Chile

Jorge Atria

Introduction

Although economic studies show with increasing accuracy that the inequalities of the twenty-first century are consequences of high levels of economic concentration in the upper percentiles, the redistributive institutions remain in crisis – both in countries that financed ambitious welfare policies in the twentieth century and in those where it was expected that democracy and development would allow them eventually to do so.

In high-income countries, this crisis is marked by the decline of optimistic attitudes towards redistribution and state intervention as answers to social inequalities, which has led to a decreased tax burden since the 1970s (Steinmo, 2003) and the redesign of income tax in order to free capital from taxes (Tanzi, 2014). On the other hand, in low- and medium-income countries, the problem is described as the ineffectiveness of tax systems for reducing inequality, despite positive changes in social spending and poverty reduction in recent decades. In turn, these tax problems have been said to derive from a type of state whose formation and development has strong differences with those of the Global North, which gives taxation a different legitimacy, as well as from the influence of transnational factors related to the position in the global economic order and the inability to tax elites, among other factors (Moore, 2004; Biehl and Labarca, 2018).

At a global level, there is no single tax system model. Even among countries that have a similar level of development, very different models can be observed, which suggests that in order to understand their functioning, technical and arithmetic factors as well as the historical, political, and cultural factors that shape and sustain the technical dimension must be considered (e.g., Mumford, 2019; Campbell, 1993). This chapter follows this approach using an analytical framework based on the concept of “tax culture”. Far from an essentialist view, this category understands tax systems to be institutions whose development reflects social power relations but is also influenced by values, interests, and preferences that are situated in specific historical contexts and mediated by the knowledge and morality deployed by different groups in their daily interactions.

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Therefore, the case of Chile is analyzed with a specific focus on the economic elite. On the one hand, Chile belongs to the subgroup of Latin American countries with the highest income and it has fiscal institutions that are often considered to be stable and remarkably effective and efficient in comparison to the rest of the region. On the other hand, Chile is like the rest of the Latin American countries when it comes to its high levels of economic concentration, which are in part explained by the inability of its institutions to change these distributive patterns. This inability is related to a tax burden that is rather low relative to income levels, and regressive tax collection, among other factors. Furthermore, in Chile, as in several other countries of the region, natural resources, especially mining, play an important role in obtaining tax revenues. However, the mining sector has a tax burden that is generally low when compared to that of other large regional economies.¹ Finally, it is also worth noting that, because of the importance of mineral resources and the export of raw materials, a large portion of the Chilean economic elite is focused on these productive sectors – particularly fishing, timber, and wine, in addition to mining. This also leads to strong business preferences for a small state and limited industrial policy (Bril-Mascarenhas and Madariaga, 2017).

Therefore, I seek to understand how the attitudes of the economic elite, along with power relations and the technical design of the tax system, allow us to understand the latter's present functioning and its prospects.

First, the concept of tax culture is discussed and operationalized. Second, the case of Chile and characteristics of its economic elite are introduced. Third, the Chilean economic elite is examined in terms of its perceptions of the tax burden, its justifications for tax evasion and avoidance, and its assessment of the frequent use of investment companies for the purpose of tax non-compliance. Finally, the potential of the concept of tax culture and the possibilities for change in the economic elite are discussed.

Tax culture

In recent decades, fiscal sociology has renewed the interest in taxation pursued by several works of the early twentieth century, on account of its explanatory power for ways of life, culture, and social structure. This approach highlights that taxes give rise to the monetarized relationship between the state and the citizenry (Simmel, 2011, p. 341) and reinforces the idea of the nation that calls for a principle of social solidarity (Ardant, 1975). New studies reiterate that taxes constitute a sacrifice that formalizes part of the obligations of citizens, involving the relations between citizens and between citizens and the state, and that finances the state and activates a generalized network of reciprocity without which there is no basis for the architecture of intra- and inter-generational institutional solidarity that defines contemporary welfare states (Lieberman, 2003; Martin et al., 2009).

In Latin America, a growing number of studies highlight the need to analyze weak and unfair tax systems taking into account other dimensions in

order to understand why these difficulties are reproduced, paying attention to relational, historical, and transnational factors (Atria et al., 2018). It examines the conditions of formation of Latin American states, whose development differs from that of European and North American states and led to specific patterns of revenue extraction and interactions between the state and social groups (Centeno, 2002; Abelin, 2012; Schneider, 2012; Biehl and Labarca, 2018).

The concept of tax culture is instructive in this regard. It is based on the premise, developed by economic sociology, that economic transactions are embedded in the social context that constitutes their environment (Atria, 2022). This premise is connected to the observation that all tax systems are different, even if we compare those of countries with similar income levels or development at different moments in time – ruling out the possibility of an ideal universal tax system given that the constructs about an ideal tax and an adequate taxation vary socially and historically (Schumpeter, 1985; Nerré, 2001; Scheer, 1996).

While works that use the concept of tax culture have as a common feature the combination of different actors, institutions, and levels of analysis, they are differentiated by their foci and the situations to which they are applied.

In a first strand of research, authors address tax culture with the specific purpose of describing the education of taxpayers. From this perspective, tax culture is something that should be promoted so that citizens conceive of tax obligations “as a substantive duty, in accordance with democratic values” (e.g., Cortazar, 2000, p. 1), which contributes to improving tax compliance – complementing the tax administration’s auditing function. This approach is thus primarily focused on the fight against tax evasion and avoidance, without delving into the notion of culture that constitutes part of the concept nor into its historical specificity and variation, defining tax culture in a way that is similar to the notion of consent.² However, it does frame an interest in tax culture in a broader repertoire of social representations that people have about the state, its forms of financing, and the contribution of citizens, and in the need to provide legitimacy to the tax system and its administration as well as to the coercive actions of the latter. In this approach, tax culture may even be an absolute category, i.e., a country may be considered as lacking a tax culture, which brings the definition of this concept closer to that of tax compliance.

A second line of research shares the interest in tax education but highlights more clearly the support given to tax administrations and the need to mobilize additional domestic resources (e.g., OECD, 2021). Without delving into a deeper definition of “tax culture”, it offers a definition of tax education – “a means of empowering taxpayers, giving them knowledge and tools to be able to better understand the tax system, increase their tax morale and finally, increase tax compliance” (OECD, 2021, p. 20). However, it recognizes that there is no single definition or approach to taxpayer education, as it varies according to each national reality. This line of studies also includes those that

focus on tax discipline, tax mentality, and tax psychology (e.g., Schmolders, 1960; Lewis, 1982).

Although these studies adopt a broader framework on taxation, the financing of common goods, and the strengthening of tax citizenship (OECD and FIIAPP, 2015; Roca, 2008),³ they highlight the role of tax education in changing taxpayers' attitudes in order to reduce lack of tax knowledge and non-compliance (OECD, 2021).⁴ As in the first perspective, tax culture is seen as something that must be shaped, especially in countries with a weak fiscal capacity (Roca, 2008).

A third approach analyzes tax culture by concentrating on the relationship between taxpayers, tax authorities, and other institutions (Korostelkina et al., 2020). It also assumes that there is historical specificity that situates tax policy spatiotemporally and makes it possible to identify its transformations (e.g., Nerré, 2001). This view therefore grants greater importance to the social and institutional framework in which the tax system is embedded. A definition of tax culture that is representative of this approach is that of Nerré (2008, p. 155): “[T]he entirety of all relevant formal and informal institutions connected with the national tax system and its practical execution, which are historically embedded within the country’s culture, including the dependencies and ties caused by their ongoing interaction”.

This approach seeks to explain in greater depth the alterations and conflicts that tax culture can have, especially in contexts of tax reform. For Nerré (2008), significant transformations could produce “tax culture shocks” due to the encounter between very different tax cultures – for example, through a reform that attempts to implement a tax or mechanism that follows a foreign model. This could be avoided with more gradual processes. However, gradual modifications could also generate cultural misalignments or imbalances due to problems of institutional fit or compatibility.

This chapter follows this third approach by focusing on the relationship between taxpayers and institutions, but it introduces three points in order to delve deeper into the interactions between individuals and groups and into historical transformations. For the former, the educational component of the first and second types of studies is revisited, highlighting the importance of (i) tax knowledge and (ii) tax morale as elements that influence the payment of taxes and that may differ between groups. For the latter, it becomes necessary to consider (iii) the global processes of diffusion of ideas, beliefs, values, and interests, whose importance can be seen in the ideas of experts on the role of the state (Steinmo, 2003), tax competition (Avi-Yonah, 2001), tax havens (Ötsch and Di Pauli, 2009), and capital mobility (Harrington, 2016). This is also key for studying the tax culture of economic elites, as it highlights the international reduction of the tax burden of this group, characterized by the decline of top marginal rates (Piketty, 2014), the restructuring of income tax to reduce the taxation of capital (Tanzi, 2014), and the proliferation of avoidance and evasion strategies (Urry, 2014). In what follows, I briefly explain these three points.

Tax knowledge

Views on taxation are not always coupled with rational self-interest. More unequal societies do not always enjoy more support for redistributive policies or progressive taxes, nor does this support vary only according to individual issues, as differences between groups and societies can be observed (Castillo and Olivos, 2011). Some studies suggest that the complexity and technical language of taxation can cause misunderstandings, which can lead to support for regressive tax policies that harm the average citizen (Slemrod, 2006). A lack of knowledge can also combine with confusion and lead to support for regressive changes based on how one evaluates one's individual tax burden and not that of those who would actually be affected, which prevents people from evaluating the concrete costs of reforms (Bartels, 2005). Other authors highlight the inconsistency of tax perceptions, which could be linked to differences in the phrasing of surveys or to the absence of strong opinions (Keene, 1983).

However, in other contexts there is evidence of consistent and high levels of knowledge (Edlund, 2003), making room for other explanations, such as the decoupling of views on tax structure from those on social spending, which allows for the simultaneous support of greater progressivity and lower taxes (Barnes, 2015). Some factors that might influence individual attitudes would be the public notoriety that levels of taxation and social spending attain and the institutional context of each country, such that those with more robust welfare policies would influence the information and education available to citizens, favoring the formation of defined attitudes (Edlund, 2003, p. 162).

Additionally, the formation of perceptions is also influenced by daily interactions. In everyday relations between groups, moral and symbolic boundaries are drawn, defining who is part of "us" and who is part of "them" (Lamont and Molnár, 2002). Everyday conversations about taxes can also draw boundaries between class or racial stereotypes, defining categories of the "deserving" and "undeserving" and establishing differences in shared knowledge about taxes between social groups (Kidder and Martin, 2012), which is of particular importance when analyzing processes of distinction and legitimization in the economic elite. Thus, the moral dimension in everyday interactions expresses which occupations are worthy of honor and recognition and helps to justify differences in taxes and rates based on the social value of an activity – its contribution to growth, reinvestment, or job creation (Sandel, 2020) – as has occurred with the taxation of capital at the global level in recent decades.

Tax morale

Several authors argue that the perspective of a rational, profit-maximizing individual, whose tax evasion is explained only by the probabilities of detection and sanction (Allingham and Sandmo, 1972), does not adequately reflect the motivations of taxpayers, as there are other factors that determine tax compliance. For Levi (1988), compliance should be understood as being "quasi-voluntary",

insofar as it incorporates a cooperative dimension in the relationship between state and citizen. This non-coercive dimension has frequently been articulated with an emphasis on the sense of moral obligation to pay taxes and the ethical dispositions of taxpayers (Atria, 2019).

Moral attitudes do not necessarily apply to the entire tax sphere: there may be specific inclinations towards certain tax laws, towards the acceptance of tax evasion, or to respond to moral appeals that seek to alter tax behavior (Devos, 2014, p. 29). Another current of thought states that the intrinsic motivation to pay taxes is related to values but it emphasizes the influence of cultural norms and institutional frameworks on individual actions (Alm and Torgler, 2006). As a result, in response to similar tax policies, there may be different levels of tax compliance between countries, with higher compliance in societies with more social cohesion and where more appeals are made to the morality of the taxpayer. Conversely, lower compliance is observed when people are in close proximity to others who evade taxes (Torgler, 2003). In recent decades, new contributions have discussed the range of alternatives that exist between full compliance and evasion, such as avoidance or creative tax compliance (McBarnet, 2001). This highlights the relationship that the subject has with social norms and the intersection of subjectivities with social experience, which includes values, discourses, and the performance of institutions.

Therefore, on the one hand, an approach to the role of culture and values in tax compliance can center on the individual and the effects on their taxpaying behavior. On the other, it can focus on the relationship between the individual and the state, assessments of tax collection and spending, expectations of benefits, and the legitimacy of governments (Bräutigam, 2008, pp. 6–7). Both foci can explain convergences and divergences in the tax morality of different social groups, due to different opportunities for planning tax payments, the magnitude of resources at stake, and the possibility of hiring expert advisors (McBarnet, 2001; Atria, 2019).

Ideas, beliefs, values, and interests

Drawing from some tenets of historical institutionalism, according to which the formation of actors' preferences is endogenous rather than exogenous and the institutions play a mediating role in the cooperation and conflict between social groups (Thelen and Steinmo, 1992), tax scholars have argued that ideas, beliefs, values, and interests are key in the process of selecting between different policy alternatives and through imitation which policies and institutions spread (Steinmo, 2003, p. 207). Likewise, once they are institutionalized, policies influence the formation of actors' preferences (Steinmo, 2003, p. 207). This analytical framework conceives of history as a nonlinear and adaptive process, which for taxation is identified through the successive reform processes that took place throughout the twentieth century. In these reforms, different ideas about government involvement in the economy and what constitutes adequate taxes were deployed (Steinmo, 2003, p. 208). Thus, there

are different national policy configurations; but, at the same time, a country's policy ideas are embedded in global processes of diffusion of ideas about what constitutes an adequate tax policy. The interaction of these diffusion processes with local institutions and with the preferences of citizens and elites allows us to understand the evolution of national tax policy.

In summary, the notion of tax culture set forth in this chapter takes into account both a focus on the taxpayer and what attends to the relationship between taxpayers and institutions, and adds to the previous perspectives: (i) the differences in tax culture between groups, which are explained by differences in knowledge, morals, and social interactions, and (ii) the need to consider not only the historical context in which a tax system is situated but also the global circulation that gives pre-eminence to certain ideas, beliefs, values, and interests. This makes it possible to understand that national tax cultures are not isolated and that global diffusion processes can influence the formation of national policies and the moral and knowledge frameworks that different social groups adopt.

Tax policy in Chile

Historically, the Chilean tax system has been characterized by a regressive structure based on a combination of taxes where indirect taxes – which have taken the form of taxes on imports, mineral resources, and consumption – prevail. Consumption taxes have stood out in recent decades, ever since the introduction of value added tax (VAT) in 1974, which is currently the most important tax (47.4% of tax revenues in 2019).

The literature shows that countries that extract natural resources can at least partially “obviate the extent to which the state engages in costly revenue-generating activities” (Dunning, 2008, p. 7), which includes taxing citizens. In this way, extractivism reduces the importance of tax revenues while simultaneously creating economic support for the state at a lower cost than direct taxation. Chile follows this pattern. Due to the exploitation of saltpeter (1880–1930) and copper (1960–present) at different moments in history there has been little pressure to increase taxes on the population. However, this has come at the cost of the state's dependency on resources whose prices were subject to changes in international markets, resulting in a more unstable state (Biehl and Vera, 2014, p. 188). The case of saltpeter is also significant because of its impact on the tax policy of Peru and Bolivia. Owing to the conquest of new cities in the War of the Pacific (1879–1883), the Chilean state was able to dispense with direct taxes, but at the same time the losing countries saw a drastic reduction in their tax revenues (Biehl and Labarca, 2018). Income tax in Chile was finally created in 1924, only when the saltpeter cycle was coming to its end. Subsequently, when copper exports gained in importance, income tax's contribution did not decrease, but neither did it increase significantly, unlike most countries with a similar level of development.

Latin American countries have a relatively similar tax profile, characterized by a low percentage of direct tax collection compared to indirect taxes, and low property taxation (Mahon, 2019). Chile also has this profile. Although income tax is progressive (Engel et al., 1999) and its collection has increased (34.8% of tax revenues in 2019), its contributions remain significantly lower than Chile's VAT. In addition to the significance of revenues derived from natural resources, the low collection of income tax is linked to two factors: first, the large number of exemptions and special regimes that erode collection and create horizontal and vertical inequities (Agostini et al., 2018; Jorratt, 2013), and, second, acts of evasion and avoidance that take advantage of these exemptions, and special regimes that are rooted in a historical aversion to paying direct taxes (Mamalakis, 1987; Atria, 2019).

These two factors have a direct impact on the tax payments of the richest group, not only because the design of income tax exempts the majority of the population (currently, approximately 75%) but also because the taxation of capital is treated more favorably than that of labor (Agostini et al., 2012). Also, wealth taxes are ineffective (Jorratt and Martner, 2020) and contribute very little to revenue collection. As a result, the effective rates paid by the richest (the top 10% and the top 1%) are comparable to those paid by the bottom deciles (Fairfield and Jorratt, 2016), and there is more tax evasion of income tax than of VAT (Jorratt and Martner, 2020; Atria, 2018).

As a result, the redistributive capacity of the state is very limited and relies on social spending, which is progressive and focused on the poorest groups, given that the tax burden (approximately 20% of GDP) is low compared to medium- and high-income countries. Moreover, and despite the above, over the last decade, the citizenry has had consistent preferences with regard to taxation and redistribution, with a growing majority support for a more influential role of the state in reducing inequality, with higher taxes for the richest (Atria, 2022).

Between 1924, when income tax was introduced, and 1973, when the *coup d'état* occurred, this tax gained in importance, which was reflected in higher rates (as high as 60% in 1950) and in a progressive structure, which was nevertheless ineffective in practice and had exemptions that diminished its progressiveness (Agostini and Islas, 2018). After this period, the modest progressive changes that have been possible occurred in response to moments of crisis, such as the major earthquakes that shook the country and that justified reforms as a means to finance reconstruction (Gil and Atria, 2021).

The main objective of the tax reforms that took place during the dictatorship were growth, efficiency, savings, and reinvestment. This led to the simplification of the tax system, the integration of corporate and personal income tax, the reduction of rates, and the introduction of benefits for the taxation of capital (Cheyre, 1986; Palma and Marcel, 1990). Since the return to democracy, many of these objectives have been maintained. Tax collection, however, has barely increased, while a regressive tax structure with broad benefits for high-income groups has been maintained. In addition, as part of the post-dictatorship transition agreements, structural reforms have been blocked

(Ondetti, 2021). In the 2000s, even tax debates that resonated with the public, such as the introduction of a mining royalty, could not be approved due to a strong and organized opposition from business groups, and only the creation of a modest mining-specific tax was achieved (Napoli and Navia, 2012). This has resulted in very low collection levels – recent estimates suggest that, between 2005 and 2014 alone, an additional US\$114,000 million could have been obtained from private mines without affecting investment and production decisions (Sturla et al., 2018) – and has incentivized the creation of more polluting industries (López and Figueroa, 2011). In the last decade, a major earthquake (2010), massive social protests (2012), and a social uprising (2019) have functioned as new critical junctures, propelling new tax debates linked to reconstruction, the reduction of private debt for university students, and the financing of social rights. Thus, taxes have been reintroduced in the public debate as a necessary topic for rethinking the role of the state and the expansion of welfare policies (Atria, 2018).

Despite this, Chilean citizens have relatively low tax-related knowledge because of a fiscal pact where an invisible tax, VAT, predominates (Biehl et al., 2019). For example, one-third of citizens report paying no taxes at all – oblivious even to the payment of VAT (Atria, 2022) – to which is added a reluctance to pay more taxes. Furthermore, the citizenry used to stand out for its adequate culture of compliance in comparison to other Latin American countries, a feature highlighted by the literature but that was also emerging in the perceptions of Chileans. However, in the last decades, this attitude has declined, primarily in response to massive acts of corruption, conflicts of interest, and influence-peddling related to taxes. These involved the tax administration, the political class, and business groups, and have increased distrust of the Internal Revenue Service, disapproval of the quality of fiscal spending, and VAT evasion (Jorratt and Martner, 2020; Jorratt, 2013; Atria, 2018).

The Chilean economic elite and taxes

In recent years, new evidence has been produced on the relationship between the economic elite and taxes. These advances contribute to understanding the role of tax policies in the reproduction of inequality, which is not only made evident in the aforementioned weak redistributive capacity of fiscal policy but also in the extreme levels of economic concentration that place Chile in a critical position in Latin America and at a global level (Flores et al., 2020). Below, I put forth a summary of the findings.

Tax burden

A novel survey of the elite (Atria and Rovira, 2021) and another survey of citizens on tax issues – the “National Survey on Tax Culture 2021” – allow us to compare each group’s perceptions of the tax burden in Chile. First, as Figure 5.1 shows, when asked to assess their individual tax burden, the

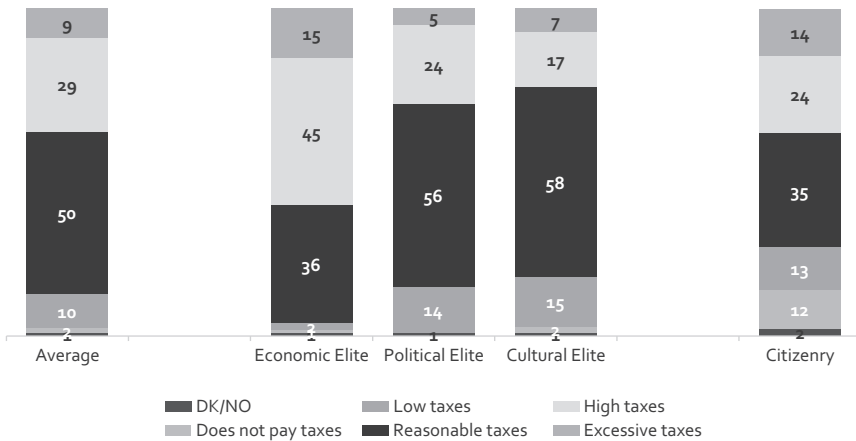


Figure 5.1 Perception of own tax burden: do you consider yourself to be a person who pays...? (%). Note: DK/NO: Don't know/No opinion. (Source: Author's own calculation based on Atria and Rovira (2021) and National Survey on Tax Culture (2021).)

economic elite and the political and cultural elite differ. While 60% of the economic elite consider that they pay high or excessive taxes, only 29% of the political elite and 24% of the cultural elite share this view.

However, when the same question is put to the citizenry, this percentage is slightly higher than for the political and cultural elite: 38% consider that they pay high or excessive taxes, a result that is consistent with the unequal distribution of the tax burden in Chile. However, in contrast to the three groups of elites, 12% of the citizenry declare that they do not pay taxes, which can be explained by the fact that they do not consider VAT payments to be a tax, or, as mentioned above, because they lack general knowledge of taxation. Although this data does not allow us to evaluate the perception of specific taxes, it is likely that citizens have a negative view of their own tax burden primarily because of what they pay in VAT and, in the case of those who own a vehicle, because of fuel taxes.

When assessing perceptions of different groups' tax burdens, focusing only on the views of the economic elite and the citizenry, it is possible to identify significant differences, as shown in Figures 5.2 and 5.3.

The figures indicate that broadly there is a consensus that the poor, and small to medium-sized enterprises (SMEs), pay high taxes: 65% and 71% of the citizenry, and 44% and 48% of the economic elite agree with this statement. However, the difference between the economic elite and the citizenry is amplified when evaluating the tax burden of the middle class: while 35% of the economic elite consider that the middle class pays high taxes, 70% of the citizenry believe the same. The richest people and large companies are the two groups that the economic elite and the citizenry mention the

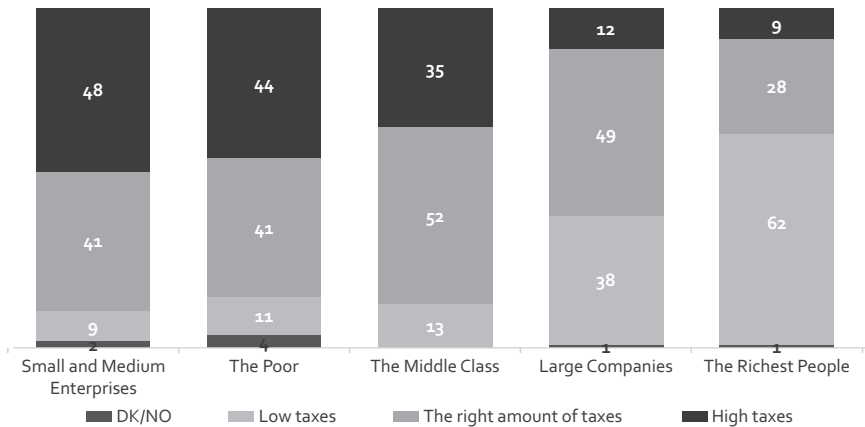


Figure 5.2 The economic elite's evaluation of different groups' tax burdens: for each group, would you say that they pay high taxes, low taxes, or the right amount of taxes? (Source: Author's own calculation based on Atria and Rovira (2021).)

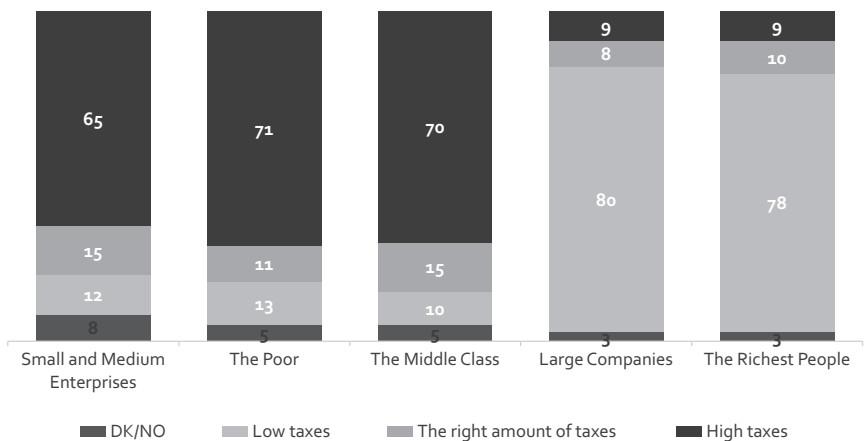


Figure 5.3 The citizenry's evaluation of different groups' tax burdens: for each group, would you say that they pay high taxes, low taxes, or the right amount of taxes? (Source: Author's own calculation based on National Survey on Tax Culture (2021).)

most as paying few taxes, although this perception is far stronger among the citizenry: 80% of this group believes that large companies pay few taxes, compared to 38% of the economic elite who share this view, and 78% of the citizenry believe that the richest pay few taxes, compared to 62% of the economic elite.

In general, the results suggest that the economic elite has a critical view of the tax burden. When compared with the views on other groups, there is a consensus that the richest and large companies are in a better position than other groups; however, the economic elite has a lower percentage of adherence to this view than the other elites and the citizenry. Although the available data does not allow for a breakdown by type of tax and productive sector, it is likely that private mining companies are considered by the public to be a clear example of the low tax burden of large companies. This perception can also be reinforced by a common criticism from people living in regions with strong mining production who consider that the profits that are produced do not benefit the areas that surround the mines. However, this does not only have to do with the low tax burden but also with the fact that tax revenues go to the general treasury and there are few mechanisms and instruments that allow the regions to benefit directly from a portion of these resources.

Justifications for evasion and avoidance

Based on a qualitative study that examines the economic elite's justifications for evasion and avoidance (Atria, 2019), it is possible to analyze how this group makes sense of these actions and how this sheds light on this group's views on taxes and the redistributive role of the state.

The narratives of the participants show that the economic elite is not a completely homogeneous group: while some strongly reject aggressive tax planning, others exhibit more proactive behaviors for reducing their tax burden. However, the second group is in the majority and is also more active in elaborating justifications to emphasize that the actions carried out are legal. This feature is frequently pointed out in the literature about Chile, and is reflected in the strict adherence to legislation, in the perception of a solid and stable legal framework, and in a strong prosecution of tax evasion, even though its effects are similar to those of tax avoidance.

In-depth interviews with the economic elite reveal four logics of action for justifying non-compliance with taxation: (i) civic-ontological, i.e., formative or cultural weaknesses of certain individuals or groups; (ii) regulatory, which refers to the opportunities offered by the Chilean system and the need to be competitive in the market; (iii) compensatory, which points to the need to compensate for damages or injustices that the system generates against the taxpayer; and (iv) affirmative, which vindicates creative tax compliance as an option that is consistent with the design of the system and as a productive strategy that will result in greater growth, investment, and wealth creation for the country. A common point that the first two have in common is their non-interpretative condition. In other words, they consider that tax non-compliance is to be expected given the educational weaknesses of certain groups, the competition imposed by the market, and/or the incentives of the current tax system. In contrast, the second two share an interpretative condition, i.e., they are responses to a negative view of the tax system according to which certain taxes, rates, or mechanisms are

harmful, or they are vindications of aggressive tax optimization because of its positive effect on growth and productive investment.

Logics of action applied to the use of investment companies

Finally, the use of investment companies can be analyzed more specifically based on the same interviews used above (Atria, 2015). A large part of income tax evasion is explained by the under-reporting of business revenues – withdrawals of profits and dividends – which represents 91.7% of under-reported income (Jorratt, 2009). This is linked to differences in the tax treatment of capital and labor, but also to a form of tax optimization that consists in depositing the withdrawals or dividends in investment companies, thus deferring the payment of personal taxes.

Estimates show that 50% of retained corporate income is accumulated in companies whose line of business is investment, confirming that there is a greater incentive to keep savings in investment companies than to productively invest (Jorratt, 2009). In fact, investment companies frequently have neither productive assets nor employees, the business partners tend to be the spouse and adult children, and 78% of the owners are in the top 10% of the population (Agostini, 2009). Although the largest amounts are retained by large companies, investment companies exemplify what one interviewee describes as “trickle down avoidance,” as they are used the most by high-income professionals, especially those that offer independent professional services, such as doctors, dentists, and architects. According to Jorratt (2013), there are approximately 40,000 investment companies that exist for tax optimization purposes only, which represents about 20% of the total number of active companies in the country.

Members of the economic elite justify the use of investment companies with a combination of the logics of action outlined above. It is a response to the disparity in tax rates for individuals and companies, with the tax rate for individuals being perceived as very high. This leads them to take advantage of the opportunity to create companies in order to be taxed as companies, with the defense that it is a legal mechanism. Another interpretation emphasizes the negative view of the state and the limited benefits received in exchange for taxes, with investment companies being a solution to this deficiency. A third group describes the companies as an excellent tool when used according to the spirit of the law, highlighting that through this tool many resources that would have been consumed are reinvested in productive assets for Chile:

Taxes are too high for the benefits they produce – not only the direct benefits as a reward for paying taxes, but for the benefits they could produce in terms of redistribution.

(EE19)

These figures can always be used to go beyond those semi-diffuse limits that we are talking about. But on the other hand, one cannot but think that they are rational ways of organizing people’s wealth and assets.

(EE14)

According to the interviewees, the excesses or abuses of investment companies should be dealt with through regulation and oversight. However, they do not clearly specify which uses are illegitimate. For example, acquiring a family car, deducting costs with acquaintances' invoices, or buying food are generally reproached, although they continue to be exercised. However, the reaction is not the same if a company is used to buy real estate, pay for children's education, buy stock, or reduce the inheritance by passing on wealth to the new generations. However, these actions confer advantages to these taxpayers – not only over wage earners of equal income but also over a large part of the population that cannot reduce the high VAT costs from acquiring basic goods or obtain more liquidity with which to pay for a good school for their children.

Consequently, the narratives that propose having greater oversight are slightly ambiguous, because while for some the investment company is a mechanism that causes serious damage through tax evasion, for others enforcement strategies should not restrict the tax advantage of investment companies, but only eliminate its crudest uses. Finally, there is a significant number of interviewees that, even in the face of a reduction in their taxes or the promise of more tangible public goods, would not get rid of their investment company. This illustrates the interest in lowering the tax burden regardless of whether or not the system is adequate or inadequate.

If they told me where my taxes go, I would be committed, and I'm not just saying that out loud. **If they told you that, would you give up, for example, investment companies and that kind of thing?** No, I would not give up the investment company. Because what happens is that one pays a lot of taxes. I think that given the taxes I pay today, I can demand, "Tell me where you are going to put them". I don't want to pay more taxes.

(EE7)

Conclusion

Fiscal sociology can help explain the functioning of the tax system in light of its social, political, and cultural contexts. The concept of "tax culture" can help reach this objective, situating the analysis in the relationship between taxpayers and institutions and considering the daily interactions where knowledge and normative contents are deployed, as well as the national historical context which is not isolated and which participates in the global circulation of ideas, beliefs, values, and interests. This approach rules out an essentialist idea of tax culture and allows, within a national tax culture, for more specific constellations that distinguish between different groups' relationships with taxes. This chapter has applied the concept to Chile, focusing on its elite.

Although the resistance to pay taxes seems to be a common trait of the entire population (Mamalakis, 1987; Wormald and Cárdenas, 2014), disparate levels

of compliance between indirect and direct taxes reflect institutional measures that have led to a privileged enforcement of the former over that of the latter, a more established culture of VAT payment than of income tax payment, and a set of narratives that help discourage tax increases for the richest, even in the presence of low rates.

Tax policy has varied throughout Chile's history, interacting with different political ideas and regimes as well as with critical junctures, some of which have led to modest redistributive and progressive changes. Some of these changes have been consistent with patriotic and solidarity discourses and more state-based ideas of development, while in other cases these discourses have been contradictory, making the tax structure more regressive and increasing benefits to capital, particularly during the dictatorship. As a result of this period, the redistributive functions of taxes were strongly affected and a vision that prioritizes tax design that facilitates efficiency, neutrality, and the incentivizing of economic growth prevailed, which was in line with the dominant ideas at an international level (Tanzi, 2014; Steinmo, 2003). The return to democracy did not change this vision, but the interaction between strong redistributive preferences and ongoing public protests has driven the demand for institutional changes that would allow for expanded welfare policies. However, low tax consciousness and widespread institutional distrust based on perceptions of unfair treatment and of benefits for the richest pose the challenge of increasing taxation of the richest – a historically difficult issue – while at the same time promoting the idea that paying taxes is a form of citizenship and that it allows one to demand greater accountability from the state (Atria et al., 2018).

Qualitative evidence reinforces the previous analysis. On the one hand, it shows that the economic elite is opposed to higher levels of redistribution and taxation. Although this feature is shared with several countries, it cannot be taken for granted: the strength of these preferences may vary, and in several countries the rich may exhibit preferences for more taxes and redistribution (Rueda and Stegmueller, 2016). On the other, the results show the specific form that opposition to taxes takes in Chile, based on particular logics of action that are not necessarily the same in other countries.

The *social uprising* – which began in October 2019 and triggered the plebiscite to write a new constitution and favored the election of Gabriel Boric as the new president of Chile in March 2022 – and the pandemic seem to have produced the conditions for a new political–economic context that creates new opportunities for tax reform, in conjunction with robust evidence that proves that tax policy has weaknesses in need of reform. However, a tax change is not guaranteed, as the economic elite has proven to be highly resilient throughout history, a feature that is strengthened by its strong influence on the political elite. The next few years will show whether the new conditions are sufficient to bring about a change in the tax culture of the Chilean economic elite and in redistributive institutions, or in both.

Notes

- 1 See Chapter 3 of this book.
- 2 See, for example, CIAT's definition (1977), whereby tax culture is the "reflexive knowledge of human beings regarding the goodness of paying taxes, which leads them to naturally and voluntarily comply with their tax obligations" (Sarduy and Gancedo, 2016).
- 3 A definition within this approach is that of Roca (2008, p. 5): "The set of values, beliefs, and attitudes shared by a society with regards to taxation and the laws that govern it."
- 4 This approach posits that tax compliance has three components – tax education being one of these, along with tax deterrence and tax morale (OECD, 2021, p. 19).

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6 Tax evasion and capital flight in resource-rich Latin America

What we can learn from Argentina

Verónica Grondona

Introduction

Tax evasion is a worldwide phenomenon that has significantly ratcheted up with the globalization of commercial and financial flows. Latin America historically has high rates of fiscal evasion that, as mentioned in the introduction to this volume, to this day amounts to a 50% loss in potential tax revenue from income and profits and in total (if VAT is included) amounts to 6.3% of GDP. The erosion of the tax base through fraud or aggressive tax planning is a problem that cuts across all economic sectors, but takes on special features in the case of the commodity exporting sectors, usually tradable goods in transparent markets. These features are often not addressed by countries, given that in the international division of labor, they perhaps find themselves more affected by other practices.

The practice of tax evasion and capital flight is based on a transnational structure of systematic avoidance comprised of countries with little or no taxation, preferential tax regimes (in terms of both their geographical nature and their application to different types of companies), and strict banking secrecy provisions, which result in limitations on international cooperation. This set of arrangements can be understood as “tax havens”, which, rather than making up a territorial unity, in fact form a complex set of different regulations that facilitate fraud and tax evasion (see Palan et al., 2010, pp. 17–18, 33).¹ The most important vehicle for carrying out different evasion, avoidance, and capital flight practices are transnational economic groups and businesses. Intra-firm trade accounts for more than 60% of world trade and provides room for a wide margin of fiscal maneuvering and fraudulent practices (Palan et al., 2010, p. 174).

Given the central economic importance of the raw material sectors in Latin America, a large portion of these transnational structures are found in the natural resources exporting sector. These sectors play a particularly important role in the economies and trade balances among countries in the region. In many countries, raw materials make up 70% to 90% or more of exports: in 2020 (lightly processed) commodities accounted for 70% of exports in Brazil and around 90% in Bolivia and Chile (statistics from ECLAC). In Argentina’s case,

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30% of exports in 2020 were commodities, 7% were fuel and energy, and 40% were agricultural goods.² For this reason, this chapter focuses on the maneuvers used by commodity exporting sectors so as to avoid and evade taxes on earnings and transfer profits to offshore jurisdictions.

The chapter examines avoidance schemes in the primary commodity export sector. These avoidance schemes consist of a variety of mechanisms and instruments: the undervaluation or overvaluation of exports and imports, service transactions and royalties (transfer pricing), setting up companies, thin capitalization, the creation of evasion structures to take advantage of preferential regimes and double taxation conventions, and a combination of different instruments that can erode the tax base, completely distorting economic motivations to the point that they end up disproportionately remunerating certain activities or entities of a group. The same mechanisms utilized to erode the tax base can also be used for capital flight. This assertion is backed up by a number of notorious, publicly well-known cases that have recently received considerable international attention due to the Panama Papers, the Pandora Papers, and the Luxembourg Leaks. However, it is worth noting that capital flight does not end with these issues, since perhaps the more relevant problem lies in the control of foreign currency inflows coming from commodity exports. For this reason, as well as the previously mentioned importance that commodity exportation has in the trade balance, we will in this chapter principally focus on tax evasion carried out through the use of different preferential regimes and bilateral agreements to evade/avoid taxes on earnings or dividends through transfer pricing (section 2) and on the problem of other transfer pricing strategies like the undervaluation/overvaluation of exports and imports (section 3). Finally, section 4 addresses capital flight. The issue of capital flight is addressed separately because it is carried out through schemes and evasion structures that will be discussed in sections 2 and 3, taking on unique characteristics.

The focus will be on Argentina. Argentina exhibits the characteristics and problems mentioned above and widely uses different tax avoidance/evasion instruments through the raw material exporting sector. It has a large agricultural sector and an increasingly important mining sector. Thanks to extensive data collection by the tax authorities, some of the region's most central tax avoidance and evasion practices can be analyzed. Additionally, in 1943, it was the first country to introduce a particular method for the valuation of exported goods with the aim of determining income tax, later substantially altering it in 2003 (Grondona and Knobel, 2017, p. 10). This method was later replicated by other countries that export goods with known prices.

Elusive structures and the shifting of profits and dividends offshore in the commodities sector

Today, transnational groups' structures are attuned to different aims. On the one hand, there is the aim of positioning themselves in the jurisdictions where they carry out economic activities. In this sense, it is clear that a mining group

needs to have a physical presence in the regions where exploitable mineral resources are found. On the other hand, there is the aim of minimizing taxes, or what is commonly referred to as “tax planning”. To this end, branches are created in jurisdictions with little to no taxation to centralize financial operations or research and development costs, logistics operations, or even the centralization of purchases with subcontractors. Often the centralization of these operations and the location of associated profits is unrelated to the entities’ actual economic substance where these activities occur. In other words, it is possible that there are few or no employees in the jurisdictions where income is centralized, nor sufficient assets to justify the profitability that is seen. The following sections will present some of the features that characterize transnational economic groups’ tax planning as well as some of the schemes geared towards taking advantage of agreements to avoid double taxation in combination with promotion regimes. These are characteristics that, based on what has been observed in court files for various cases and in other studies, are of particular interest for analyzing the commodity exporting sectors.

It is worth noting the steep challenge tax administrations face in uncovering tax evasion and avoidance schemes when they are carried out in the framework of complex, elusive structures that transcend the country’s borders. Obtaining information on the activities carried out by transnational groups in every jurisdiction they operate in was, until recently, impossible to imagine. However, following the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country (CbC) reports, participating tax administrations have access to information on revenue, results, the number of employees, taxes paid, assets, earnings before taxes, and the activities carried out in each jurisdiction where transnational groups operate. Argentina has 83 activated relationships for the exchange of these reports, and, in practice, it received information from around 51 countries where the headquarters of groups with affiliates or branches in Argentina were found in 2018.³ It received 1,195 CbC reports relating to the fiscal year 2018. The information provided by the CbC reports can serve as an initial indicator that a group’s entities are obtaining values that appear disproportionate in relation to their level of economic activity. Based on the information exchanged, it is possible to identify groups that pose a high risk for tax base erosion and profit shifting (BEPS) who operate with local subjects. The risks in these cases are posed, for example, by transnational business groups that earn high revenue and have little substance in specific jurisdictions (namely, low or no tax jurisdictions) or that exhibit signs that they lack the structure (given the number of employees or amount of capital) needed to generate that level of revenue in such jurisdictions. As such, based on the 1,196 CbC reports received by the Argentinian tax administration for the 2018 tax period, 46 risky economic groups were identified.⁴ The jurisdictions with the highest number of risky indicators were: Luxembourg, Switzerland, Chile, Lebanon, the Netherlands, Turkey, South Korea, and the United Arab Emirates. The branches of these groups located in Argentina include insurance companies, primary commodity exporters, clothing sellers, consulting service

providers, electronics providers, capital goods distributors, replacement parts suppliers, packaging, and manufacturers, among others. In other words, there is not a uniform range of businesses that are particularly concentrated in one economic sector, but instead a common pattern found in all sectors of the Argentinian – and global – economies. It is worth noting, however, that these jurisdictions constitute a real risk only when it is proven that Argentina has an economic relationship with these countries. In this sense, the Illicit Financial Flows Vulnerability Tracker created by the Tax Justice Network,⁵ identifies Brazil, the United States, China, the Netherlands, Switzerland, Spain, Peru, Italy, Germany, and Mexico as risky due to the volume of operations that Argentina has with them and makes it possible to contextualize the CbC information. Thus, out of the riskiest jurisdictions identified, based on CbC reports, only Luxembourg, Switzerland, and the Netherlands seem to represent a true risk due to the volume of commercial relations maintained with those countries, as well as their maintenance of financial secrecy.

An analysis of the CbC reports lays bare the ways in which centralized elusive structures in jurisdictions characterized by preferential regimes or low tax levels are used in conjunction with export and import operations, royalties, and service charges to erode the tax base. In this sense, an analysis of the mining sector shows a high level of undercapitalization combined with little to no operating margin on the capital used.⁶ However, undercapitalization is also apparent in other sectors, including agricultural commodity exports. Table 6.1 presents the financial operations payments made by affiliated entities located in Argentina to the top ten countries, jurisdictions with little to no taxation and non-cooperating jurisdictions.⁷

As the table shows, seven of the ten main jurisdictions that receive these operations have some type of tax incentive. It is interesting to note that between 2019 and 2020 payments for financial operations appear to drop. The reasons behind this are not analyzed in depth in this chapter; however, it can be assumed that restrictions placed on capital outflows towards the end of 2019 and extended in 2020 played a role, as well as restrictions placed on access to the Emergency Assistance Program for Work and Production (ATP) to help people and businesses affected by the health crisis caused by the Covid-19 pandemic, which carried the obligation of barring disbursement of any type to subjects directly or indirectly associated with entities whose residence, establishment, or domicile was located in a non-cooperating jurisdiction or one with little or no taxation.⁸

Another type of international operation used for fiscal planning is the provision of offshore commercial and/or logistics services. As shown by the Platform for Collaboration on Tax (2017, p. 217), the role of branches or affiliates dedicated to the commercialization and logistics of transnational business is often identified as a controversial area for transfer pricing in the mining sector. It is relatively common to use offshore commission agents, who can charge between 5% and 10% of the retail value for what is claimed to be marketing activities. And, in some cases, a contract is simply put together without even referring to

Table 6.1 Payments for declared financial operations for the fiscal periods 2019 and 2020 in ten core countries.

Country	Reported amount (US\$) 2019	Reported amount (US\$) 2020	Percentage change	Is there a convention to avoid double taxation?	Tax incentives?
Netherlands	321,495,730.63	234,141,054.65	-27%	Yes	Special regime
United States	167,637,375.61	161,086,898.96	-4%	No	No taxation of foreign revenue
Japan	124,501,401.86	174,120,734.67	40%	No	No
Peru	46,539,465.34	1,601,649.18	-97%	No	No
Canada	40,838,647.96	68,779,637.64	68%	Yes	No
United Kingdom	38,322,718.69	83,210,758.89	117%	Yes	No
Spain	31,718,661.76	18,599,092.35	-41%	Yes	Special regime
Chile	28,287,339.78	30,616,267.80	8%	Yes	Special regime
Switzerland	24,872,624.38	23,153,368.97	-7%	Yes	Jurisdiction with little to no taxation
Germany	23,972,412.99	9,062,055.58	-62%	Yes	Special regime

Source: Author, using information from AFIP.

Note: "Tax incentives" is understood in accordance with Argentine income tax law, where it refers to a jurisdiction with either little or no taxation (<15%), a jurisdiction that has a special tax regime that lowers the general tax rate below 15% by business type and/or corporate structure (offshore/holding), or a jurisdiction that does not tax foreign revenue.

a commission agent so that the overseas importer wires part of the total amount to Argentina and the other part to an account that is typically located in a jurisdiction with little to no taxation (Argibay Molina, 2013, pp. 78–82).

On the other hand, as part of tax planning based on transfer pricing, a series of deductible costs can typically be found which have the effect of reducing the income tax base, such as the provision of service or royalty payments, whose reported beneficiaries for the local entities are difficult or near impossible to verify. Even when, individually, these expenditures may not represent an important sum, they can potentially end up eroding the tax base. This is the case because even when in countries like Argentina the law on income tax allows making withholdings at source on payments to foreign beneficiaries, serving to collect taxes even when deductions on the calculated income tax are permitted, conventions to avoid double taxation reduce the portion of these withholdings. Table 6.2 presents the primary ten jurisdictions to which royalty payments have been made, as declared before the Argentinian tax administration in relation to the 2019 and 2020 fiscal periods.⁹

As can be seen in the Table (6.2), six of the ten principal jurisdictions that receive these operations enjoy some type of tax incentive.

Like paid financial operations, royalty payments appear to decline between 2019 and 2020, dropping 29%, according to the taxpayers' own statements,¹⁰ with the same considerations as mentioned above. However, it is also worth noting that royalty payments tend to be linked to sales or production (in the case of royalties for trademark use, they tend to be calculated as a percentage of sales, and in the case of know-how royalties, disbursements tend to be based on production costs), which makes it reasonable to assume that in the year when Argentina suffered a 10% drop in GDP as a result of the Covid-19 pandemic's sanitary conditions, royalty payments would have dropped by a similar percentage.

In any event, it is clear that these operations pose a high risk of tax base erosion and profit shifting. Even after the BEPS Action Plan from the G20/OECD,¹¹ this proves very difficult to address by tax administrations, due to a lack of sufficient regulatory tools. This remains the case regardless of the important step forward in quality brought by the availability of international information, thanks to the exchange of CbC reports.

However, what is not evident in the analysis of the CbC reforms, but which also poses the risk of tax base erosion and profit shifting, are the dividend payments that often are made by exploiting double taxation conventions in conjunction with promotion regimes and/or territorial income taxation (which does not tax foreign income). As such, in what follows, two public cases of businesses in Argentina's primary goods exportation sector will be presented. The cases are the Molinos Río de la Plata group, which exports agricultural commodities, and the Yamana Gold group, which works in mining.¹² Both provide clear cases of the use of promotion regimes or tax rulings that have the effect of lowering the tax base in combination with conventions to avoid double taxation, in what is known as "treaty shopping". "Tax treaty shopping"

Table 6.2 Royalty payments declared for the fiscal periods 2019 and 2020, Argentina.

Country	Reported amount (US\$) 2019	Reported amount (US\$) 2020	Percentage change in amounts (US\$) 2020 vs. 2019	Is there a convention to avoid double taxation?	Tax incentives?
Netherlands	252,554,118	44,794,783	-82%	Yes	Special regime
United States	231,708,871	310,844,490	34%	No	Foreign profits not reached
Japan	104,328,809	3,127,154	-97%	No	No
Switzerland	56,667,032	81,955,896	45%	Yes	Jurisdiction with little to no taxation
France	49,657,696	37,176,019	-25%	Yes	Special regime
Brazil	35,224,749	32,751,205	-7%	Yes	No
Spain	14,581,672	9,065,710	-38%	Yes	Special regime
Germany	12,031,924	8,289,102	-31%	Yes	No
Canada	6,427,521	6,192,494	-4%	Yes	No
Portugal	5,066,548	10,766,610	113%	No	Special regime

Source: Author, using information from AFIP.

Note: For the definition of "tax incentives", see note to Table 6.1.

is understood as a particular form of tax avoidance carried out by transnational corporations, which entails the redirection of foreign investments by means of a third country with the aim of obtaining a reduction in source withholdings by taking advantage of more favorable tax conventions (Weyzig, 2012).¹³

The Molinos Río de la Plata case

In 1976, Argentina signed an agreement with Chile to avoid double taxation (DTA) (which is no longer in effect). Article 11 of the DTA stipulated that “Dividends and profit participations of enterprises, including returns or surpluses of cooperatives, shall be taxable only by the Contracting State where the enterprise distributing them is domiciled.”

In 2002, Law No. 19.840 was enacted in Chile which established “investment platform companies” through which foreign investors can set up a company in the country to administrate overseas investments, declaring the earnings made through these exempt from taxes. In this context, in 2003, the Grupo Molinos Río de la Plata formed “Molinos de Chile y Río de la Plata Holding S.A.” (Molinos Chile), with Molinos Río de la Plata S.A. (Molinos Argentina) exercising control over Molinos Chile, with 99.99% participation in the company’s stock. (It is worth mentioning that Molinos Chile carried out no activity besides holding offshore investments as an “investment platform company” regulated by Article 41 D of the income tax law in the country, following the modification enacted by Law 19.840.) Molinos Argentina, for its part, had absorbed Molinos Chile’s share capital through transfers of the controlling share packages of three Uruguayan companies – Alimentos del Plata S.A., Molinos Overseas S.A., and Molinos Uruguay S.A. – and one Peruvian company – Molinos del Perú S.A. Between 2004 and 2009, Molinos Chile paid dividends to Molinos Argentina coming from Molinos Uruguay and Molinos Peru. These were not taxed in Chile under the new system, nor in Argentina, pursuant to Article 11 of the DTA. It is in this manner that a case of double non-taxation occurred.

In 2011, the Federal Administration of Public Income of Argentina (AFIP, the acronym in Argentina) made an *ex officio* determination of taxes on Molinos Río de la Plata S.A.’s earnings, taking into account

- 1 Molinos’s declared dividends originating from shares in three Uruguayan companies and one Peruvian company, all controlled by Molinos Chile, as untaxed income under Article 11 of the DTA.
- 2 Based on this fact, the Treasury applied the principle of economic reality established by Article 2 of Law 11.683 (text ordered in 1998 and its amendments)¹⁴ and deemed that Molinos Argentina had improperly used the DTA by using the Chilean holding company as a “conduit company” to divert the cost of dividends originating from shares of the Uruguayan and Peruvian companies to Chilean jurisdiction in order to avoid paying income tax in Argentina and similar income taxes in Chile at the same time.

Non-taxation in Argentina was brought about by the application of Article 11 of the DTA, then in effect, which established that dividends only faced taxation in the country where the distributing company was domiciled (in this case Chile, since Molinos Chile was domiciled in the country); and non-taxation in Chile was confirmed in turn because dividends originating in Uruguayan and Peruvian companies did not face income taxation in that country since they were earnings coming from investment platform companies, which, pursuant to the modification of Law 19.840 to the legal regime of this tax, “are not to be considered domiciled in Chile, consequently they will pay taxes in the country only on income from Chilean sources”.

The AFIP considered that Molinos Argentina’s creation of the holding company in Chile had no justification in terms of its corporate structure since it had no real economic connection to the Uruguayan and Peruvian companies and that it lacked economic substance or business purpose, since the dividends distributed by the companies mentioned did not remain with Molinos Chile. Instead, it was deemed to serve as an intermediary to almost immediately send those earnings to Molinos Argentina, and that it was definitively formed with the sole purpose of eliminating the tax burden and channeling the income obtained in states that are not a party to the DTA – Uruguay and Peru – through a Chilean company, situated in a state with which a double taxation treaty had been concluded.

In 2021, the majority of the magistrates of the Argentinian Supreme Court of Justice (CSJN, the acronym in Argentina) voted in favor of the Treasury in a lawsuit involving a sum upwards of 65 million pesos (approximately US\$17 million as of December 31, 2019).¹⁵

The Yamana Group case

Yamana Gold is a gold producing company based in Canada, with mines in Brazil, Chile, Argentina, and Canada. In 2014, the Luxembourg Leaks revealed agreements made between the government of Luxembourg and other parties, which constituted a tax cut. There were only two cases of Argentinian companies, one of which was the Yamana Group. In regard to this case, the leak released a report written by PricewaterhouseCoopers to the Luxembourg tax authority, dated June 1, 2010, in which the Yamana Group is restructured in order to simplify the organigram and meet the requirements established by foreign banks and institutions for obtaining financial assistance.¹⁶ In this manner, Minas Argentinas (Barbados), owner of Yamana Argentina Holding (Chile), which is, in turn, owner of Minas Argentina S.A. (Argentina), migrates to Luxembourg. This entity in turn merges with Yamana Argentina Holding BV (the Netherlands), which ends up being absorbed by the Barbados entity (see Figure 6.1).

Following the Luxembourg Ministry of Finance’s tax ruling, Minas Argentinas (Barbados) would benefit from an exemption regime on dividends and capital gains from Luxembourg for its participation in Yamana

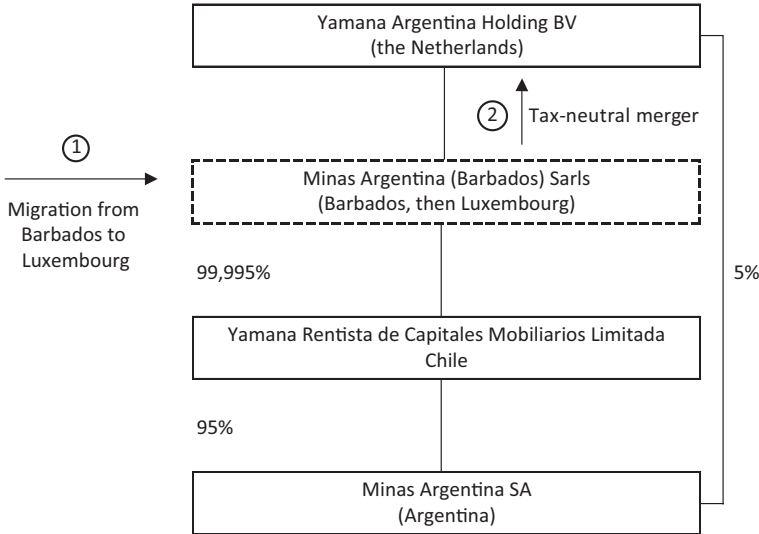


Figure 6.1 Simplified structure of the Yamana Gold group. (Source: Yamana Gold Tax Ruling.)

Argentina Holding (Chile). The same exemptions would also apply to wealth taxes.

As indicated in Annex 2 of the leaked document, the principal activity of Yamana Argentina Holding (Chile) is holding a 95% interest in Minas Argentina S.A.’s shares (Argentina). Minas Argentina S.A.’s dividends and capital gains would be exempt from income taxes in Chile through the use of an investment platform company scheme and would also face no taxes in Argentina by virtue of the application of Article 11 of the DTA in force at the time. Again, this resulted in a case of double non-taxation.

It is worth noting that on June 29, 2012, Argentina terminated its DTA with Chile, establishing a new agreement on May 15, 2015. This new agreement has shown that it would not prevent a contracting state from applying the provisions of its internal regulations regarding preventing tax evasion, and that the Convention’s benefits would not be granted to a person who was not an actual beneficiary of earnings from another contracting state or equity located there.

In any case, Argentina has 20 other DTAs. Eighteen of the jurisdictions in Argentina have DTAs which have a general corporate tax regime with rates below 15%; one or multiple promotion regimes, based on activity, business size, or corporate type; foreign income not touched in the case of corporations; or tax rulings that are allowed to be established that entail a reduction in the tax burden. In other words, the possibilities for fiscal planning using existing DTAs are still plentiful.¹⁷

Analyzing these cases allows us to see multiple forms of elusive structures in the natural resources exportation sector. As in other sectors, a complex corporate framework exists, given that it comprises shell companies set up as intermediaries to reduce the tax base. Operations that could be considered capital transfers are presented as expenditures to avoid paying taxes on dividends and reduce the tax base on capital gains (Grondona, 2014), taking advantage of a network of DTAs to reduce withholdings on the source for presumed earnings. Moreover, when dividend payments are made, they are done through elusive structures designed to avoid facing taxation. As was mentioned in previous sections, even though it is a feature shared by all sectors, given the weight of the primary goods exporting sector in developing countries, these structures are particularly detrimental to the tax base in these countries when they take place in the natural resources exporting sector.

Undervaluation of exports and overvaluation of commodity imports

Like service payments, royalties, and interest, the undervaluation of commodity exports and the overvaluation of commodity imports constitute transfer pricing manipulation used to erode the tax base. One example to illustrate the magnitude of this practice is that between 2010 and 2013, through under-invoicing alone on soybean product exports, eight of the major exporters in Argentina possibly eluded paying taxes on earnings of US\$1,000 million to US\$1,500 million in exports a year (Grondona and Burgos, 2015, p. 44).

In light of the importance commodity exports have in the trade balance in developing countries, with an understanding that its valuation could hold particular relevance in the Argentinian economy, in 2003, Argentina laid out a valuation method specifically for the export of goods with a known cost in which an international intermediary, who is not the actual recipient of the merchandise, audits the goods. This method came to be known as the “sixth method” by virtue of being the sixth paragraph of Article 15 of the Profit Tax Law (ordered in 1997).¹⁸ This sixth method applies to commodities and is different from other transfer pricing methods because it draws a comparison with the market price value instead of operations and prices agreed upon between unrelated parties. Different iterations of this method have been instituted in many developing countries, such as Bolivia, Brazil, Costa Rica, the Dominican Republic, Guatemala, Honduras, Peru, Uruguay, Zambia, Malawi, India (Grondona, 2019), and Ukraine (Antonyuk et al., 2018), among others.¹⁹

Using the criterion established by the sixth method as a basis, if the unit price of exports of soybeans, soybean meal, soya oil, corn, and wheat²⁰ at the loading date of the merchandise is compared to the official Free On Board (FOB) value published by Argentina’s Ministry of Agriculture, Livestock and Fishing (MINAGRI, its acronym in Argentina),²¹ significant diversions are observed (see Table 6.3).

Table 6.3 Exports of agricultural products and manufactured goods of agricultural origin (2018), Argentina.

	<i>Exports (US\$)</i>	<i>Triangulations (US\$)</i>	<i>Total export deviations (US\$)</i>	<i>Triangulations/ exports</i>	<i>Total export deviations/ triangulations</i>
Soybeans	1,430,376,761	1,391,996,491	486,564,943	97%	35%
Soy meal	9,205,213,987	9,128,433,336	4,506,219,855	99%	49%
Soya oil	2,891,909,033	2,887,961,971	910,179,915	100%	32%
Corn	4,027,552,872	3,910,451,487	1,537,508,103	97%	39%
Wheat	2,488,844,636	2,377,013,494	1,595,464,120	96%	67%

Source: Author, using information from AFIP.

Note: "Total export deviations" does not reflect price difference, but rather those exports that present deviations from the official price (MINAGRI) at the loading date.

Table 6.3 shows that 67% of wheat export operations in the 2018 fiscal period involved some type of diversion regarding the FOB value published by MINAGRI. Some 49% of soy meal exports, 99% of which are carried out through companies that act as intermediaries between the Argentinian exporter and the importer in the receiving country (which is to say that they are triangulated), reflect some type of deviation regarding MINAGRI's FOB value.

This is not new data: Grondona and Burgos (2015), using the same price-filter analysis methodology, had observed that, on average, the undervaluation of exports in the soy sector between 2010 and 2013 was around 10% when compared to the prices in the Gulf of Mexico at the loading date of the merchandise. Meanwhile, overvaluation during the same period reached a maximum of 1%. Moreover, it should be noted that when export prices rise there is a more significant difference between the unit price used in exportation and the official FOB value on the loading date (García Zanotti and Gaggero, 2021). When analyzed case by case, business by business, the specific price deviations appear greater in the case of certain products, like soy meal, corn, and wheat.

Additionally, as highlighted in Table 6.4 in the cases of the largest observed deviations, the intermediaries are found in the jurisdictions of the United States, the Netherlands, Switzerland, and Uruguay.

Interestingly, these differences are found in relation to fiscal periods when the sixth method was in force. However, the majority of taxpayers decided not to apply this method despite having exported goods with known prices. In part, this may be due to the consequential prosecution of cases that resulted from the application of the “sixth method”. In this sense, as of 2020, 19 out of 89 pending court cases of transfer pricing were related to the application of the sixth method. As such, even when there are precedents that validate the use of export valuations at the loading date of the merchandise that uses MINAGRI's official FOB,²² failure to provide clarity in the 19 currently pending cases appears to have eroded the tax certainty that the method could offer.

Table 6.4 Minimum and maximum deviations by agricultural commodity export type (2018), Argentina.

	<i>Soybeans</i>	<i>Soy meal</i>	<i>Corn</i>	<i>Soya oil</i>	<i>Wheat</i>
Minimum deviation	0%	0%	0.13%	0%	0.41%
Maximum deviation	5.18%	46.43%	25.68%	7.12%	37.44%
Intermediary country in the case of maximum deviations	United States	Netherlands	Uruguay	Uruguay	Switzerland

Source: Author, using information from AFIP.

The agricultural export sector is not the only one in which differences between the export price and the quoted price are observed. Evidence abounds that indicates that these practices are common in the mining sector as well. Hanni and Podestá (2016) analyzed exports in Bolivia, Colombia, Ecuador, and Peru, comparing the implied unit price obtained through customs declarations of certain selected mining exports with the estimated price, adjusting for differences in quality and other charges. This analysis confirmed the existence of transactions where the implied unit price declared by the exporter was substantially different from the value to be expected following the market price and the reference contracts for each product. Although there are differences depending on the product type, between 2006 and 2016, undervaluation was around an average of 0.3% of the export value for refined copper, 3.9% in the case of lead concentrates in Peru, and 7.6% in the case of unrefined gold in Colombia.²³ This is confirmed by various studies (Platform for Collaboration on Tax, 2017; IGF and OECD, 2018) that note that among the common practices of the businesses in the sector, especially among linked enterprises, it appears that one of the risks associated with the erosion of the tax base is related to the valuation or price fixing of mineral exports.

It can be concluded from this information that many countries, heeding the risk that elusive structures pose to developing countries, leading to the undervaluation of exports of primary goods, have now legislated an iteration of the sixth method in order to valorize these goods (Grondona, 2019). This allows tax administrations to have better tools at their disposal to supervise and inspect this sector.

Another type of operation used to erode the tax base is the overvaluation of imports. The overvaluation of imports reduces the tax base by raising costs and lowering earnings subject to taxation. In this sense, starting in 2018, and as a result of the introduction of the Temporary Admission Regime, which allowed imported soy oil, soy meal, and soy pellets for soy oil and soy meal production for export to benefit from reduced customs tariffs on exports, temporary imports of soybeans by certain firms increased substantially, reflecting differences of over US\$100 million from the quoted market price.²⁴ With this tariff arrangement, these businesses also recorded triangulated exports made through offshore intermediaries. It is worth highlighting that in the possible cases of overvaluation of temporary imports as in the undervaluation of exports, there is a concentration of the same group of companies, with Paraguay, Brazil, and the United States figuring as the most important countries of origin between 2016 and 2020.²⁵

As a result, as highlighted above, commodity exportation is a maneuver that erodes the tax base and lowers taxation in countries that export primary goods. However, it is not the only type of commodity operation that can lead to this result. The importation of commodities for processing in the country can also lead to the erosion of the tax base of taxes on profits, as well as customs taxes on exports.

Capital flight

The issue of capital flight, which is a pressing problem for developing countries and one which is particularly relevant in Argentina, is related to structures of tax evasion. In Argentina, Rua (2019) estimates a stock of US\$ 350 billion by December 2017. It is a phenomenon linked to avoidance schemes that go beyond these practices, which is why it is presented in this subsection. It involves a set of factors that will not be addressed in their entirety in this paper, given that it is carried out not only by means of the operations described above²⁶ but also through the settlement of revenue obtained in foreign currency in the local exchange market, contributing in this manner to an increased external restriction (i.e. limitations to development due to deficits in the commercial and capital accounts of the balance of payments).

It is worth highlighting as well that, in the same way that it has been reiterated in this work regarding maneuverers that erode the tax base, the capital flight issue is not exclusive to the agricultural export sector.²⁷ However, a unique situation is found in this sector. On the one hand, for income tax purposes in Argentina, starting in 2003, and as mentioned above, a reference value is planned to be used in certain circumstances.²⁸ On the other hand, reference values are also used to calculate customs tariffs on exports. In spite of this fact, foreign exchange settlements are carried out without reference values.

A recent court ruling offers an overview of the issue in question. It is the case of the Directorate General of Customs in Argentina against Maltería Pampa, which exports beer malt to its affiliate, Ambey Brasil, using a Uruguayan branch as an intermediary. The Uruguayan branch acted as a trader front, without economic substance, based on Maltería Pampa's own description. The invoicing to the Uruguayan entity was carried out in Argentina, and from the Uruguayan entity to the Brazilian one it increased the value between destinations in the period of a few days. In this context, the application of the sixth method was accepted by the company itself, which voluntarily determined its own adjustment in the 4501 form that accompanied the presentation of the transfer pricing study for the purposes of income taxes. In other words, exports, for the purposes of income taxes, were evaluated using MINAGRI's official FOB value at the loading date of the merchandise, despite the fact that in reality the valuation would not have been assessed in that manner, which was the reason behind the voluntary "self-adjustment". Moreover, the customs tariffs on exports had been determined based on the official values from MINAGRI. In formal terms, the company was in compliance with the taxes referred to above. However, in practice, the export value was undervalued for the purpose of lowering the inflow of dollars into Argentina.²⁹

Conclusion

It is a well-known fact that transnational businesses have the counsel and means at their disposal to carry out fiscal planning to minimize their taxes through the

creation of complex structures of transfer pricing. They take advantage of the “race-to-the-bottom” in taxes on income and the effect this has on the availability of jurisdictions with little to no taxation. Moreover, they take advantage of double taxation treaties, in this way managing to lower effective tax rates in countries where they contract out their economic activities.

This problem is not solely observed in the raw materials export sector in developing countries. However, the problems observed in this sector prove particularly relevant given the strategic importance this sector holds in the balance of payments, for domestic products, and, as such, for funding the public sector. In these countries, the maneuvers observed in these sectors (which range from agricultural exporters to mining and hydrocarbons) prove particularly problematic. However, developing countries like Argentina, like other countries in Latin America, have tools at their disposal. The sixth method in its various iterations is incredibly useful for limiting the erosion of the tax base in commodity exports.

For other maneuvers, like those involving interest charges for loans, services, or royalties, there is no clear solution. Neither the G20/OECD BEPS Action Plan, even though it has addressed the issue, nor the CbC reports, despite providing information that was unimaginable only a few years ago, offer definitive solutions in these cases, and the arm’s-length principle that is currently in force appears not to provide a sufficient level of tax certainty (Grondona, 2014; Corti, 2012). Treaty shopping accompanies price-fixing schemes, eroding the effectiveness of withholdings at the source in relation to payments to foreign beneficiaries, as do dividend payments which also take advantage of elusive structures to avoid taxation.

Finally, this is a problem that is not only relevant from a taxation perspective, owing to the fact that the same maneuverers are inclined to stow foreign currency overseas, thus contributing to capital flight and having the specific effect of external restrictions in developing countries like Argentina, even in cases where the actual tax revenue is verified.

Notes

- 1 On this topic, see the Tax Justice Network’s Index of Corporate Tax Havens. Available at <https://cthi.taxjustice.net/en/>.
- 2 ‘Exportación por grandes rubros. Años 1980–2020’, Instituto Nacional de Estadística y Censos (INDEC) de Argentina. Available at www.indec.gov.ar/indec/web/Nivel4-Tema-3-2-40.
- 3 See www.afip.gov.ar/multinacionalesDDJJ/informe-pais-por-pais/documentos/Estadisticas-CbC.pdf.
- 4 In order to identify the above-mentioned risks, core indicators were used from those suggested by the Organisation for Economic Co-operation and Development’s (OECD) manual on the effective use of information contained in the CbC for tax risk evaluation.
- 5 See <https://iff.taxjustice.net/#/profile/ARG>.
- 6 The Platform for Collaboration on Tax also highlights a type of financing that also affects the price of export products and can reduce the tax base, known as “streaming agreements” (2017, p. 169).

- 7 Information taken from declarations before the Argentinian tax administration in regard to the 2019 and 2020 fiscal periods.
- 8 See www.argentina.gov.ar/justicia/derechofacil/leysimple/covid-19-salario-complementario.
- 9 Information is based on the 2668 form on transfer pricing (AFIP).
- 10 Based on information from the balance of payments (INDEC). Payments for intellectual property use in US\$ dropped 28% between 2019 and 2020.
- 11 For a description of the BEPS Action Plan from the G20/OECD, see www.oecd.org/tax/beps/beps-actions/.
- 12 Although this chapter refers to cases from Argentina, which apply to Latin America as well, it is worth noting that the conclusions can also be applied to other developing countries. In this vein, the IMF (2021) underscores the fact that investments in the mining sector in Sub-Saharan African countries tend to be channeled through jurisdictions that have come to be known as “investment hubs”, which are characterized by low taxation on entities used as conduits, whether because they combine a territorial regime that does not tax foreign income, because they have low rates on corporate income tax, because interest and capital gains transfers are not taxed, or because a wide network of treaties exists with little to no withholdings on source.
- 13 The OECD (2015), for its part, states that “treaty shopping” typically involves a person’s attempt to indirectly access benefits of a treaty between two jurisdictions without being a resident in one of the jurisdictions. In this case, however, we expand the framework of this definition in order to understand all the different ways in which promotion regimes are taken advantage of in combination with a treaty, even when the agreement in question might have been directly or indirectly planned for this type of use, together with promotion regimes or with the worldwide or territorial income tax system in force in a country.
- 14 See Grondona and Knobel (2017).
- 15 See www.infobae.com/politica/2021/09/02/la-corte-suprema-avalo-el-cobro-del-impuesto-a-las-ganancias-sobre-los-dividendos-de-molinos-rio-de-la-plata/.
- 16 The tax ruling can be found at www.documentcloud.org/documents/1345881-yamana-gold-2010-tax-ruling.
- 17 The BEPS Action Plan developed the Multilateral Instrument (MLI) in 2015, as part of Action 15 to amend rapidly and efficiently the over 3,000 treaties in force in the world. The measures to be implemented by the MLI seek to end the abuse of treaties and treaty shopping. Argentina signed the MLI on June 7, 2017. However, the country still lacks the corresponding approval from parliament for it to come into effect. In spite of this fact, it can be anticipated that even if ratified, many difficulties stand in the way of using it to obstruct treaty shopping or fiscal planning carried out through the misuse of DTAs.
- 18 The first five methods of transfer pricing consist in traditional transactional methods such as the comparable uncontrolled price method, the resale price method, and the cost-plus method; and in transaction operations utility methods there is the method of the net margin of the transaction and profit-splitting.
- 19 In 2017, a tax reform substantially modified Article 15. Following this reform, the current Article 17 of the Profit Tax Law (ordered in 2019) requires the registration of the concluded contract. In the event that the contract is not registered, the law stipulates that the revenue from the Argentinian source must be determined with reference to the cost of the good on the loading date of the merchandise.
- 20 The sum of exports of these commodities makes up 40.5% of exports in Argentina in 2020 (own calculations based on Trademap).
- 21 This official daily FOB index is established by Article 8 of Decree 1177/92 and Resolution No. 331/01 of the Secretary of Agriculture, Livestock and Fisheries, repealed by Resolution 411-E/2017 of the Ministry of Agro-Industry. The MINAGRI index is created based on systematic enquiries in the local export market (exporters, industrial exporters, associations, advisors, brokers, etc.), and on quotes in transparent markets.

- 22 See, for example, the tax authorities' case against Alfred Toepfer, covering the 1999 fiscal period, on which the Supreme Court (CSJN, acronym in Argentina) issued a judgment in 2015 establishing that the fiscal criterion of considering the values designated by MINAGRI on the loading date is in keeping with the law. Also see the Bunge Argentina S.A. case, for which the Federal Court of Appeals of Córdoba decided that the sixth method was applicable, due to the fact that it was a case of operations triangulation with offshore intermediaries.
- 23 Regarding exports of mining products, it is worth emphasizing that prices tend to be calculated using known pricing and quality adjustment. In this context, a small unjustified adjustment (for example, not declaring the correct payable amount of minerals, or raising the refining costs that are calculated on the payable amount of minerals) can have an exponential effect on the tax collection in the source state. Here is where one of the greatest risks of erosion to the tax base is found.
- 24 If the 2018 FOB unit prices of temporary imports of soybeans under the tariff item number 1201.90.00.190C (coming from any location) are compared with the maximum price of the Chicago Board of Trade at the date the operation was formalized, considering only cases where the FOB import price is greater than the Chicago price with a deviation over 10% (with the aim of allowing room for possible comparability adjustments that may have been made), overvaluation on temporary imports of soybeans can be observed in the case of 7 businesses, amounting to price differences of over US\$100 million (AFIP).
- 25 AFIP.
- 26 In this sense, the work of Argibay Molina (2013) stands out.
- 27 A significant number of works address this issue. Notably, those of Jorge Gaggero and Magdalena Rua; those of Eduardo Basualdo; the various publications of Léonce Ndikumana on the topic; and another, referred to above, that relates the issue of transfer prices to capital flight (Grondona, 2014).
- 28 Even after the 2017 tax reform, which modified the "sixth method", it would be carried out in the case of goods with pricing from the agricultural export sector. The Income Tax Act is modified following the 2017 reform, requiring registration of contracts made for export purposes from that point on. The General Resolution 4653/2019 assumes this requirement is followed based on the sworn affidavit of sales abroad (DJVE, the acronym in Argentina) of the Ministry of Agriculture, which uses MINAGRI's official FOB price.
- 29 An exemplary description of the case is found in the *Cohete a la Luna* piece from October 24, 2021. See www.elcohetelaluna.com/freno-judicial-a-la-fuga-de-divisas/.

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Part II

Taxation and allocational politics



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7 The political economy of failed progressive fiscal reforms in Latin America

Rafael Domínguez Martín

Introduction

The present chapter sets out to analyze the political economy of failed progressive fiscal reforms in Latin America from a historical perspective – from the Alliance for Progress of the 1960s to the recent progressive wave that followed the collapse of the supposedly irreversible conservative restoration. This analysis adheres to a post-Keynesian understanding that fiscal reforms play a key role in the development process in the contexts of limited investment capital that characterize the natural resource-rich Latin American periphery countries (Kaldor, 2021 [1964]).

This work's theoretical framework integrates the approaches of critical institutionalism with Marxist and structuralist theories of dependency. These are explored based on the premise that social inequality regarding the distribution of resources, wages, and opportunities may prove to be a key element of the middle-income trap that explains the region's truncated development over the last decades (Flechtner and Panther, 2016), the so-called “Latin American syndrome” (Palma, 2020a, p. 84). Although structuralism's initial emphasis and pro-dependency offshoots focused on international inequality (Love, 2018), and even though the idea that social inequality is a critical factor behind the obstruction of economic progress is deeply rooted in this school of thought (Salinas, 1977; Bárcena and Cimoli, 2022), for structuralists, social inequality could not be understood without taking into account Latin America's dependent insertion into the global economy and the incorporation of its extractivist elite into the ranks of the transnational elite. This international inequality would come to constitute another factor that ever since the 1980s has contributed to the regional middle-income trap by reducing the space made available for progressive development policies (Vernengo, 2018; Bianchi et al., 2020).

Thus, while the fiscal measures to tackle social inequalities – and for reconstructing the dysfunctional fiscal pact backing the state in Latin America – remain an “outstanding issue” for development (Lozano, 2017, p. 7), tax reforms should also be accompanied by changes in international economic regimes (Chang, 2020). This requires returning to a discussion of structural heterogeneity, and, ultimately, to the old debate over the connection between

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external and internal factors that through a political economy of the failure of fiscal reforms would explain the lack of progressive structural change and diversification in the export structure in Latin America.

The paper is organized in the following manner: The first section lays out the structuralist theoretical framework, which situates inequality in Latin America as a deciding factor in economic development and the resulting need for structural reforms (agrarian/distributive and fiscal/redistributive) in order to attain it; the second and third sections present a study of factors that allow for an understanding of why successive attempts at progressive fiscal reform have failed in two historical episodes: namely, the Alliance for Progress in the 1960s and the different manifestations of the progressive wave during and after the last commodities supercycle. The chapter ends with a reflection in which conclusions are presented.

Inequality, development, and fiscal reform (among other things)

The Latin American historical experience in the second half of the twentieth century is fundamental to understanding the process through which a new consensus in literature was built regarding the relation between inequality and development. Beginning in 1990, this new consensus was formed in opposition to neoclassical growth theory.

The colonial legacy of extreme vertical as well as horizontal economic inequality was perpetuated and expanded following the colonies' independence. The mid-1800s marked a seminal moment for surplus inequalities in land markets (through the cornering of accumulation opportunities) and work (through "depeasantization"), which set the conditions for the persistent contemporary social inequality found in Latin America (Pérez Sáinz, 2014), with two marked increases in the periods of 1870–1920 and 1980–2000. The high levels of inequality of wealth and income, compared to those of other developing regions, became an idiosyncratic regional feature. In the worsening conditions of the terms of trade, these inequalities posed serious obstacles for economic development, making an agenda of social cohesion and equity "Latin America's greatest historical debt" (Bértola and Ocampo, 2012, p. 266). Specifically, the failure to pursue tax reforms to reduce persistent inequality remains to this day "the great historical debt of Latin American administrations" (Valdés 2017, p. 77) and the Inter-American Development Bank itself attributes the fracturing of the social contract in the region to "insufficient redistribution and unequal opportunity" associated with its fiscal systems' structure (Busso and Messina, 2020a, p. 12).

From a theoretical standpoint, inequality was present in the heretical school of thought adopted by the Economic Commission for Latin America and the Caribbean (ECLAC, or CEPAL as its Spanish acronym) since its inception. Early on, Raúl Prebisch (1952, p. 368) noted the urgent need for redistributive reforms that would allay the "grave inequalities in income distribution",

which, if not reduced, could lead to “social imbalances” that would interrupt or backtrack the development process. In line with these observations, CEPAL (1954, p. 130) called for a “reform of agrarian property structure and of certain forms of owner–rural worker relations that take away the incentive to work and discourage investments and the introduction of new technology”. For their part, ECLAC theorists on structural inflation (Noyola, 1956; Sunkel, 1958) recommended instituting progressive tax reforms that, as part of a stabilization package that offered an alternative to the monetarist model, would restore sustained growth in Latin American economies and foster productive transformations while at the same time reducing inequalities in income distribution.

The pioneering work of Fernando H. Cardoso (1961) paved the way for what would later become the “new consensus” on the inequality–development relationship (Domínguez, 2009, p. 12). The publication of this monograph coincided with a “structural reforms” program – Prebisch’s term (1961, p. 15) for agrarian and tax reforms – driven by the Alliance for Progress. Upon Latin American structuralists’ forging with dominant Keynesian institutionalist thought, the new consensus saw mainstream authors converge with critical institutionalism. While the first group highlighted the negative implications (narrow markets for industrialization) derived from “oligarchic income distributions” (Murphy et al., 1989, p. 554), the second stressed the systematic and accumulative nature of inequality due to the collective action of vested interests (Dugger, 1998).

The novelty of Cardoso’s research consisted in inverting the traditional Kuznetsian approach to the relation between development (as an independent variable) and inequality (as a dependent variable). It was a question of identifying “its true effects on the dynamics of the development process” (Cardoso, 1961, p. 36). Cardoso noted six dimensions of income distribution that influence development: functional (among incomes derived from land ownership, work, and capital); vertical (among people, but linked to the former dimension given that high incomes were generally absent among wage earners); sectoral (due to differences in productivity among economic sectors); social (among social groups associated with productive sectors and institutions); spatial/geographical (among regions within a country due to differences in resource allocation); and international (between countries). He also extended Prebisch’s proposal by connecting the first two dimensions (functional and vertical) with the following three (sectoral, social, and spatial/geographical).

In Latin American countries, the predominance of agriculture and large-scale mining for export went hand in hand with the dominance of certain social classes, who “still join together the political power that stems from the ownership of large tracts of land with their economic power” (Cardoso, 1961, p. 53), which proved damaging to industrialization and export diversification. By virtue of having “their consumption patterns dictated by developed countries”, these groups spent a considerable portion of national income on “luxury consumption” and their investments were geared towards accumulating more

land so as to “increase their social prestige” (Cardoso, 1961, p. 53) while at the same time enjoying “immunities” or “differentiation of duties” that allowed them to evade taxes (Cardoso, 1961, p. 87). In this manner, the existing pattern of income distribution was “an institutional impediment to development itself” due to its squandering of savings and human capital and which otherwise should be directed towards “the transformation of an export economy of commodities into an exporter of industrialized products”, entailing, in turn, the transformation of the “social pattern of the distribution of revenue use” (Cardoso, 1961, pp. 54–55).

In respect to international distribution, Cardoso adopted Prebisch’s thesis of elasticity pessimism regarding the division of labor between the developed center and a periphery mired in conditions of “structural inferiority”, rooted in historical colonial relations (Cardoso, 1961, p. 91).

In conclusion, wherever oligarchic distributions of income prevailed, inequality tended to curb development.¹ As such, state intervention, backed by international cooperation, was necessary to facilitate, through the planning of public spending, a power transfer “in the direction of a class that previously held second-order status through a change in the sectoral orientation of earnings coming from the exterior” (Cardoso, 1961, pp. 55–56). Naturally, tax reform counted among the fundamental instruments for bringing about this structural change. If, as was the case, “the small recipient group of the large part of the income” was incapable of making the investments needed for development (whether through a lack of fiscal incentives or interest), “it would be preferable to adopt a highly progressive tax policy to concentrate savings in the government’s hands” so as to increase the propensity to invest in the economy through public spending in order to subsequently stimulate private investment in the long run (Cardoso, 1961, p. 108).

In theory, this was the rationality behind the agrarian and tax reforms driven by the Alliance for Progress. As Prebisch (1963, p. 21) summarizes, “no acceleration of economic development is possible without change in the social structure”. In other words, reforms must affect not only surplus redistribution (fiscal reform) but the distribution of opportunities for generating surplus itself (agrarian reform). The last ambition was soon found missing from progressive governments’ programs in the twenty-first century (Pérez Sáinz, 2014).

The failure of Alliance for Progress’s structural reforms

The Alliance for Progress was the institutional culmination of two processes that overlapped at the beginning of the 1960s. The first was Latin America’s call for international cooperation on economic development (equated with industrialization) following the end of World War II, and with it an end to the exceptional conditions that allowed a select number of countries to attain an incipient industrialization through import substitution. The second was the triumph of the Cuban Revolution, which led directly to the creation of the Inter-American Development Bank (IADB) and the Organization of American

States' (OAS) adoption of the Act of Bogota.² In March 1961, having recently assumed the US presidency, John F. Kennedy summoned the Latin American diplomatic corps to the White House, and in a speech prepared by Walt W. Rostow, based on a previous memorandum – which Prebisch and the Chilean socialist and president of the IADB, Felipe Herrera, helped prepare – he presented the Alliance for Progress. If the fear of communism had reinforced the Keynesian social pact in Europe with the Marshall Plan, giving rise to the welfare state, and led to agrarian reforms and industrializing taxes in the developmental states of Japan, South Korea, and Taiwan, the threat of the spread of the Cuban Revolution was to be combated in Latin America through agrarian and tax reforms that supposedly were also to be driven by developmental states. It was conceived on paper as the “first regional system of integrated planning in the world” (Krause, 1963, p. 69). In fact, aid would be liberated on the condition of applying these structural reforms, which gave new meaning to the old mantra of a favorable climate for foreign investment, now described as “a ‘revolution proof’ environment” (Krause, 1963, p. 74).

In reference to the Special Meeting of the Inter-American Economic and Social Council of the OAS that was celebrated in Punta del Este (Uruguay) in August 1961, the ECLAC published a new document that went far beyond the reform proposals of the previous decade. Key connections between problems of distribution (of resources and income, which were shown to be connected) and growth in countries in the periphery were laid bare: disparities needed to be amended “by striking at their very roots”, namely the monopolistic structure of the land market and the dual structure of the labor market (ECLAC, 1961, p. 9). Income redistribution would follow through restrictions on elites' luxury/imitative consumption in order to increase working-class consumption (widen the internal market, complementing regional integration as a result). This would in turn reduce the structural disequilibrium of the balance of payments and improve efficiency in resource allocation. In other words, the distribution of opportunities for surplus generation (agrarian reform) would be completed through surplus redistribution: a tax reform, which would enhance progressive taxation, in the context of a weak fiscal culture where “it is unusual for the high-income groups to contribute as fully as they should, either because the tax system is regressive or because tax evasion makes a mockery of taxation itself or of proper tax collection” (ECLAC, 1961, p. 10). In short, the Alliance for Progress not only drew from Rostow's modernization theory, which differed from the theory of surplus, but also from ECLAC's “structuralist” theory, described as such for underscoring “the need for deep transformations, for structural reforms” of those “structures and institutions”, which by “exacerbating income concentration and the inequality of opportunities” hindered “structural change” (Sunkel and Paz, 1970, p. 35).

In the United States, the business lobby accused Prebisch of being the intellectual godfather of an initiative that fostered “socialist tendencies”, in the words of the *Wall Street Journal* (cf. Domínguez, 2017, p. 129), when in fact it was a case of genuine Keynesianism. The ECLAC had published the first

statistics on inequality in income distribution (CEPAL, 1963; ECLAC, 1964) that showed the results of progressive tax reforms (especially in the United States) in comparison to Latin American data. The Commission's idea was "to increase productive capacity based on the distribution and rational and more equal use of the goods and services produced by society as a whole" (CEPAL, 1963, p. 681). Based on non-official estimates of Mexico, Venezuela, Ecuador, and Chile, a conjectural distribution of income was calculated for the entire region, classifying the population in three categories of families (Table 7.1). The comparative data revealed that at the beginning of the 1960s the United States was more equal in incomes than Europe in the 1950s (the European data was from the beginning of that decade). Both regions, however, were light years ahead of Latin America in regard to equity. In developed countries, the highest social stratum's consumption was between 9 and 10 times that of the lowest, while in Latin America it was 20 times greater (ECLAC, 1964, pp. 53–54). Prebisch (1963, pp. 37–38) calculated that compressing the consumption of Latin America's upper social stratum so that it was no more than 11 times that of the lowest social stratum would allow the annual per capita income growth rate to rise from 1% to 3%, and if the difference were reduced to 9 times, the rate could reach 4%. Given that "inequality in property and natural resource distribution" was considered the most important factor for explaining this type of income distribution in Latin American countries (CEPAL, 1963, p. 682), the Alliance for Progress reformist program followed an impeccable post-Keynesian economic logic in view of the regressive character of the regional fiscal system (Table 7.2). In line with this posture, the ECLAC's training wing, the Latin American Institute for Economic and Social Planning, hired Nicholas Kaldor in 1964 to spread a resource focus on the role taxation plays in development.³ This was done with a fiscal reform proposal that – in regard to direct taxation of personal income, capital, and commercial and foreign income (which already were being hidden in "tax havens") – has yet to be realized (Kaldor, 2021 [1964], p. 1239).

The Alliance for Progress's guidelines, adopted in Punta del Este in 1961, apparently proposed the enactment of a continental, ten-year plan joined with national plans with social democratic (or "liberal", in the US sense of the

Table 7.1 Income distribution in Latin America in international comparison (c. 1960).

Category	Population (%)	Latin America		Western Europe		United States	
		Income (%)	Difference in means	Income (%)	Difference in means	Income (%)	Difference in means
High	5	33	660	22	436	20	400
Intermediate	45	51	113	56	124	57	127
Low	50	16	32	22	44	23	46
Total	100	100	100	100	100	100	100

Source: ECLAC, 1964, p. 54.

Table 7.2 Distribution in tax burden in Latin America by income categories (percentages of personal income).

Income	Total	Income categories			
		I	II	III	IV
Direct	5.8	1.5	4.5	6.1	12.8
Personal contribution to social security system	1.2	1.5	1.9	–	–
Net indirect	11.4	9.8	13.4	10.4	7.7
Total	18.4	12.8	19.8	16.5	20.5

Source: CEPAL, 1963, p. 685.

term) resonances. The general aim was to attain economic progress (structural change) and social justice (reducing interpersonal inequality) in the framework of democratic institutions. Twelve specific objectives were laid out, which included the ambitious aims of remedying social inequalities (of wealth and income, objectives 6 and 2, not to mention those which addressed education and health, objectives 7 and 8), which moved beyond the mere expression of good intentions in combating international inequalities (objective 12).

Notable among the social reforms, which supposedly were established as conditions for liberating financial aid (Krause, 1963), was a “comprehensive agrarian reform aimed at effectively transforming unjust structures and systems of land tenure and exploitation” (Unión Panamericana, 1967, p. 10), which the cooperation model implemented in Japan, South Korea, and Taiwan reproduced to varying degrees. This proposal was in keeping with progressive fiscal reform that sought “a more equitable distribution of national income”, seeking to swiftly reconcile an increase in “incomes and quality of life of the most disadvantaged sectors of the population” so that “the resources dedicated to investment make up a larger portion of the national product” (Unión Panamericana, 1967, pp. 3, 10). This was complemented by objectives that aimed to increase “human potential” through public investments in education and health programs (Unión Panamericana, 1967, p. 11).

Such a program would be met with formidable opposition in Latin America as well as in the United States. To that effect, the phantom of the Cuban Revolution was raised; however, for Latin America, Cuba did not represent what the USSR did for Europe, nor what China did for Asia. The critical literature on the Alliance attempted to explain the difficulty in overcoming the double opposition – internal to Latin America and the vested interests in the United States – faced by the reforms and the danger that aid, if it failed to meet reformist conditions, would “serve to entrench in power the small wealthy ruling classes which already constitute an impassable roadblock on the route to economic and social development” (Huberman and Sweezy, 1961, pp. 55–56). In the concrete case of agrarian reform, in addition to the anticipated

opposition of the “traditional oligarchy”, it was necessary to contend with “the interests of powerful North American Companies” and their “big media” outlets that would bring about “a smear campaign and attack on the aims of the authors of the reform”, which would possibly “drag in the State Department” (Rubio, 1961, p. 136). This is precisely what occurred thanks to the Senate (as defender of business lobby interests) coming to the rescue of the United Fruit Company when faced with attempts at agrarian reform in Honduras. The Senate also helped oil companies during the renegotiation of North American concessions in Peru and Argentina and assisted ITT after its expropriation in Brazil (Graciarena, 1963; Horowitz, 1964). The prediction made by Juan F. Noyola, the father of dependency theory, thus came to pass. The aspiration of autonomous development – that raising salaries would raise the cost of extracting raw materials – would turn out to be incompatible with direct foreign investment, leading to an anti-development alliance with traditional oligarchs, whose position would also be threatened by structural changes (Bazdresch, 1983).

In effect, the reforms came up against the “disguised sabotage” of oligarchies (Krause, 1963, p. 77). In most countries, specific agrarian reform laws were approved, but in reality these laws were extensions of colonization that worked “as a novel instrument of unsuspected effectiveness” to avoid reform (Feder, 1965, p. 507). The “evolutionist rhetoric” in favor of democratic revolutions, along with the conditions of distributive aid reforms, undermined the power bases of a few oligarchies that were not going to peacefully accept being ousted (Graciarena, 1963, p. 125). But, soon after, external developments came to their rescue. Following the end of the Cuban missile crisis and the USSR’s disavowal of the guerrilla warfare advocated by Che Guevara, the Lyndon B. Johnson administration’s abandonment of a reformist agenda facilitated a reconciliation between Washington and traditional elites. After all, these elites had remained and would continue to remain completely loyal to US interests, which were not aimed at the region’s development but instead at retaining strategic, economic, and political control. The United States granted aid funds to strengthen the old elites, who were “not interested in agrarian reform or economic development that conflicted with their property rights (and with those of North American investors)” (Petras, 1966, p. 464), but instead in maintaining social control at the cost of development, which catalyzed forces that, “like those of the sorcerer’s apprentice”, were not easily manipulable (Graciarena, 1963, p. 125). Eight *coups d’état* against reformist governments in six different countries (Argentina, Peru, Ecuador, Guatemala, Honduras, and Brazil), and a total of 16 extra-constitutional changes of government were legitimated under the Kennedy and Johnson terms by the State Department’s diplomatic recognition or by turning a blind eye. Both presidents failed to understand the difference between democratic nationalism and communism, as the 1965 invasion of the Dominican Republic made clear, marking a turning point in inter-American relations (Domínguez, 2017).

In 1967, Johnson convened a second conference in Punta del Este in which economic integration, already seen by critics of dependency as a penetration strategy for US transnational companies, replaced structural reforms, whose “never-realized” agenda lost favor in Washington and was explicitly renounced by many governments in the region (Sunkel and Paz, 1970, p. 35). As Vusković (1993, p. 41) notes, an attempt was made to join together “restricted national markets, rather than seeking to expand them by modifying the parameters of the internal distribution of income”. In this manner, the 1960s ended much as it had started in terms of income distribution in the region compared to international levels: with “a much larger share of total income in the hands of the high-income group, and a correspondingly smaller share in the hands of the bulk of the population in the middle ranges of the distribution” (ECLAC, 1971, p. 10).⁴ All in all, these “very large differences in income between those at the top and the mass of the population”, fundamentally explained by functional distribution, contributed to “the establishment of sharp class differences” (ECLAC, 1971, p. 25). Such differences were the product of the higher concentrations of land holdings and of commercial, financial, and industrial capital that constituted the foundation of Latin America’s institutions of racially toned classism and its culture of privilege⁵ – elements Prebisch associated early on with “land privilege” and the “privilege of excessive protection” (Prebisch, 1963, p. 58). These elements would later fuel the “privileged consumer society” characteristic of the “imitative capitalism of the periphery” (Prebisch, 1978, pp. 167–168).

The failure heralded by the last progressive cycle’s fiscal reforms: from the Washington Consensus to the Commodities Consensus

Following the discrete burial of the Alliance for Progress, the 1970s failed to offer a conducive context for fiscal reforms in Latin America: popular national governments shifted focus to the new international economic order’s agenda and South–South cooperation, while the Southern Cone dictatorships’ turn towards neo-fascism shut down redistributive ambitions in the secondary sphere (fiscal reform) and quashed the possibility of distribution in the primary sphere of surplus generation (agrarian reform). As such, prior to the debt crisis, the “regressive structure of the fiscal system” remained intact, manifesting itself:

in the low tax burden on capital and utilities; in the granting of other privileges (tax exemptions or cuts for new industries and on the importation of machinery; reinvestment incentives; the acceptance of accelerated depreciation); in the tolerance of high levels of tax evasion by big businesses.

(Kaplan, 1978, p. 435)

By denying the state a portion of investible surplus in favor of the private sector, the burden of tax collection fell on salaried and fixed-income workers.

This, in conjunction with a permanent increase in public spending, provoked inflationist financing of the deficit and internal and external indebtedness. Altogether, this heralded “the fiscal crisis of the State itself”, in a context in which the “oligarchic elite and big business” exerted increasing pressure to weaken and strip the developmental state in support of “denationalization and reprivatization of public companies, the creation of favorable conditions for strengthening private national monopolies and colonization by transnational companies” (Kaplan, 1978, pp. 438–439).

In this sense, the Washington Consensus was preceded by the presage of a “crisis of inequality” (Vusković, 1993, p. 82). Heralded as a “new Dark Age of unforeseeable magnitude and duration”, it was seen to be defined by “increasingly dependent and unequal development, multiplying imbalances and antagonisms between countries, regions, economic sectors, social classes” (Kaplan, 1978, pp. 439–440). The Washington Consensus, with its pension cuts, reallocation of public spending, and regressive reform of fiscal systems (Íñiguez, 2015), not only washed its hands of income distribution (Goldfajn et al., 2021; Strada et al., 2021) but also directly provoked greater inequality following a winner-takes-all strategy, using terror tactics when necessary (Palma, 2020b). The average Palma ratio (10/40)⁶ for six Latin American countries, which represents 75% of the regional population (Argentina, Brazil, Chile, Colombia, Mexico and Venezuela), went from 3.8 in the period of state-led industrialization in 1940–1980 to 4.7 in the period of the Washington Consensus in 1980–2000 (Astorga, 2016, p. 56). Between 1986 and 1999, the average maximum rate of personal income fell 20 percentage points and that of business utilities fell 8 points, while value added taxes held stable at between 15% and 20% (Goldfajn et al., 2021, p. 112).

The enormous social costs of the inequality crisis led to the reassessment of liberal policies in the 1990s. During this period, the ECLAC, with its agenda of changing productive patterns with equity, was at that time behind the IADB, and made way for the historic transformation of the World Bank (De Ferranti et al., 2004) by directly addressing “inequality in Latin America” (IADB, 1998) in work led by its chief economist on inequality traps (Bourguignon et al., 2007). It is worth noting that in forming this new consensus on inequality, both organizations turned their backs on the ECLAC’s structuralist thinking, which did not recover its heretical tradition until 2010. This year ushered in a series of session reports that constitute the equality sextet.⁷ Due credit for this seminal work is owed to Mario Cimoli, an ECLAC official at the time, and his disciple Sebastián Rovira (Cimoli and Rovira, 2008).

Another work belonging to this tradition is that of Pedro Vusković (1993), Minister of Economy during Salvador Allende’s presidency. His monograph pioneered a change in trends that would gain force following the North Atlantic financial crisis in 2008, which led the IMF itself to question the efficiency of inequality, that the Covid-19 pandemic has only served to confirm (Strada et al., 2021). Vusković pointed out a critical point that neoliberal policies missed in their attempt to dissociate poverty from inequality: in order to

tackle poverty, inequality must be reduced. This required action on land and labor markets, a fiscal reform attuned not only to the sufficiency principle but also to progressiveness and moving beyond a pattern of external insertion based on static competitive advantages that reinforced structural heterogeneity. The problem was that neoliberal reforms had destroyed the developmental state's capacities, dismantled productive structures, and strengthened the power of oligarchies. Meanwhile, opening up to foreign markets "had led to very narrow degrees of linkages to transnational capital", which deepened commercial and technological dependency and severely restricted "the scope of autonomous national decisions" (Vusković, 1993, p. 237). The rules of the game had been tailored "to the demands of the neoliberal project, diminishing faculties and imposing obligations", which placed obstacles in the way of an "alternative social project" far greater than those faced by the supporters of the Alliance for Progress (Vusković, 1993, p. 237). In brief, Vusković pinpointed the dilemma that progressive governments would have to face in the 2000s and that those now seeking to break up the conservative restoration face again today: how to implement redistributive policies without altering the surplus generation model derived from international insertion based on specialization in the export of primary goods (the Commodities Consensus), which reproduces structural heterogeneity.

Faced with two options for reducing social inequality – raising the income of the lowest income groups or reducing the income of the highest bracket – progressive governments, buoyed by the bullish price cycle of commodities that eased external institutional restrictions, opted for the path of least political cost. Following the stagnation in inequality between 1990 and 2002 (with the Gini Index around 0.53 and the Kuznets 10/10 ratio around 45), inequality reduced between 2002 and 2014 (the Gini Index was cut to an annual average rate of 1.1%).⁸ Between 2012 and 2018, this trend continued but experienced a sharp slowdown (the Gini Index was reduced to an annual average of 0.5%) as soon as the international bonanza went pear-shaped and the Gini Index rose between 2017 and 2019 in 9 of the 15 countries evaluated (Argentina, Brazil, Colombia, Ecuador, Costa Rica, Honduras, El Salvador, Panama, Uruguay) as a result of the erosion of the middle class (CEPAL, 2020a, pp. 66–67, 85–86). Setting aside the limitations of data obtained through home surveys, which underestimate the income of the highest decile and do not take into account the enormous tax evasion of the rich (Palma, 2019), the 2020 evaluation is disheartening: in Latin America, the Kuznets ratio is 22, double the average in OECD countries and others with levels of development comparable to Latin American countries; the Gini Index is 0.46, compared to 0.32 in OECD countries and 0.40 in countries at a similar development level; the richest 1% and 10% in Latin America respectively hold 21% and over half of the national income, compared to 10% and one-third in OECD countries, and 12% and 40% in countries with similar development levels (Busso and Messina, 2020b, p. 20). It is the region of the world with the second highest Palma ratio (Chancel et al., 2021, p. 10), with extreme levels of inequality in Chile, Brazil,

and Colombia (Palma, 2019, p. 1152), and the highest concentration of wealth in the world, with the top 10% controlling 77% of household wealth, along with the top 1% that nets 50% of the wealth of the least wealthy members of the population, a 630-fold gap compared to a 197-fold one in North America and a 66-fold one in Europe (Chancel et al., 2021, pp. 38–39).

In this manner, the modest reduction in inequality was not reached at the expense of the very rich – the richest 1% held on to their outsized portion of a fifth of national income – but instead through raising the poor to a tenuous “middle-class” position by raising the minimum wage as well as conditional and non-conditional social transfer programs (particularly health and non-contributive pension programs). These measures account for 75% of the reduction in social inequality, while the remainder can be attributed to the redistributive efforts of progressive taxes (Busso and Messina, 2020b, p. 25). Ultimately, the progressive governments abandoned the project of addressing “the primary sphere, that of true distribution” where surplus is generated (the case of agrarian reforms), and concentrated on surplus distribution or the “secondary sphere, palliating primary distribution’s effects” (Pérez Sáinz, 2014, pp. 45, 61) and focusing on social spending and dynamic redistribution.

Progressivism in the Latin American fiscal labyrinth

With respect to static redistribution (the side of tax revenues), progressive governments’ efforts to reduce inequality were insufficient because they either did not aim at “shifting up the tax burden”, as Prebisch would say (1978, p. 249), or, when they timidly made the attempt to do so (as was the case in the Citizens’ Revolution in Ecuador), they were removed from power through the mobilization of oligarchies and the *lumpen* middle class.⁹ When the economic bonanza linked to the commodities supercycle ended, the middle class suffered again from the “psychological impoverishment” effect caused “by a closing gap vis-à-vis the lower social strata, and by a growing gap vis-à-vis the upper social strata” (Germani, 1968, p. 13). In this context, where the rich avoid taxes while the middle-class feels “overburdened by taxes” in return for “mediocre public services” and faces growing indebtedness at high interest rates and monopoly prices for many products (Palma, 2019, p. 1170), social-spending programs became the conservative restoration’s scapegoat. This served to strengthen the lasting Latin American alliance between the upper and middle classes against the poor (Palma, 2019), manifesting itself in rampant aporophobia (the fear and rejection of poverty and poor people), which was encouraged by the neo-fascist toned narrative of governments across the right-wing spectrum (Domínguez, 2020), in spite of the fact that the elimination of poverty and insecurity in upper middle-income countries in the region would amount to 2.7% of their respective GDP (Palma, 2019, p. 1169).

In short, to set in motion a virtuous relationship between a reduction in social inequality and economic development a fiscal policy that underscores

redistribution is needed. There is ample room for improving both static and dynamic redistributive mechanisms in Latin America, as was demonstrated by the minimal redistributive effect of fiscal policies in comparison to EU–OECD countries. In spite of rising social expenditure, after taxes and transfers (the Gini Index of available income), the Gini Index of market income in Latin America only dropped 5% (from 0.51 to 0.48), while it fell 38% (from 0.47 to 0.29) in the EU–OECD, according to the most recent available data (Izquierdo and Pessino, 2020, p. 283). Three factors play a role in the scant redistributive power of fiscal policy: the existence of highly regressive pension systems due to high levels of informality; the insufficiency and inefficiency of social spending; and tax avoidance and evasion, particularly in personal income tax (Busso and Messina, 2020a), but also present in corporate income tax, especially among transnational companies (Martner, 2017; CEPAL, 2021). Although redistributive power in Latin America lies principally on the expenditure side, the tax regime is an indispensable mechanism for redressing social inequality in the region (Valdés, 2017; Jiménez, 2017).

Certainly, in Latin America, the tax burden and fiscal pressure (taxes collected from GDP) increased substantially starting at the turn of the twenty-first century, growing from 16.5% to 20.8%, although lagging far behind the OECD’s average of 33.9% (CEPAL, 2021, p. 66). A large part of this rise in tax collection was due to the effect the commodities supercycle had, particularly on countries more dependent on primary product exports, such as Argentina, Chile, Bolivia, Ecuador, Venezuela, and Brazil (Burchardt et al., 2021; Strada et al., 2021). This income allowed them “to avoid conflict with those who wielded wealth and power” (Lozano, 2017, p. 756).¹⁰ In this manner, income from natural resources decreased incentives for establishing progressive tax reforms, which was restricted to three countries (Uruguay in 2006, México in 2013, and Chile in 2014), with only two of the referred-to cases (Uruguay and Chile) concerning progressive governments. Meanwhile, progressives in Argentina, Brazil, Venezuela, Bolivia, and Ecuador “made no great efforts to change the tax structure through progressive taxing” or they were rapidly forced to abandon any such ambitions, as was the case with inheritance taxation in Ecuador (Valdés, 2017, p. 87). In a few cases, like Argentina, the conservative restoration quickly and decisively rolled back the progressive governments’ feeble redistributive schemes (Strada et al., 2021).

Although tax collection structures underwent significant changes, starting at the beginning of the twenty-first century – with direct income taxes more than doubling and a rise in indirect taxes on goods and services consumption – the fact remains that the structure and tax burden in Latin America continues to be minimally progressive. Income taxes make up 5.6% of GDP compared to 11.5% in the OECD, and property taxes make up 0.8% compared to 1.9% in the OECD. In turn, taxes on the consumption of goods and services make up 46.2% compared to 32.3% in the OECD (CEPAL, 2021, p. 67). Additionally, Latin America’s singularity is due to the fact that progress in direct income taxes was made only at the cost of business revenue taxation, which met OECD

levels, whereas taxes on personal income hardly increased and only made up 1.8% of GDP and 8.6% of collected taxes, compared to 8.1% and 24% respectively in the OECD (CEPAL, 2021, p. 67). The fact that personal income taxes in Latin America only applied to the richest deciles of the population did little to assure its progressiveness. First of all, it is a tax with a narrow tax base, given that it falls on wage earners in the formal sector, affecting the horizontal equity of the tax, which has taxable minimums that are much higher than in other countries: 1.4 times GDP per capita in Latin America versus 0.3 in the European Union and 0.2 in the United States (Jiménez, 2017). Second, the highest marginal rates or types of taxation have decreased over time, falling far short of international levels (around 26% in Latin America compared to 41% in the European Union), and the taxable base the maximum marginal tax rate is calculated from is abnormally high: 7.3 times the GDP per capita in Latin America compared to 4 or 5 times in developed countries (Jiménez, 2017). And, third, tax evasion (in personal income and business revenue) amounts to nearly 60% of the taxes actually recovered (CEPAL, 2020b, p. 58). The actual rate of personal income tax paid is very small due to the large number of tax extensions and benefits, especially on capital income. Thus, the richest 10% pay an effective rate of 5.4%, compared to the 20% that is paid in the European Union (Busso and Messina, 2020b, p. 286). If the richest 10% were to contribute taxes at the European Union's effective rates, the region's social inequality could be reduced to OECD average levels (Valdés, 2017; Martner, 2017). In this sense, the reformist recipe is clear: combat tax avoidance and evasion (which amounts to 6.1% of the regional GDP, 3.8% of which comes from personal and corporate income taxes, according to CEPAL, 2020b, p. 54), strengthen direct taxation on personal and corporate income, expand wealth and property taxes, and look into corrective taxes related to the environment and public health (CEPAL, 2020c).

The underlying reasons why progressive governments have failed to reach a new fiscal pact that would lessen the evils of inequality have to do with the opposition they face from elites via their powerful trade organizations (Valdés, 2017) and their “veto power that leads to the design of highly regressive tax systems” (CEPAL, 2016, p. 85). Thus, tax systems are a vital component of the inequality traps that frustrate the region's development. As Valdés (2017, p. 85) points out, inequality itself “has created extraordinarily strong elites who oppose all forms of redistribution by means of taxes and in this way have created a perverse balance that reinforces inequality and low progressive taxation”. The enduring power of this tightly bound agro-mineral and financial elite, from colonial independence to the present day (Cypher, 2018; Palma, 2020c; Burchardt et al., 2021), is the basis for the culture of privilege that in recent years has become the guiding concept with which the ECLAC has reclaimed its tradition of thought.

In the development of the concept that Hopenhayn (2022) presents, the culture of privilege exhibits the ingredients of Veblen's (1914, p. 25) concept of “imbecile institutions”: they are deeply ingrained informal rules and customs

(the culture of privilege forms part of “a common sense of the privileged class” that has reinvented itself with neoliberal culture). They are visions imposed by the vested interests of business, financial, and media oligarchies’ “enclaves of real power” that follow a circular causation logic of accumulation, or a “vicious cycle between culture, institutions and practices that consecrate and reproduce the asymmetries of privilege” and which lead to stagnation as a result of the obstruction of institutional change (Hopenhayn, 2022, pp. 259, 265, 269).

This culture is aligned with a vision inherited from the colony that “normalizes social hierarchies and highly unequal access to the fruits of progress, political participation and production assets” and which has been perpetuated through institutions and structures that reproduce inequalities (ECLAC, 2018, p. 16). This is the case with structural heterogeneity. Originally used to refer to inter-sectoral differences in productivity that generate segmented labor incomes, concentrated distribution of income, and stratified consumption patterns (Bárcena and Prado, 2016), structural heterogeneity “arises from a combination of privileged access to natural resources, the appropriation of public rents or quasi-rents by actors with greater economic and political power”, which tax law fails to redress because “the culture of privilege itself maintains a system with extensive fiscal exemptions and low rates of income tax” (ECLAC, 2018, p. 28). This means it proves very difficult to break free of the problem of structural heterogeneity as surplus generation is left untouched (Bárcena and Prado, 2016). But then, what can be done in the face of the “‘iron grip’ of oligarchies, which tends to push institutions who obstruct development to reorganize themselves”? (Palma, 2020b, p. 96).

Conclusion

The redistributive formulas that are now praised by the OECD (Melguizo et al., 2017; OCDE et al., 2019) are only an attempt – too late and far from feasible in the precarious conditions of the periphery – to transplant the European, neoliberal, social democratic agenda in order to save the foundering shipwreck of Latin America’s “senile neoliberalism” (Palma, 2020a, p. 990). Faced with this situation, it is well worth remembering Prebisch’s warning about the futility of establishing redistributive democracies without bringing about fundamental transformations in the processes of accumulation and surplus allocation. If the goal was to achieve a more equal income distribution that would socially stabilize Latin American countries and restore their democracy, it was “a shared responsibility” (Prebisch, 1978, p. 243): between the governments of the periphery, who should have pursued the more politically costly route (“compress the portion of the surplus devoted to the higher social strata’s consumption”), and the governments of the center, who had it within their power to facilitate changes in international economic regimes to make them “compatible with autonomous peripheral development” so that Latin America could go about “overcoming dependency and clearing a path for interdependent, progressive reforms” (Prebisch, 1978, pp. 246, 250).

At present, the enabling conditions seem ripe for the first task on an internal level, due to the end of the conservative restoration thanks to the progressive governments of Mexico, Argentina, Peru, Honduras, Chile, Colombia, and Brazil. Another set of factors, like the new green conditions of growth in the context of the 2030 Agenda and the budget emergencies caused by the COVID-19 pandemic, could help to create a new power bloc. This hypothetical distribution coalition formed by supporters of the developmental state and advocates of alternatives to development should bolster a more diversified taxation system in line with CEPAL's (2021) stance, with the additional innovation of the taxation of large fortunes announced in Argentina, approved in Bolivia, and debated in Chile. This should finally incentivize a dynamic connection between redistribution and growth by means of the technological advances that the region has been waiting for ever since the first reformist proposals of the Latin American Manifesto and up through Prebisch's (1978, p. 209) call for "the euthanasia of the privileged consumer society".

However, the lessons of history (the experience of the Alliance for Progress during the two democratic presidencies with greatest liberal promise) indicate that optimism should be curbed on the international front. The Summit for Democracy, convened by President Biden last December in 2021, served merely to reinforce the US progressive neoliberal approach that neglects international and class inequalities and to close ranks in the geopolitical conflict with China and Russia. In this context, only through active non-alignment will Latin America be able to take advantage of the slim margins of freedom left by neoliberal globalization to strengthen developmental states, the only ones capable of disciplining capital and acting with a certain degree of foreign autonomy. Developmental states push forward an agenda of fiscal reforms and progressive structural change that, with a more internationally assertive and environmentally sustainable style of development (Bárcena and Cimoli, 2022), could succeed in reducing structural heterogeneity as the *causa causans* of social inequality.

Notes

- 1 "When the given conditions of distribution form structural resistances capable of preventing sufficient attention to be assigned to basic development items in the long run" (Cardoso, 1961, pp. 107–108).
- 2 The Act of Bogota, approved in September 1960, contained a package of "measures for social improvement and economic development within Operation Pan America", which advanced the need for Latin American governments to pursue "self-help", namely, institutional reforms "in regard to taxation, property and land use". The Act's text can be found in *El Trimestre Económico*, 28(109), 1961, pp. 168–173.
- 3 In his speech, Kaldor (2021 [1964]) introduced the concept of tax potential (the portion of the GNP that can be collected from the public sector without creating unbearable political and social pressures) and of the utility coefficient of this potential, "which will depend in large part on the *degree of inequality present in national income distribution*, which in turn is closely linked to the relative importance of income derived from property compared to income derived from work, and to the degree of property concentration" (Kaldor, 2021 [1964], p. 1219; italics in the original).

- 4 In Latin America, 5% of the highest income earners received more than 30% of the total income, compared to a range between 15% and 20% in developed Western countries. The middle 60% of the population received around 35% of the total income in Latin America, below the average income, compared to 50% to 55% in developed Western countries, around the mean income. The Gini coefficient was estimated to be 0.56 in Latin America, while in the United States, one of the most unequal Western countries, it was 0.40 (ECLAC, 1971, pp. 8–10, 20, 34).
- 5 The term, popularized by Bárcena and Prado (2016, p. 231), “refers to a set of institutional norms, values and mechanisms through which social inequalities are legitimated and preserved” (CEPAL, 2016, p. 15).
- 6 The Palma index is the ratio between the income share of the top 10% and the bottom 40%.
- 7 *Time for Equality* (2010); *Structural Change for Equality* (2012); *Compacts for Equality* (2014); *Horizons 2030: Equality at the Centre of Sustainable Development* (2016); *The Inefficiency of Inequality* (2018); and *Building a New Future: Transformative Recovery with Equality and Sustainability* (2020). ECLAC and OXFAM (2016, p. 5) pledged to “build a new consensus against inequality”. For greater theoretical development, see Bárcena and Prado (2016) and Bárcena and Cimoli (2022).
- 8 The Kuznets ratio (the gap between the proportion of the income held by the richest 10% and the poorest 10%) declined at an annual average of 1.7% between 2002 and 2012, to decelerate to 0.6% between 2012 and 2018.
- 9 Petras (1976, p. 51) spoke of the lumpen society as imitating “the image of upper-class consumer values without the means for reaching them”, whereas Prebisch (1978, pp. 128, 183) coined the term “privileged consumer society” to denote “the exaggerated and premature imitation of the center’s consumption patterns” by “the social strata favored by distribution”.
- 10 Tax revenue from oil exploration and production and mining would come to represent between 6.9% and 5.9% of regional GDP between 2011 and 2014. Following this last year, this percentage abruptly dropped, reaching a low of 2.2% in 2016, and remaining below 3% from that point on (CEPAL, 2020b, p. 53).

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8 **Redistributive threats, development models, and taxation in Latin America**

Gabriel Ondetti

Latin America has traditionally been seen as a region that suffers from unusually light or insufficient taxation (Gómez Sabaini, 2006, pp. 43, 46). However, that perspective can be questioned on at least two grounds. First, revenues have grown robustly in recent decades relative to gross domestic product (GDP) in most Latin American countries, boosting the average tax burden significantly.¹ Second, and perhaps more importantly, that generalization obscures the vast differences that exist across the region. Although countries like Guatemala, Mexico, Panama, and Paraguay are indeed lightly taxed by global standards, that is clearly not the case of others, such as Argentina, Bolivia, Brazil, and Uruguay.

This chapter advances a political explanation of tax burden variance in Latin America, one that emphasizes the enduring impact of redistributive conflict. It argues that episodes of major redistributive reform, especially ones involving serious threats to private property, have indirectly influenced taxation by strengthening forces ideologically opposed to state intervention in the economy. As a result, countries where such episodes occurred tend to adopt more liberal development models, including not only lighter taxation but also lower spending, freer trade, and a more limited role for public enterprises. In contrast, countries that have not experienced a major redistributive episode are, other conditions being equal, more likely to have larger, more interventionist public sectors.

The argument is illustrated through a comparison of Brazil and Chile. In the late 1960s and early 1970s both countries had tax burdens of roughly 25% of GDP. Today, however, Brazil's burden, at about 33% of GDP, is more than 50% heavier than Chile's. The key reason behind this divergence is that the redistributive reforms undertaken by Chile's Popular Unity government (1970–1973) set in motion an anti-statist backlash that resulted in an enduring shift in development model towards a smaller, less-interventionist public sector. In Brazil, meanwhile, the absence of similar reforms meant that such a backlash never emerged, and the public sector continued to expand in subsequent decades.

These ideas are developed in three sections. The first outlines existing explanations of tax burden variance and fleshes out the alternative sketched

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above. The second compares the cases of Chile and Brazil respectively. Finally, the third concludes by summarizing the argument and reflecting on its policy implications.

Explaining tax burden variance in Latin America

As Table 8.1 indicates, contemporary Latin American tax burdens vary widely. The most heavily taxed countries have revenues substantially more than double those of the most lightly taxed, relative to GDP, a range that exceeds that of the advanced industrialized countries.²

There is an extensive literature on taxation which offers several potential explanations of this variance.³ The most widely accepted is economic development, which is said to promote heavier taxation. Other socioeconomic variables found to be important include trade openness and education, both of which are typically seen as favoring greater taxation, and reliance on extractive or commodity sectors (including agriculture, mining, and hydrocarbons), which is viewed as impeding it.⁴ Political variables include regime type, federalism, government ideology, and the quality of governance. Generally speaking, scholars associate democracy, centralized government, leftist governance, and high-quality governance with higher levels of taxation.

The handful of works seeking to explain tax burden variance specifically in Latin America have consistently found support for economic variables, especially development level and dependence on natural resource extraction (Cetrángolo and Gómez Sabaini, 2007; Martín-Mayoral and Uribe, 2010;

Table 8.1 Average tax burdens in Latin America (2015–2019).

<i>Country</i>	<i>Tax revenues/GDP</i>
Brazil	32.5
Argentina	29.9
Uruguay	28.5
Bolivia	26.6
Nicaragua	23.7
Costa Rica	23.2
Honduras	22.2
El Salvador	20.7
Chile	20.5
Ecuador	20.4
Colombia	19.4
Peru	16.4
Mexico	16.3
Panama	14.9
Paraguay	13.8
Dominican Republic	13.2
Guatemala	13.1

Source: OECD Global Revenue Statistics Database.

Patrucchi and Grottola, 2011; Rossignolo, 2017). There is also some evidence that trade openness (Cetrángolo and Gómez Sabaini, 2007) and education (Rossignolo, 2017) are significant. Political variables have not been tested as frequently, but Martín-Mayoral and Uribe (2011) turn up evidence that regime type matters and Stein and Caro (2013) that government ideology does.

Almost all the research in this area relies on large-N statistical methods. One exception is Schneider's (2012) comparative study of changes in Central American tax systems during the 1990s and 2000s. Perhaps because it uses qualitative induction to probe country cases in depth, it also points to variables ignored by other studies. Schneider argues that tax burden growth in this region has been influenced by the cohesion and dominance of emergent business elites with a strong insertion in the global economy. Where such groups are united and powerful, they sponsor "state-building" projects that boost revenues.

This chapter, which also uses qualitative comparison, concurs with Schneider's emphasis on elite cohesion but offers a different account of its significance. It argues that, while cohesion may aid in short-term tax increases, in the longer term it favors lighter taxation because the ideas that unify elites in the Latin American context tend to involve opposition to state economic intervention. Furthermore, it stresses that elite cohesion can be influenced by episodes of major redistributive reform. Large-scale expropriation of private assets, such as land, mines, and factories, is especially potent since property concerns cut across sectoral divides and involve not only profits but also identity and status. As long as they do not destroy the private sector outright, something that has occurred only in Cuba, such events engender both elite mistrust of state intervention and the organizational resources, including encompassing business associations and rightist parties, to resist it. Moreover, where such actors are strong, their anti-statist ideology influences public policies and tends to push the overall development model, including taxation, in a liberal direction. The result is a public sector that, other factors being equal, is smaller and (due mainly to lower social spending) less redistributive.

In other words, using the terminology laid out in this volume's introduction, the occurrence of acute property threats favors the emergence of a development model based on allocative neutrality, while their non-occurrence favors re-allocational politics. Taxation tends to be higher under the second scenario because there are fewer political barriers to the expansion of state intervention in general. Consequently, in Latin America, heavy taxation tends to go hand in hand with trade protection, market regulation, social service provision, and other features of a relatively statist, re-allocational development model.

Although the reform waves that prompt them may last only a few years, the anti-statist backlash effects referred to above may endure for decades. A key reason is that intense struggles imprint on political organizations ways of seeing the world that become essential to their sense of self and thus highly resistant to change (Stinchcombe, 1965; Pierson, 2000; Levitsky et al., 2016). Actors that fight back against expropriation and other statist "aggressions" acquire social

prestige and a sense of purpose associated with that struggle. In addition, to the extent that anti-statist backlashes shape policy, they undercut actors with statist preferences (e.g., import-sensitive industries) and, at the same time, boost their own economic and political resources.

The effects of major redistributive episodes on elite cohesion can be seen by comparing Latin American countries that have and have not experienced them. Encompassing business associations, which unite firms across sectors and regions, are more common in countries where business has faced major redistributive threats (Durand and Silva, 1998, pp. 5–10; Ondetti, 2021a, chap. 2). There is a particularly strong correlation between encompassing organization and the past occurrence of large-scale, expropriation-based land reform (Ondetti, 2023). Countries that experienced such a reform, including Chile, El Salvador, Guatemala, Mexico, Nicaragua, and Peru, tend to have strong encompassing associations, while those that did not, including Argentina, Brazil, the Dominican Republic, Ecuador, Paraguay, and Uruguay, generally lack such an entity (Durand and Silva, 1998; Schneider, 2004; Albertus, 2015). Similarly, the countries with the strongest programmatic right parties, especially Chile, El Salvador, and Mexico (Luna and Rovira Kaltwasser, 2014, p. 14) are also ones that experienced major property reforms.

These actors can be powerful forces in favor of a market-oriented development model. Encompassing business associations in Chile, El Salvador, Guatemala, Mexico, and Peru have been seen as important obstacles to intervention and redistribution (Sanchez, 2008; Fairfield, 2015; Durand, 2016; Bril-Mascarenhas and Madariaga, 2019; Ondetti, 2021). They have fought taxation and spending initiatives, advocated privatization, supported free trade agreements, and opposed market regulation. In addition, they have purveyed an image of the state as irremediably inefficient, joining forces with well-funded think tanks like Chile's Liberty and Development (Fairfield, 2015, p. 76), El Salvador's Salvadoran Fund for Economic and Social Development (Bull and Aguilar Støen, 2019, p. 126), and the Peruvian Institute of Economics (Durand, 2016).

Although parties must be more nuanced in endorsing economic liberalism, for fear of alienating non-elite voters, rightist parties like Chile's Independent Democratic Union (UDI), El Salvador's Nationalist Republic Alliance (ARENA), and Mexico's National Action Party (PAN) have ultimately been bulwarks of market-oriented policymaking. Such parties may at times back programs with poverty-reducing effects, such as conditional cash transfers, but they usually spend less on them than left-leaning parties and, at the same time, forego policies that are more costly or have deeper structural impacts (Borges, 2018; Ondetti, 2021, pp. 93, 144).

Of course, the existence of strong organizations dedicated to combating state intervention does not by itself guarantee a small public sector, nor does their absence necessarily lead to a large, interventionist one. For example, Bolivia, which has relatively robust business organization (Fairfield, 2015, pp. 225–230) and had a solid electoral right until the early 2000s, nevertheless has

heavy taxation and spending for a poor country. Meanwhile, the Dominican Republic, which lacks both strong business organization and programmatic right parties, has a much smaller public sector. The reason behind these apparent divergences from the argument is that other variables are at work, especially popular organization and leftist electoral strength. In Bolivia, strong popular organization and the consequent success of the Movement Toward Socialism (MAS) at the polls have shifted the power balance in favor of statism. In the Dominican Republic, in contrast, Haitian immigration, remittance income, and the “exit option” of immigration to the United States have weakened worker organization and the left, attenuating pressure for state intervention (Ondetti, 2012).

In other words, the long-term political impact of redistributive reforms is but one of the influences on tax burden magnitude in Latin America. Nevertheless, as this chapter suggests, it is an important one, which can shed light on differences in taxation level and overall development model across the region.

To conclude this theoretical discussion, it is worth touching briefly on the issues of inequality and redistribution, which are central to this volume. The Latin American countries in which the lack of a cohesive anti-statist political bloc has facilitated the rise of an interventionist development model and large tax burden do not necessarily boast progressive tax structures. In fact, as is also the case among OECD countries (Beramendi and Rueda, 2007), the more heavily taxed countries tend to rely proportionately more on neutral or regressive levies, like consumption and payroll taxes, than do lightly taxed countries at similar levels of development (Ondetti, 2021, pp. 18–19).⁵ For example, Argentina and Uruguay have far heavier tax burdens than Chile and Mexico (see Table 8.1), but the latter two countries derive a larger share of their revenues from progressive taxes, especially income taxes.⁶ This pattern is probably a function of the structural impediments to taxing economic elites, including the threat of disinvestment and capital flight, which hinder the development of tax systems that both collect a lot of revenue and do so progressively (Ondetti, 2021, p. 19). Nevertheless, the greater volume of social spending in the higher-tax countries, some of which is quite progressive (e.g., conditional cash transfers and non-contributory pensions), seems to favor greater overall redistribution. This assertion is supported by studies showing that the fiscal systems of Argentina, Brazil, and Uruguay, the three most heavily taxed countries in the region, also reduce income inequality the most (Hanni et al., 2015, p. 13; Lustig, 2017, pp. 520–521).

Comparative analysis of Brazil and Chile

The theory of tax burden magnitude outlined above is illustrated in this section through a comparison of Brazil and Chile. These countries offer a useful contrast for two reasons. First, much of the scholarship suggests that Chile should be more heavily taxed. As Table 8.2 indicates, Chile is wealthier, less dependent on agriculture, more open to trade, more fiscally centralized, and scores

Table 8.2 Brazil vs. Chile: key independent variables (2015–2019).

Country	GDP per capita	Farm/total GDP (%)	Trade/GDP (%)	Central/total tax revenue (%)	Democracy (10 = most democratic)	* Governance (2.5 = best governance)	Non-tax revenues/GDP (%)
Brazil	8,697	4.8	27.7	69.6	8	-0.3	0.8
Chile	14,523	3.8	56.7	92.2	10	1.1	0.4

Source: OECD Global Revenue Statistics Database; Polity V; World Bank database; World Bank Worldwide Governance Indicators.

* Average of the World Bank's corruption, rule of law, and government effectiveness indicators.

higher on indices of democracy and governance. Yet, Brazil's tax burden is close to 60% heavier (see Table 8.1). Furthermore, this gap is not reduced by non-tax natural resource revenues. Mineral resource extraction plays a larger role in Chile's economy, mainly due to the copper industry, but since the bulk of production comes from private companies, the fiscal revenues flowing from this sector are mainly tax rather than non-tax revenues (Ondetti, 2021, p. 66). Thus, the case selection eliminates several of the major explanations of taxation level, suggesting that a lesser-known variable is behind the observed variance.

Second, during the immediate post-World War II decades, Brazil and Chile actually had similar tax burdens and economic development models. Both were among the clearest examples of the state-led, ISI development strategy then in vogue in Latin America, with substantial trade protection, an extensive public enterprise sector, and powerful state development banks (Etchemendy, 2011, p. 295). Both countries had tax revenues exceeding 25% of GDP (the highest level in Latin America) and Chile's were somewhat higher than Brazil's (Ondetti, 2021, p. 100). Yet, as Figure 8.1 indicates, during the 1980s, Brazil's tax burden came to surpass Chile's by a substantial margin. In the 1990s and early 2000s, moreover, that difference continued to grow, becoming the huge gap in evidence today.

Of course, this trajectory raises the question of why the two countries diverged. The argument developed below is that divergence occurred because Chile adopted major redistributive reforms, while Brazil did not. Chile's early 1970s reform wave set in motion a conservative backlash that fueled a dramatic turn to liberal economic policies, while also giving rise over time to powerful anti-statist actors capable of defending those policies in the longer term. In Brazil, in contrast, the lack of any analogous instance of redistributive threat,

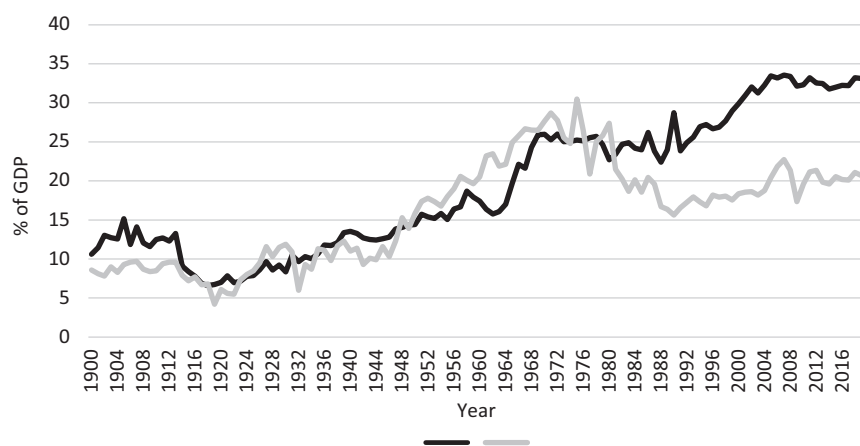


Figure 8.1 Historical tax burden trajectory, Brazil and Chile (1900–2019). (Source: United Nations Economic Commission for Latin America and the Caribbean; Instituto Brasileiro de Geografia e Estatística; World Bank 1961; 1966; 1970; and 1984; Braun-Llona et al., 1998.)

either during this period or thereafter, meant that such actors failed to develop. Business remained fragmented and even the more conservative parties have generally been more focused on patronage than market reform. Thus, although Brazil did adopt certain liberalizing reforms in the 1990s, it has largely continued on its statist, high-tax trajectory. Each country's path is examined in greater depth below.

Reform, counter-reform, and enduring liberalism in Chile

Prior to the mid-1970s, Chile had the most interventionist state in Latin America other than Cuba's (Valenzuela, 1978, p. 13). Industry was protected by high tariff barriers and the state aggressively promoted investment through the Corporation for Production Promotion (CORFO), which wielded vast resources. Chile also had an exceptionally large welfare state, with social expenditure similar to the Organisation for Economic Cooperation and Development (OECD) average relative to GDP (Arellano, 1985, p. 397). In terms of revenue and spending, its social security system was rivalled in Latin America only by Uruguay's. Chile's tax burden during the early 1970s averaged about 27% of GDP and tax revenues were supplemented by non-tax flows from the copper industry, which was nationalized in 1970 (Ondetti, 2021, p. 70).

Today, however, the situation is different. Although Chile's real per capita GDP is three times what it was in the early 1970s, its tax burden is about 25% lower. Despite being one of the wealthiest countries in Latin America, it is in the middle of the pack with respect to taxation (see Table 8.1). Chilean social spending is still substantial by regional standards, but lags behind that of Argentina, Brazil, Colombia, Costa Rica, and Uruguay in terms of GDP (OECD Social Expenditure Database; CEPAL, 2021, pp. 186–187). In part, that is because its pension system now consists of individual accounts managed by private investors rather than the public sector. Chile is liberal in other ways as well. Trade protection is low, labor markets are flexible, state enterprises play a modest role in the economy overall, and CORFO is a shadow of its former self. Indices of market friendliness consistently rank Chile at the top of the region.⁷

Over the last two decades, targeted anti-poverty programs have helped to gradually attenuate income inequality, which spiked upward under military rule. Modest gains in tax progressivity may also have contributed. Nevertheless, the most detailed comparative studies of fiscal incidence in Latin America suggest that its system reduces income inequality less than those of Argentina, Uruguay, and Brazil, essentially because of the smaller volume of fiscal resources involved (Hanni et al., 2015, p. 13; Lustig, 2017, pp. 520–521).⁸

During the last decade or so, political pressures, including mass protests and the rise of new parties, have intensified in favor of giving the state a more active role, especially with regard to education and social protection. At the time of writing, Chile was drafting a new constitution, which was widely expected to facilitate this transformation. Up to now, however, the core elements of the

free market system established under the 1973–1990 military regime have survived largely intact (Madariaga, 2020).

The enduring turn to economic liberalism can be understood as a reaction to profound redistributive reforms, especially those implemented under President Salvador Allende (1970–1973), who led a coalition of left and center-left parties known as Popular Unity, or UP. In the short term, the reform wave provided the impetus for a radical market-oriented restructuring process following the *coup d'état* that removed Allende from office. In the longer term, it helped provoke the rise of an anti-statist political bloc capable of effectively defending the policy status quo despite the return to democracy in 1990.

For about three decades after the initiation of ISI in the late 1930s, state intervention in Chile's economy expanded with limited resistance (Kurtz, 2013, p. 146). The private sector was politically fragmented and focused on lobbying state agencies for particularistic advantage. An encompassing organization, the Confederation of Production and Commerce (CPC), had existed since the mid-1930s, but was overshadowed by narrower groups, including the Society for Industrial Promotion (SOFOFA), which represented manufacturers (Schneider, 2004, chap. 6). Sectoral divisions also shaped party loyalties, with agriculture being closer to the Conservative Party and manufacturing and finance to the Liberal Party (Stallings, 1978, p. 41). Jorge Alessandri, who was supported by both right parties, captured the presidency in 1958 promising to limit intervention. However, societal support for this project was superficial and Alessandri achieved little substantive change (Stallings, 1978, p. 90).

Mobilization against state intervention intensified beginning in the late 1960s. The major reason was a shift towards policies that threatened elite property rights. President Eduardo Frei Montalva (1965–1970) of the Christian Democratic Party (PDC) started this change, but it accelerated under Allende, who eliminated large landholdings and seized dozens of non-farm businesses, substantially increasing state control of productive assets (Stallings, 1978, pp. 156–157). These policies, combined with the government's socialist rhetoric, prompted a growing opposition movement seeking to destabilize it. Sensing an existential threat, business became increasingly unified, and the CPC took on a prominent role in criticizing the government (Campero, 1984, pp. 62–88; Schneider, 2004, pp. 162–163). Business leaders also forged bonds with other opposition actors, including a student-based Catholic social conservative movement known as *gremialismo*; a network of free-market economists that would later be referred to as the Chicago Boys due to their ties to the University of Chicago; the neo-fascist group Fatherland and Liberty; and, ultimately, the armed forces (Pollack, 1999).

With the support of the US government, this coalition secured Allende's overthrow in September 1973 in the midst of a profound economic crisis. The resulting military regime, which came to be led by General Augusto Pinochet, initially focused on immediate goals, including macroeconomic stabilization and the return of expropriated properties to their former owners. However, in mid-1975, it set in motion a major structural reform program, including

trade liberalization, financial deregulation, and privatization of state enterprises. Later, liberalization was extended to other areas, including labor market regulation, pensions, and education. Facing a large fiscal deficit, the regime initially did not reduce taxation, but in the 1980s the tax burden fell precipitously due to the combined effects of pension reform (which redirected contributions to private funds), income tax reform, and a reduction in the value added tax rate (Ondetti, 2021, pp. 80–84). By 1990, when democratically elected leaders took power, tax revenues were only about 15% of GDP (see Figure 8.1).

Pinochet's free-market revolution reflected the political and ideological climate generated by countermobilization against Allende's reforms. Radical liberalization was favored by intense rejection of the preceding government's aggressive statism, at least among business elites and part of the middle class. The Chicago Boys' fundamentalist liberalism, once a marginal force in a society pursuing state-led development, had gained wider acceptance (Valdés, 1995, p. 245). In fact, the Chicago Boys would become the architects of the new regime's policies. After the coup, even advocates of a simple return to pre-Allende developmentalism "had no allies in the government and precious few outside of it" (Silva, 1996, p. 89). Rejection of Allende's policies handed regime leaders a mandate to pursue their reforms with little interference from affected sectors. Moreover, the return of sustained economic growth in the late 1970s gave them additional political capital, which they invested in both additional reforms and a new constitution, ratified in 1980, intended to entrench the new development model.

Eventually, support for Chile's authoritarian regime waned. A 1988 referendum yielded a clear (although not overwhelming) rejection of Pinochet's continued rule. The following year elections were held, resulting in the victory of the Concertation, a coalition of centrist and moderate left parties anchored by the PDC and the Socialist Party. The Concertation would also win the next three presidential elections. Since 2010, center-left and rightist coalitions have alternated in power. This period has also brought an upsurge of protest activity aimed at reversing Pinochet's policy legacies.

While the contemporary unrest may yet result in major change, the liberal development model has proven resilient (Madariaga, 2020). Chile's economy continues to be among the least statist in Latin America. How can we explain this resilience? There is more than one answer to this question. Solid economic growth has undoubtedly contributed, as has the decline of sectors that flourished under ISI. In addition, the 1980 constitution established institutional obstacles to change, including a set of "designated" senators chosen by state actors rather than the popular vote. At least as crucial, however, are the ideological and organizational impacts of the struggle against the UP government's reforms, which gave rise to a broad-based anti-statist coalition with the determination and cohesion to hinder deviations from the status quo.

Chile's private sector was transformed by this struggle. Policies that threatened its most vital interests fomented a generalized wariness of state intervention and eroded previous divisions, forging a stronger class consciousness and

capacity for collective action (Campero, 1984; Silva, 1996). This transformation was reflected in the emergence of the CPC, which had previously been overshadowed by sectoral groups, as the mouthpiece of Chile's private sector. Its central role was accepted by the military regime as well as by subsequent governments. Today, the CPC is viewed as one of Latin America's strongest encompassing business associations, due largely to the private sector's shared commitment to resisting statism (Fairfield, 2015, pp. 73–75; Bril-Mascarenhas and Madariaga, 2019, p. 11; Ondetti, 2023).

The trauma of the pre-coup years also contributed to the emergence of strong parties committed to anti-statism. Such organizations did not arise in the immediate aftermath of the coup because there were no elections. However, as democratic pressures mounted in the early 1980s, conservatives moved to create entities capable of defending their views in a more competitive environment. Out of this process came the Independent Democratic Union (UDI) and National Renewal (RN), which together anchor a rightist coalition that has captured the presidency twice and averaged roughly 40% of the legislative vote (Ondetti, 2021, p. 88). UDI, which was founded by *gremialistas* who battled Allende and served the military regime, is especially determined to preserve Pinochet's legacy, but both parties are committed to economic liberalism. Although formally independent of business organizations, UDI and RN have strong informal ties to them and receive copious funding from the private sector (Agostini, 2012, pp. 17–18).

This same period of democratic transition also gave rise to a number of market-oriented think tanks, some of which are among the most prestigious in Latin America, including the Center for Public Studies and Liberty and Development. These organizations engage in research and outreach activities supporting the development model and, like the rightist parties, enjoy financial support from business.

Together, these collective actors, along with prominent journalists and academics, have comprised an anti-statist bloc with great societal influence. This bloc has supported the preservation of Pinochet's development model in various ways. Perhaps most obviously, it has used its power over representative institutions to impede reform. Its success in this sphere is partly due to the institutional advantages embedded in the 1980 constitution, especially the designated senators, which helped keep the Concertation from achieving a legislative majority (Fairfield, 2015, pp. 77–78). However, the persistence of this institution was itself in large part a function of the prestige enjoyed by the former regime. Moreover, the designated senators and most of the other "authoritarian enclaves" were eliminated by a series of 2005 constitutional reforms. The fact that change has been modest since then is due to both the strength of the UDI–RN coalition and the ability of the anti-statist bloc to apply pressure through other methods.

Business criticism of statist policies is an especially potent tool. Of course, it is normal for business to wield great power in capitalist systems because it creates jobs and its wealth affords opportunities to influence officeholders.

However, the extent of that power can be shaped by other factors, including private sector cohesion (Undurraga, 2012; Fairfield, 2015). That business can readily speak with one voice on many issues in Chile is an important advantage. The divide-and-conquer strategies sometimes used by authorities in countries with more fragmented private sectors, such as neighboring Argentina, are less viable in Chile (Ondetti, 2021, pp. 227–228). As a result, Chilean authorities have been relatively easily cowed by the threat of business disapproval, especially since business’s anti-statist message is amplified by prestigious think tanks and conservative journalists.

Under the Concertation governments, progressive reform ideas were often shelved even before becoming formal proposals due to fear of provoking sharp reactions from the anti-statist bloc (Fairfield, 2015, chap. 3). Inspired by the massive 2011 student protests, the New Majority government (2014–2018) was more assertive in advancing reforms, but these were generally diluted substantially during the legislative process. This was the fate, for example, of an ambitious tax bill introduced in 2014, which was intended to increase revenues by 3% of GDP over five years. Although the government enjoyed majorities in both legislative chambers, criticism from anti-statist actors was so intense that it forced important concessions (Ondetti, 2021, pp. 95–96). At least partly as a result, tax revenues had only increased by 1.1% of GDP by 2019 (OECD Global Revenue Statistics Database).

Thus, Chile offers a clear example of how a redistributive reform wave that threatens property can produce a backlash that transforms the development model and thus results in chronically light taxation. Brazil, as discussed below, evidences a very different causal dynamic, at least since the 1970s.

Business-friendly statism and heavy taxation in Brazil

Like Chile, Brazil responded to the Great Depression by initiating construction of a developmental state that would come to be characterized by robust trade protection and heavy public sector involvement in market regulation, credit provision, and production (Graham, 1982; Sikkink, 1991). Although Brazil lagged behind Chile in developing a social security system, it was still among the regional leaders and by the 1970s its social security revenues, spending, and population coverage put it among the top five or six countries in Latin America (Huber and Stephens, 2012, p. 78).

Unlike Chile, however, Brazil did not turn radically against state intervention, either during the 1970s or thereafter. To be sure, Brazil had its own “bureaucratic authoritarian” military regime, which lasted from 1964 to 1985. Like the Pinochet regime, it vigorously repressed organized labor and the left. However, in economic matters it was resolutely statist. It deepened ISI by expanding the public enterprise sector and providing subsidized credit to private producers, while maintaining protectionism. It also continued the gradual expansion of social security. While the primary beneficiaries were better-off formal sector employees, the regime also implemented a non-contributory

program for rural workers, which helped give Brazil the widest pension coverage in Latin America (Huber and Stephens, 2012, p. 78).

During the 1990s, Brazil did adopt aspects of the Washington Consensus, especially trade liberalization and privatization (Kingstone, 1999). However, these reforms were far less extensive than those implemented in Chile under Pinochet. Protectionism remained substantial, state enterprises continued to dominate some sectors (especially energy and banking) and the pension system remained in state hands. In addition, the public sector expanded significantly in fiscal terms. For example, tax revenues grew from about 25% of GDP at the time of the democratic transition to 32% at the end of the “neoliberal” Fernando Henrique Cardoso government (1995–2002). Taxation grew only marginally under the governments of the left-leaning Workers’ Party (2003–2016), but the state’s role expanded in other areas, including lending, housing, and public assistance. Increased spending on anti-poverty programs, along with minimum wage increases, contributed to a significant decline in income inequality, although some of that progress was at least temporarily reversed by a deep recession beginning in 2014.

Since 2016, successive conservative governments have sought to halt or roll back public sector growth. Their most significant achievements have been a 2016 constitutional amendment freezing federal spending in real terms for at least a decade and a 2019 pension reform that should incrementally reduce the state’s liabilities in this area. The former was advanced by interim president Michel Temer (2016–2018) and the latter by Jair Bolsonaro (2019–present), who campaigned on a platform that included reducing the state’s economic role.

However, it is not clear that Brazil has reached a turning point in its fiscal or development model trajectory. While tax revenues appear to have plateaued at about 32% of GDP, spending spiked up sharply in 2020 due to the government’s response to the COVID-19 pandemic.⁹ Despite its liberal rhetoric, the Bolsonaro government made an exception to the spending cap and launched one of the most generous emergency social programs in Latin America. So great was the cash infusion that poverty and inequality actually fell in 2020, bucking regional trends (Lustig et al., 2021, pp. 10–11). Although the cap is still in place, doubts about its sustainability are widespread, due to social and interest group demands, as well as its anticipated negative effects on public investment (Nunes and Hessel, 2021). Increasingly, commentators have claimed that Bolsonaro’s liberalizing agenda is failing to achieve substantive change (*Gazeta do Povo*, 2021).

Brazil has taken a different path from Chile’s since the 1970s because economic elites did not experience equivalent threats to their interests. Like Chile’s 1973 coup, the one that occurred in Brazil in 1964 responded to what conservatives perceived as the peril posed by a left-leaning government. However, the threat was more limited in the Brazilian case. President João Goulart (1961–1964) was not a socialist and he achieved no major reforms beyond an extension of the country’s corporatist labor regime to the countryside. Although he

proposed a land reform bill, it was not approved, and no major non-farm assets were expropriated either. He was removed mainly because of an intractable economic crisis and his fruitless attempts to use popular mobilization to force Congress to approve his reforms.

Subsequent governments also posed few threats. Though statist, the military regime was pro-business. Moreover, the first four post-authoritarian presidents led centrist or center-right coalitions that introduced few redistributive reforms. Cardoso did implement the most significant land reform in Brazil's history, but it was very modest in comparison to Allende's. Although their party had traditionally promised deep property reforms, including sweeping land redistribution, Luiz Inácio Lula da Silva (2003–2010) and Dilma Rousseff (2011–2016) of the PT both eschewed such reforms and instead focused on redistributing income through fiscal and regulatory policies.

The lack of acute threats to elite interests meant that there has been no anti-statist backlash comparable to Chile's. Studies of Brazilian business elites under military rule suggest that, on the whole, they were sympathetic to the idea of an economically activist state (Schmitter, 1971, p. 349; Diniz and Boschi, 1978, p. 191). Even the wide-ranging tax reform of 1966, which significantly increased all major categories of revenue, does not appear to have provoked much resistance (Oliveira, 1991). Public complaints did arise in the mid-1970s about the growing role of public enterprises, but these efforts were narrowly based and had limited impact (Graham, 1982). The market reforms of the 1990s gained wide business support for a time because they seemed to offer a solution to a decade of economic stagnation and recurrent hyperinflation. Once the growth prompted by the 1994 "Real Plan" stabilization program stalled, however, the apparent consensus eroded, revealing the persistence of longstanding expectations that the state would stimulate the domestic market and actively assist businesses (Diniz, 2010, pp. 110–112).

Lacking a consensus on the need to defend themselves against statism, Brazilian economic elites have also lacked incentives to organize politically as a class. Unlike Chile, Brazil continues, as during the heyday of ISI, to have no encompassing, multi-sector business association (Schneider, 2004, p. 40; Ondetti, 2023). The broadest organizations are national sector-specific groups, most of them state-sponsored corporatist entities. However, even these have often been considered politically ineffectual (Diniz and Boschi, 1978, pp. 171–172; Schneider, 2004, pp. 93–94). Business elites tend to rely on more specific groups or personal contacts to lobby government. Commercial agriculture is somewhat of an exception, since it boasts a strong legislative caucus, founded during the 1990s, which works hand in hand with some other broad-based farm groups to influence policy (Pompeia, 2020). However, this is an exception that proves the rule, since, due to recurrent land reform efforts since the mid-1980s, agriculture has also faced stronger threats to its property rights than other sectors.

The weakness of anti-statist impulses in Brazil is also manifest in the lack of programmatic right parties. Just as there is no Brazilian CPC, there is also no analogue to the UDI or RN. Non-left parties have tended to dominate

elections, especially in the legislative and subnational spheres, since the democratic transition. However, these are generally centrist or clientelistic parties (Montero, 2014). The party that seemed best positioned to assume a UDI- or RN-like role, the Party of the Liberal Front (now known as *Democratas* or *DEM*), never had as clear an ideological profile as Chile's right parties and has seen its influence decline steadily over the last two decades. Today, *DEM* controls only 5% of the seats in the Chamber of Deputies and 7% of the Senate. President Bolsonaro did win election on a market-based platform, but he ran for an obscure party and subsequently became independent. To the extent that he enjoys stable legislative support, it comes from a group of conservative caucuses, including the farm caucus. Brazil also lacks rightist think tanks with the resources and prestige of Chile's Center of Public Studies and Liberty and Development (Ondetti, 2021, pp. 179–180).

Thus, there is nothing in Brazil like the cohesive anti-statist bloc found in Chile. Consequently, even its embrace of the Washington Consensus during the 1990s failed decisively to transform the country's development model and tax system. To be sure, recent years have brought a right turn, which was prompted largely by the deep recession and major corruption scandal that emerged under Rousseff. However, that phenomenon lacks firm institutional roots, since right parties, free-market think tanks, and class-wide capitalist organization remain relatively weak. The absence of an anti-statist coalition strong and determined enough to overcome Brazil's statist inertia explains why Bolsonaro, his liberal rhetoric notwithstanding, has achieved only modest change.

Conclusions

Latin American countries vary greatly in the magnitude of their tax burdens. This chapter has argued that these differences can be explained in part by the enduring political impact of major instances of redistributive reform, especially ones featuring acute threats to private property. As long as they do not destroy the private sector, such episodes favor the rise of strong anti-statist actors whose ideology and influence tend to tilt the overall development model in a liberal direction. One crucial aspect of this effect is lighter taxation, which in turn results in less social spending and redistribution. This argument was illustrated through a comparative analysis of Chile and Brazil, cases of relatively light and heavy taxation respectively.

The chapter also holds practical implications for the pursuit of socioeconomic inequality, which is a key issue in Latin America, as this volume makes clear. In particular, it calls attention to the dangers of reforms that, like those implemented in Chile during the early 1970s, profoundly threaten private property.

Although Chile must be considered a relatively successful country today in a number of key respects, especially economic growth, it has taken decades to attenuate the sharp inequalities generated by the Pinochet era economic transformation, and that task is far from finished. To be sure, in a region as

unequal as Latin America, it makes ethical and practical sense to pursue reforms that attack established social hierarchies, as the UP government did. However, progressive political leaders must also be aware that, to the extent that those efforts threaten the most vital interests of powerful groups, they may provoke a political backlash that ends up making their own supporters worse off.

There is no easy way out of this dilemma, but one potential lesson that emerges from this chapter is that a focus on incremental redistribution achieved mainly through fiscal and regulatory policies may be more effective, because it is more politically sustainable, than one that seeks immediate transformation through sweeping property redistribution. Moderate property reform that does not cast doubt on the survival of private property more generally may also be feasible. Of course, a violent socialist revolution can eliminate the possibility of a Chilean-style anti-statist backlash, but the rarity of that phenomenon, combined with the authoritarianism that has historically accompanied it, suggests that it is usually not a practical or desirable path to greater equality.

Notes

- 1 The average Latin American tax burden increased from 13.8% of GDP in 1990 to 16.5% in 2000 to 20.9% in 2019 (OECD Global Revenue Statistics Database).
- 2 Even the country with the lightest average tax burden in 2015–2019, Ireland, had a tax burden more than half that of the country with the heaviest burden, Denmark (OECD Global Revenue Statistics Database).
- 3 Castañeda Rodríguez (2018) provides an overview of this scholarship.
- 4 Agriculture, mining, and hydrocarbons are all widely seen as reducing taxation, but for different reasons. With regard to agriculture, the problem involves the geographical dispersion and frequently small scale of private producers, which hinders tax collection. With regard to mining and hydrocarbons, it is that the state often directly owns these sectors and thus exploits them fiscally through non-tax instruments.
- 5 Taxes on international trade also tend to contribute a larger share of revenue in heavily taxed countries, but even in those countries they are usually (the clearest exception being Argentina) not a major source of revenue.
- 6 In 2018–2019, income taxes contributed 44% of tax revenue in Mexico, 34.8% in Chile, 26.2% in Uruguay, and 18% in Argentina (OECD Global Revenue Statistics Database).
- 7 See the World Bank's Ease of Doing Business Index (www.doingbusiness.org/en/rankings) and the Heritage Foundation's Economic Freedom Index (www.heritage.org/index/).
- 8 Chile's tax structure is more progressive than Brazil's in terms of the share of revenue collected through income and property taxes. However, its redistributive effect is attenuated by the smaller amount of revenue it collects, which limits social spending.
- 9 Federal non-interest spending increased from 19.6% of GDP in 2019 to 26.1% in 2020 (Observatorio de Política Fiscal database).

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9 A close relationship with the economic elite: the historical roots of the poor Mexican tax state

Mónica Unda-Gutiérrez

Introduction

The Mexican state is a poor state. It currently collects tax revenue equivalent to 13.1% of GDP. This amount is too low to address the socioeconomic problems that afflict Mexican society, such as the lack of growth and the number of people living in poverty – 43.9% of the population in 2020 (Consejo Nacional de Evaluación de la Política de Desarrollo Social [CONEVAL], 2021). This amount is also meager compared to what other countries with similar income levels collect – in 2019, Brazil, Argentina, and South Africa collected 33.1%, 28.7%, and 26.2% of their GDPs respectively (OECDStat, 2021). Even Latin American countries with lower income levels collect more taxes – in 2019, Ecuador, El Salvador, and Honduras collected between 20% and 22% of their GDPs. This is not a new anomaly; it has always been one of the most significant challenges for the country's development in the last century.

This chapter shows how regressive tax institutions with low extractive capacities were established during the post-revolution reconstruction of the Mexican state (1910–1920) and argues that this was a direct result of the influence that the economic elite exerted in the tax policy-making process through its instrumental power. According to Hacker and Pierson (2002), the elite possesses two kinds of power: structural power and instrumental power. Structural strength is derived from the crucial role that companies play in generating wealth and employment, i.e., in the consequences of the investment decisions. On the other hand, instrumental power involves taking deliberate actions to influence public policy. Here, we offer evidence from historical archives that reveal the influence of representatives of the economic elite in tax decision-making processes between 1925 and 1964. These decisions ended up cementing a tax system with low tax collection levels and a lack of progressiveness, which was justified by a faction of the Ministry of Finance and Public Credit (SHCP) as a means to encourage private investment and thus support the process of import substitution industrialization (ISI).

Moreover, this chapter proposes that the creation of a poor tax state has helped strengthen the structural power of the elite, which became more apparent as of the 1980s. The fiscal poverty of the Mexican state puts it at a

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disadvantage in relation to the elite by incrementing the economy's dependence on private investment to generate growth and employment. As discussed later, during the ISI period, the Mexican state was characterized by its direct and active participation in the productive process through the state-owned enterprise sector (SOE sector) and its stewardship of the economy – which to a certain extent helped conceal the fiscal anomaly of low tax collection. However, the financial situation of state-owned enterprises, among other factors, aggravated the crisis of the early 1980s that gave rise to neoliberal stabilization and structural adjustment policies. These have also strengthened the position of the economic elite concerning the state.

To better contextualize the questions related to the building of tax systems, it is useful to situate this chapter in a broader theoretical and historical framework. First, the proposal to link state building with the establishment of tax systems is not new. For many (Levi, 1988; Bräutigam et al., 2008; Schumpeter, 1954; Tilly, 1975), the creation of the state's extractive capacity is an essential component of the state. As Burke puts it, “the revenue of the state is the state” (Levi, 1988). Second, to understand the process by which the extractive capacity of the state is created, it is essential to analyze the relationship between the state and the economic elite, since this capacity should be conceptualized as a relational—rather than absolute—phenomenon (Centeno, 1997). In other words, the ability to collect taxes is based on a two-part relationship: it is linked, on the one hand, to the society's willingness to accept this extraction, and, on the other hand, to the state's ability to convince and coerce taxpayers to do so (Levi, 1988). However, in countries as unequal as Mexico, the relational dimension of the state that affects tax collection levels is mainly determined by the relationship between the state and the economic elite that controls most of the taxable resources.

Findings in historical archives (especially the internal documents of the SHCP) allow me to analyze the formation of tax institutions between 1925 and 1964 and to reconstruct the decision-making processes of the most important tax policy measures of that period, as well as the actors—representatives of the state as much as the economic elite—that influenced these processes. By *financial elite*, we mean a small group of people who have power and influence over the decision-making processes in economic policy – those who own assets in the economic sectors that control most of the economic resources. In this period, the economic elite in Mexico consisted of individuals and families that controlled the “economic groups”. These groups were industrial and mercantile corporations and financial institutions linked through shared ownership and joint boards (Alba, 2005, p. 157; Hamilton, 1982, p. 33). The leading organizations that represented the economic elite in the period under analysis are the Confederation of National Chambers of Commerce (CONCANACO) and the Confederation of Industrial Chambers (CONCAMIN), which were created in 1917 at the initiative of Alberto J. Pano, Secretary of Industry and Commerce, with the goal of facilitating communication and cooperation between the state and the private sector (Collado, 1996, p. 121), and the

Confederation Patronal de Mexico (COPARMEX), founded in 1929 at the initiative of businessmen in Monterrey.

The analysis of the evidence shows that, on the one hand, there was *tension* between the state bureaucrats that sought to establish a modern tax system – more revenue-raising and more progressive – and those who thought that the priority should be to incentivize the accumulation of capital through an enormously diminished tax burden, in order to boost industrialization. On the other hand, the archival evidence shows that gradually – and especially towards the end of the 1940s – the relationship between the SHCP and the elite became closer. The representatives of the economic elite were invited to sit in on the tax commissions where proposals were discussed in the 1950s and 1960s, where they used their instrumental power to influence the outcome of the reforms. The result of the tightening of the relationship between the state and the elite came at the price of the construction of a regressive tax state with very low collection levels.

The work of historians and political scientists on the post-revolutionary period in Mexico supports the analysis and argument proposed here. According to Hamilton (1982), Knight (1985; 2001) and Reynolds (1972), the decades following the war between the revolutionary factions accounted for the tension between two types of alliance that were latent in shaping the country's development: the “progressive” alliance and the “conservative” alliance, which was also called the “alliance for profits”.¹ The former involved coalitions between public officials, governors, and bureaucrats, and the working class and peasantry; the latter was an alliance in which officials of the state apparatus were linked to the economic elite or ruling class. While the progressive alliance prioritized distributive demands, the conservative alliance prioritized political stability and capital accumulation for the sake of economic growth through industrialization.

The reconfiguration of alliances between the state and the elite after the revolutionary struggle was not a linear process, nor did it always converge in the same direction (progressive alliance or conservative alliance). Not only was the Mexican state far from being a monolith, but the Porfirian landed oligarchy (pre-revolutionary economic elite) had been weakened and reconfigured (Knight, 1991). In this sense, the tax policy measures discussed in Section II account for this process of reconfiguration and the tension between the different factions that made up the state, as well as the gradual realignment and strengthening of the elite.²

This is why the initial tax policy measures show signs of decision-making that sought “distribution by peaceful means” (Pani, 1926) through the creation of income tax in 1925 or the creation of several other direct taxes that sought greater extraction and progressiveness (the corporate excess profits tax, the tax on credit institutions, or the tax on windfall profits). However, by the end of the 1940s, the approach was different, and the result was failed progressive reforms – such as those of 1951 and 1953, and those of 1961 and 1964 – in which one finds conflicts within the SHCP and ever-growing instrumental

power of the organizations that represented the interests of the economic elite. In the end, this resulted in a structurally weakened state.

Alternative hypotheses on low tax collection levels

Before analyzing the process by which the most important tax policies were made between 1925 and 1964, we will discuss some of the hypotheses that are suggested in the literature.³ The most frequently proposed hypothesis to explain Mexico's low tax collection levels is the presence of alternative resources, in particular, oil revenue (Elizondo, 1999; Martínez-Vázquez, 2001; Álvarez Estrada, 2007). The logic is as follows: if the government can finance itself through sources that will entail a lower political cost than raising taxes it will avoid increasing tax collection.

However, the availability of alternative revenue sources does not fully explain the problem. Tax collection in Mexico was already notoriously low long before the oil boom of the late 1970s. According to Haber et al. (2003), as of 1921, oil production in Mexico began to decline rapidly, and by 1930 had fallen to 20% of 1921's production levels. The production levels of 1921 were not reached again until 1974, and Mexico never recaptured the share of world production that it held at the end of the 1910s (25% of the market). Table 9.1 shows that, by 1935, Mexico was already collecting much less in terms of per capita tax revenue than most of the economies of comparable countries in Latin America.

Likewise, Table 9.2 indicates that, at least since 1950, Mexico's total tax collection as a percentage of GDP was much lower than that of Argentina, Brazil,

Table 9.1 Tax revenue per capita in 1935 (US\$).

Argentina	12.93	United States	28.47
Venezuela	13.71	Great Britain	74.21
Uruguay	10.20	France	52.49
Chile	9.02	Germany	35.03
Costa Rica	7.06	Sweden	28.37
Brazil	5.44	Canada	27.66
Mexico	3.34	Norway	27.23
Peru	3.14	Spain	20.81
Colombia	2.59	South Africa	18.91

Source: Studenski, 1939, p. 37.

Table 9.2 Tax revenue (as % of GDP).

	<i>Argentina</i>	<i>Brazil</i>	<i>Chile</i>	<i>Colombia</i>	<i>Mexico</i>	<i>Peru</i>
1950	17.0	16.0	16.7	12.0	7.5	14.0
1960	14.2	20.1	16.5	10.4	7.1	14.9
1970	15.0	27.0	21.8	13.4	7.9	18.9

Source: Fitzgerald, 1978, p. 131.

Chile, Colombia, and Peru. Since then, and until now, Mexico's tax burden has always lagged far behind that of comparable countries.

My argument is that alternative sources of financing, such as oil revenue, do not explain the root of the problem of low tax collection. Instead, they have *aggravated* it during periods of oil revenue bonanza, as has happened intermittently since the late 1970s. In the last four decades, the periods with the highest oil revenue for the federal government have been 1982–1985, 1995–1997, and 2004–2014, with average levels of 5.7%, 4.2%, and 5.3% of GDP respectively. In turn, Figure 9.1 illustrates that since the late 1980s, oil and tax revenue have modulated each other to supply the federal government with revenue that amounts to 13% to 15% of GDP. It is also clear that tax revenue has increased since 2014 as oil production has declined.

A second alternative source of financing for the Mexican state could have been revenue from the SOE sector. However, according to the most historical consolidated data that is available, SOE sector revenue can hardly be considered a source of state revenue (see Table 9.3). On the contrary, state-owned enterprises, and especially *Petróleos Mexicanos* (PEMEX), added considerable external debt to public finances from the 1970s, contributing to the so-called “unbalanced growth” that exacerbated the severity of the debt crisis that erupted in 1982.⁴ As a result of this crisis, the ISI model was abandoned, and neoliberal structural adjustment policies were introduced in Mexico and in Latin America, which gave rise to the SOE sector that brought extraordinary revenue to the public treasury during the eighties and early nineties. But it also led to a slimming down of the state and a reduced capacity to direct and regulate the economy.

Table 9.3 State-owned enterprise sector (millions of Mexican pesos).

	<i>Revenues</i>	<i>Expenses</i>	<i>Deficit or surplus</i>	<i>Deficit or surplus (as % of total federal government revenue)</i>
1965	28,502	27,304	1,198	1.86
1966	33,364	33,558	-194	-0.29
1967	38,942	38,599	343	0.43
1968	42,384	42,298	86	0.10
1969	48,648	48,185	463	0.47
1970	56,972	56,582	390	0.36
1971	65,675	65,545	130	0.11
1972	71,821	71,538	283	0.19
1973	1,02,734	1,01,792	942	0.46
1974	1,40,489	1,40,688	-199	-0.07
1975	2,00,566	2,00,234	332	0.08
1976	2,41,637	2,45,065	-3,428	-0.65
1977	3,74,458	3,75,461	-1,003	-0.14
1978	4,96,317	4,95,363	954	0.10
1979	6,22,557	5,19,364	1,03,193	7.98

Source: Prepared by the author based on INEGI, 2015.

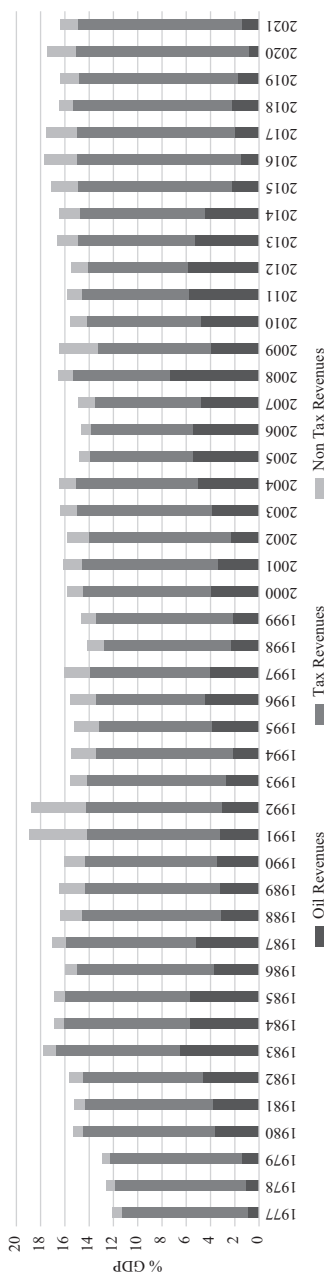


Figure 9.1 Total federal government budget revenue (% GDP). (Source: Based on www.banxico.org.mx/SieInternet/.)

Although aside from the oil revenue shown in Figure 9.1, state-owned enterprises have not been a source of income for the federal government, yet they played a vital role in the economic and social development of the country during a good part of the twentieth century. According to Aspe Armella (1993), the first state-owned enterprises that were founded between 1920 and 1970 were created to support the reconstruction of the country and create the necessary infrastructure to stimulate private investment and manage natural resources. The following ones sought to promote the ISI model through investment in transportation and communications, the creation of development banks, and social security institutions. Many of these enterprises provided inputs to the productive sector at below market prices and subsidized the consumption of basic goods by the masses. In 1970, there were 272 state-owned enterprises, but by 1982 these grew to 1,555, spurred by the oil bonanza, foreign credit, and an unprecedented state economic planning strategy (Aspe Armella, 1993, pp. 178–181). Rather than explaining low tax collection, this enormous Mexican public sector allows us to reconcile the image of a large state that intervened in the economy during the ISI period with the tax poverty of the Mexican state.

The relationship between the state and the elite in the tax sphere

This section is divided into three parts, corresponding to time periods defined by tax policy measures taken between 1925 and 1964. The detailed analysis of each of these periods seeks to support the argument that the tax system that was consolidated in the 1960s was the direct result of the instrumental power that the elites had over the tax policy decision-making process. From a broader perspective, it reflects the forging of a relationship between the state and the economic elite that over time became closer, and that primarily sought to promote ISI by favoring capital accumulation with a low tax burden.

Tax measures between 1925 and 1952: between progressiveness and industrialization

The Mexican federal tax system of the nineteenth century was almost entirely composed of indirect taxes, despite several attempts to introduce direct contributions and to establish *cadastres* (Serrano, 2006; Sánchez, 2006). Direct taxes never contributed to more than 5.5% of total tax revenue during that century (Servín, 1939, p. 8). Such a regressive tax burden was not consistent with the demands for social justice that emanated from the Revolution, nor with the transformation that was taking place in the tax systems of more advanced countries at the beginning of the twentieth century.

Thus, in 1924, President Álvaro Obregón made use of his extraordinary powers to decree the “tax on wages, salaries and profits”, which the following year became the “income tax” (*impuesto sobre la renta* – ISR). The adoption of

income tax marked a turning point in the country's fiscal history. It introduced a tax that, for the first time, promised to extract resources from a social base that until then had enjoyed fiscal privileges. From a historical perspective, it was an apparent change to the status quo that had reigned in terms of taxation. It was evidently facilitated by the context of crisis and reconstruction that weakened the Porfirian elite (Knight, 2001). Unda Gutiérrez (2017) argues that the creation of income tax was due, in part, to the skills that the President and the Secretary of the Treasury, Alberto Pani, used in overcoming the opposition of taxpayers and reaching an agreement (especially with CONCAMIN) to establish the tax. After all, CONCAMIN and CONCANACO were founded by Pani in 1917.

In addition to the creation of income tax, some adjustments were made to the tax system between 1925 and 1952. In 1941, three new short-lived direct taxes were created, and reforms were made to income tax. Commercial income tax was introduced in 1947, which was one of the main measures taken as part of the fiscal centralization strategy pursued by the federal government of the 1920s (Aboites Aguilar, 2003, pp. 190–213). The tax changes that took place during this period initially reflected redistributive impulses, with the creation of emphatically progressive taxes (a corporate excess profits tax, a tax on credit institutions, a tax on windfall profits, and other taxes) and with changes to income tax which encouraged the greater collection of capital income. However, at the same time, the Manufacturing Industry Laws were introduced in 1941 and the Law for the Promotion of Manufacturing Industries was introduced in 1946. These measures reveal the importance that the industrial sector was acquiring in the fiscal field – the manufacturing industry laws are an example of tax exemption measures granted to the manufacturing industry to promote its growth.

The corporate excess profits tax was established in 1939 and was in effect for two years. It was a general tax on companies that was meant to complement income tax (Servín, 1942, p. 12). It was paid by companies that surpassed certain income levels, was levied on profits exceeding 15% of the company's net equity, and had progressive rates. According to the Records of the Debates of the Chamber of Deputies (*Diario de Debates de la Cámara de Diputados – DDD*), the tax was discussed with representatives of the banking, industrial, mining, and commercial sectors (DDD, 1939). In the discussion, the Secretary of Finance, Eduardo Suarez, alleged that some mining companies, for instance, invested 1.5 million pesos and therefore obtained a surplus of 8 million pesos in one year. In the debates, there was some concern on the part of the federal government to limit excess profits due to the impact this could have on the functioning of the markets. The revenue from this tax represented about 25% of income tax revenue in 1940 and 1941.

A tax on credit institutions was also created in 1939 to tax the additional profits generated by exchange rate fluctuations and that benefited the export sector. According to Servín (1942, p. 17), this made sense because the financial sector had a light tax burden. This tax was only active for one year. Both the

corporate excess profits tax and the tax on credit institutions were introduced during the six-year term of Lázaro Cárdenas. However, they only lasted two years and one year respectively.

The income tax law was amended in 1941. The two main objectives of this reform were to improve the regulatory framework of the tax and to raise more revenue. According to a report by the head of the income tax department, Luis Pardo, the tax had accumulated several decrees, amendments, and jurisprudential decisions that made it very complex and confusing (Pardo, 1929). The problem with this “legal jungle”, as Pardo called it, was that it made it possible to have different interpretations of the law, which opened the door to disputes between taxpayers and the tax authorities and created possibilities for loopholes. For this reason, the law of 1941 sought to make the tax more coherent and added technical aspects that would clarify the law. To raise more revenue, the income tax reform included an increase in the rates of the five schedules under which the tax was organized.⁵ From 1941 to 1943, income tax increased its collection from 0.6% to 1.7% of GDP, mostly coming from increases in the schedules that generated capital income, not labor. This collection pattern continued until the income tax reform of 1953 (Unda Gutiérrez, 2010, pp. 188–190).

The Manufacturing Industry Law was also introduced along with the income tax reform. It sought to support certain manufacturing industries for five years through exemptions for (i) taxes on the importation of machinery, equipment, and raw materials; (ii) export taxes; (iii) stamp duty; and (iv) federal tax. In 1946, through the Law for the Promotion of Manufacturing Industries, this law was expanded to include strategically relevant industries (Cárdenas, 1994, p. 110). However, industrial policy scholars were skeptical or pessimistic about the effectiveness of the pro-industry fiscal measures of that period (Mosk, 1954; Urquidi, 1956; Martínez, 1967) because they were neither selective or temporary nor subject to performance.

According to Servín (1948), the tax exemptions that were granted were not necessary given the already favorable conditions offered by captive domestic demand and international demand. The exemptions granted by these laws represented 12% of total revenue. The SHCP was clear about the ineffectiveness of these incentives, hence the comment of the Secretary of Finance, Ramón Beteta, who in 1949 stated that “it has been found desirable to maintain them due to the psychological effect they produce as a demonstration of the state’s support for the birth and progress of national industry” (Beteta, 1951, p. 58).

In 1948, a tax on windfall profits was introduced, which complemented the income tax rates to which companies were subject. In the beginning, this tax collected around 12% of income tax, but after the tax reform of 1953, its collection was drastically reduced. President Miguel Alemán (1946–1952) argued that the tax was introduced to collect more, avoid fiscal deficits, and discourage the use of windfall profits for consumption or capital flight. According to Ramón Beteta, windfall profits resulted from the conditions arising from

World War II and from the economic development programs implemented by the government (DDD, 1948).

This period is seen as a transitional one in which, because of the reconfiguration of the economic elite and progressive fiscal flashes from the SHCP, tax measures still pursued revenue-raising and distributive objectives, but at the end of the period also sought to promote industrialization.

The income tax reforms of 1953 and 1955: the beginning of a close relationship with the economic elite

The empirical evidence on which this section and the following one are based gives us a privileged view of the discussions that took place behind each of these reforms. To the best of this author's knowledge, the 1953 reform was the first time that business organizations were invited to participate in the discussion of tax proposals. Moreover, this analysis gives an account of the incipient and close relationship between business organizations and the SHCP. Due to the nature of the reforms that ended up passing in 1953 and 1955, tax collection remained sluggish, and the pattern of income tax extraction was reversed: income tax began to collect more from income derived from labor than from capital.

In early 1953, the Tax Law Review Commission was established to analyze the legal tax framework and propose necessary changes. The commission was made up of SHCP officials, but included a representative of CONCANACO, and a representative of CONCAMIN was included at its request. The commission worked for several months and suggested two main changes: a new income tax law that would make the tax more organized, and a complementary schedule that would force the consolidation of income, thereby making the income tax more progressive.

Despite all this, the proposal to add a complementary schedule was withdrawn from the bill presented to Congress in December 1953. President Ruíz Cortines (1952–1958) justified the annulment of the complementary schedule on the grounds that for “reasons of public interest, the proposal was withdrawn”, that “according to the opinion of some interest groups, a global personal income tax could impede the normalization of the trend of private investment” and that “the executive in return trusts that the private sector will respond by accelerating its efforts to fulfil its role in the economy” (DDD, 1953). It was said that the complementary schedule would remain dormant and would be implemented in a subsequent reform. Confidential studies by the SHCP calculated that having a complementary schedule as of 1956 could increase revenue by 3.2% of GDP, stating that “the new tax would affect the high-income population that currently does not pay taxes according to its economic capacity” (Urrutia, 1954).

The 1953 reform was complemented in 1955. However, before the Executive presented the bill to Congress, CONCAMIN asked the Secretary of Finance to share its draft (Secretaría de Hacienda, 1955). The final version of the reform proposal omitted the complementary schedule again and included

income tax measures that were favorable to capital income. The Executive clarified that “the reform did not seek to increase tax revenue but to support small and medium enterprises”, and that “the changes implemented sought the reinvestment of profits” (DDD, 1955). This second round of reforms merely reinforced the trajectory that had already been implemented with the 1953 reform and strengthened the relationship with private sector interests. Following the changes to the income tax in 1953, the collection of tax revenue from labor increased faster than that of tax revenue derived from capital (Unda Gutiérrez, 2010, pp. 167–178).

The studies of the Directorate of Financial Studies (*Dirección de Estudios Hacendarios*) disagreed with the decisions taken in 1953 and 1955. They warned of a fiscal imbalance caused by increases in three areas: public investment, current expenditures, and transfers to the SOE sector (Urrutia, 1958). They also warned that the deficit risked becoming more considerable in the future due to the transfers made to the CFE, PEMEX, and Ferronales.⁶ Consequently, they proposed two primary measures: increasing tax collection through profound tax reform and tightening the control and coordination of the SOE sector. They suggested reintroducing the global personal income tax, taxing profits from bonuses, and reinstating the tax on excess profits that had been minimized in 1953. Their assessment is supported by the analysis of Cárdenas (1994, p. 35), who considers that from the Great Depression until the end of the 1950s, Mexican public finances were sound: the central bank played a limited role in the inflationary process, and balanced budgets were the norm.

Another confidential report elaborated in 1960 contains data that helps detect and assess the scale of the Mexican public sector’s sources of income and the relevance of each one of them to public investment financing (Secretaría de Hacienda y Crédito Público – Banxico, 1961, p. 12). Table 9.4 indicates that, in 1940, 90% of public investment was financed with revenue from taxes and from state-owned enterprises.⁷ However, by 1960, domestic and foreign credit financed 31.9% of investment, tax revenue continued to finance the same proportion, and the SOE sector contributed relatively less. Public investment as a percentage of GDP in 1940, 1950, and 1960 was 4.2%, 6.7%, and 5% respectively. In the same years, private investment was equivalent to 4.4%,

Table 9.4 Breakdown of public investment financing.

	<i>Tax revenue</i>	<i>SOE revenue</i>	<i>Domestic credit</i>	<i>External credit</i>	<i>Total public investment</i>
1940	37.7	52.2	10.1	0	100
1945	40.4	36.6	18.5	4.5	100
1950	49.0	30.6	4.9	15.5	100
1955	42.8	28.2	17.8	11.2	100
1960	36.1	32.0	10.2	21.7	100

Source: Secretaría de Hacienda y Crédito Público–Banxico, 1961, Box 46.

6.7%, and 10% of GDP (Instituto Nacional de Estadística y Geografía [INEGI], 2015). From this data, one can infer that the resources required to meet the need for increased public investment did not arise from higher tax collection, as had been advised in the multiple reports cited here, but with access to new credits, especially from the 1950s onwards.

In short, within the SHCP, a coalition of officials exerted pressure to make fiscal changes that would make the tax system more revenue-raising and progressive. However, their most essential proposals were not fully introduced in the reforms of 1953 and 1955. Evidence from the archives suggests that the instrumental power of the representatives of business interests influenced the decisions of the Secretary of the Treasury, which were justified to increase the rate of private investment in favor of the industrialization of the country.

The great missed opportunity of 1961 and the consolidation of a close relationship with the economic elite

As suggested by Aboites Aguilar and Unda Gutiérrez (2011), the 1961 reform provided the clearest opportunity in the twentieth century profoundly to change the tax system. The archival evidence reveals the *tension* that existed between two factions within the SHCP – one that fought to change the roots of the tax system’s non-revenue-raising and regressive nature and another that did not see the tax system as a means to distribute and instead conceived of it as an instrument to promote capital accumulation and industrialization. Likewise, the internal discussions before the reforms of 1961 and 1964 clearly show the instrumental power that organizations representing the economic elite held in both processes.

In 1960, Nicholas Kaldor was invited to evaluate and propose changes to the Mexican tax system. In his report, he described the tax system as inefficient, because it could not prevent evasion nor was it able to tax capital gains,⁸ and unfair because it privileged capital over labor through countless deductions, exemptions, omissions, and preferential treatments unparalleled in similar countries. Among the reforms he suggested were: (i) eliminating the anonymity of movable assets;⁹ (ii) creating a personal and corporate income tax; (iii) making income tax progressive by taxing the dividend incomes that incentivized investments, since in practice they were almost completely free of tax burden due to discretionary exemptions; (iv) eliminating the fiscal incentives favoring industrialization due to their lack of effectiveness; (v) creating a wealth tax that would consolidate all the assets of the individual; (vi) improving the tax on inheritances and bequests; and (vii) creating a personal tax on spending. According to Kaldor’s calculations, if the changes concerning income tax were to be implemented, revenue could increase by 12 percentage points of the GDP.

In response to Kaldor’s report, the Secretary of Finance, Antonio Ortiz Mena, formed a tax commission to draft the bill that would be presented at the end of 1961. The group was made up of officials from the SHCP, Banco de México, and Víctor L. Urquidi, who served as advisors to the Secretary. The debates in the commission, as well as the opinions of several of those involved,

show that there was serious friction in the commission between two groups, namely the lawyers and the economists (Turrent Díaz, 2004, p. 192).

Essentially, the economists supported Kaldor's proposals and the position taken by the reports that the Directorate of Financial Studies prepared for the reforms of the 1950s. Despite the arguments put forward by the economists, the Secretary of Finance favored the position taken by the lawyers, who advocated for moderate reform (Urquidi, 1987, p. 923; Izquierdo, 1995, p. 74).¹⁰ He also proposed eliminating the schedular system in the second round of reforms. Indeed, in 1964, the schedular system was eliminated, and the income tax was structured into personal and corporate income tax.

From then on, regardless of the economic activity, companies had to declare and consolidate all types of income. But, at the same time, they were also given generous exemptions and preferential treatments that allowed them to reduce their tax payments (Solís, 1988, pp. 43–44).¹¹ As for personal income tax, even though Article 79 of the law established the consolidation of individual income, the SHCP decided to annul it. To do so, they used the ruse of introducing the transitory Article 38 into the income law, which stipulated that consolidating was not obligatory. According to Izquierdo (1995, p. 76), the transitory article was drafted by representatives of the private sector. To my knowledge, this was the first of many times to come where business interfered in this way (by drafting a law) in tax policy matters.

In Izquierdo's words:

the meetings between Ortiz Mena and the presidents of CONCAMIN, CONCANACO, COPARMEX and the Bankers Association, were characterized by an understanding attitude on the part of the SHCP, which greatly took into account the different views on the 1964 tax project.
(1995, p. 77)

Accordingly, Ortiz Mena justified the measures by saying that “establishing higher taxes on capital income would have undermined the development of the country's financial system” (Ortiz Mena, 1998, p. 162). The results of the 1964 reform clearly demonstrate the influence exercised by the representatives of the private sector (instrumental power) and that the reasoning of the SHCP aligned with the interests of the economic elite.

The consequences of the failed reforms of the 1950s and 1960s

The immediate consequence of the failed attempts of 1961 and 1964 was the change in the composition of income tax. The income tax's disproportionate revenue collection from salaries and professional services compared to tax revenue derived from the capital was intensified (Izquierdo, 1995, pp. 66–67). As Table 9.5 shows, between 1955 and 1966, tax revenue extracted from labor as a proportion of GDP between 1955 and 1966 grew threefold.

Table 9.5 ISR (income tax) composition.

	<i>Collection of personal income tax on labor revenue</i>		<i>Collection of personal income tax on capital revenue</i>	
	<i>% of total ISR collection</i>	<i>% of GDP</i>	<i>% of total ISR collection</i>	<i>% of GDP</i>
1955	16.9	0.4	18.4	0.5
1956	17.0	0.5	16.8	0.4
1957	19.0	0.5	17.3	0.4
1958	21.9	0.5	16.6	0.4
1959	22.4	0.5	14.8	0.4
1960	23.3	0.6	16.2	0.4
1961	23.9	0.7	16.2	0.4
1962	29.0	0.8	16.1	0.5
1963	30.5	1.0	12.5	0.4
1964	29.4	1.1	12.3	0.4
1965	30.7	1.2	8.2	0.3
1966	32.8	1.2	5.7	0.2

Source: Equihua, 1968, p. 196.

The income tax's extraction pattern diminished its distributive capacity. By the end of the 1960s, fiscal policy as a whole did not help to reduce income concentration (Urquidi, 1987). These outcomes go hand in hand with the stance that governed Ortiz Mena's decisions, who considered that the primary objectives of the tax system were to stimulate investment and savings, and not to redistribute income (Ortiz Mena, 1998, pp. 162–163).

Another consequence of the type of tax institutions built, especially in the 1950s and 1960s, was the beginning of the imbalance in public accounts that would end in the debt crisis of the 1980s (Aboites Aguilar and Unda Gutiérrez, 2011). The Treasury Secretaries in office had been warned about this countless times. In Urquidi's words:

the relative insufficiency of tax revenue has made external borrowing necessary beyond what is strictly indispensable and has led the government and the rest of the public sector to use domestic credit from banks to such a considerable extent that, if not corrected, it could constitute an obstacle to monetary policy and to the adequate channeling of credit to the private sector in the future.

(Urquidi, 1964)

It is worth remembering the role of the SOE sector (section I), which, together with tax poverty, contributed to the imbalance of public accounts and the crisis of the 1980s.

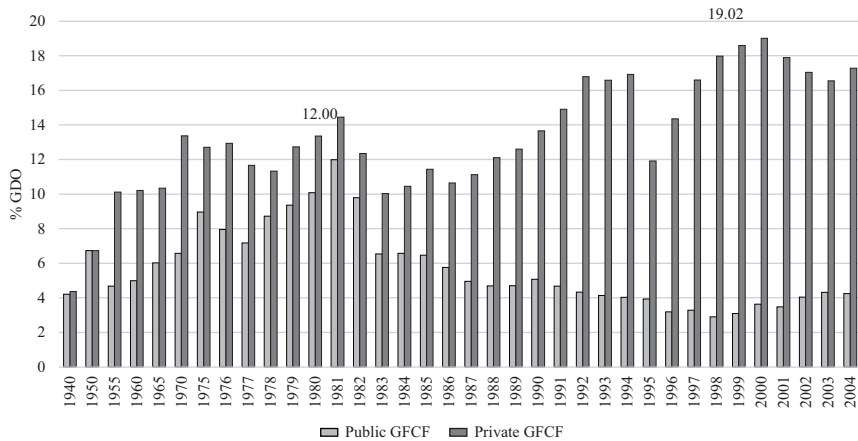


Figure 9.2 Public and private gross fixed capital accumulation (% of GDP). (Source: Based on INEGI, Historical Statistics of Mexico, 2015.)

Another consequence of having cemented a poor tax state has been the strengthening of the structural power of the elite.¹² The fiscal poverty of the Mexican state puts it at a disadvantage in relation to the elite because it increases the economy's dependence on private investment to generate growth and employment. Figure 9.2 shows how, until the early 1950s, the contribution to total investment was equally divided between the public and private sectors. Subsequently, although public investment increased, by the end of the 1970s, 43% of investment was public, and 57% was private. But since the debt crisis, government investment has decreased, and, by 2004, 80% of investment came from the private sector. The point here is not to establish that there is an ideal composition of investment in an economy. It is simply to emphasize that, if much of the structural power of the economic elite lies in the consequences of their investment, the elite now have greater structural power than in the past when several influential officials in the executive branch were pushing for a more progressive tax system.

Since control of or access to economic resources facilitates the autonomy of the government – as it strengthens its capacity to carry out a political agenda that goes beyond the particular interests of individual social groups (Gold et al., 1975) – a poor tax state that collected 7.9% of its GDP in 1970 or 13.1% today lacks the economic resources to be autonomous with respect to the elite, as it depends on the elite's capacity to invest and create jobs.

Final comments

This paper has described the processes of building tax institutions in Mexico from 1925 to 1964. Initially, the measures that were taken reflected redistributive

impulses and the aspiration to build a modern tax system (progressive and revenue-raising). An example of this was the introduction of income tax, the corporate excess profits tax, credit institutions, and the tax on windfall profits. The introduction of these taxes coincided with a weakened economic elite in the process of reconfiguration after the shock of the revolution. The structural and instrumental power of the elite, relative to decades after and before the revolt, was debilitated.

However, the evidence gathered here shows that towards the end of the 1940s, the instrumental power of the elite increased and went hand in hand with the formation of a closer relationship between the SHCP and the elite. In the 1950s and 1960s, representatives of the economic elite were invited to sit in on the tax committees where reform proposals were discussed. The discussions that occurred in these committees showed the influence that these groups exercised in the decisions that prevailed. The justification for the reforms implemented was that they would encourage private investment through an extremely diluted tax burden to support industrialization, and the cost was the creation of a regressive tax state that raises very little revenue.

It was also proposed here that one of the many consequences of not having strengthened the tax system, as was advised countless times by some factions of the SHCP, was the strengthening of the structural power of the elite.¹³ The latter allows us, albeit partially, to understand why the government of López Obrador (2018–2024) has not reformed the tax system in a structural way. For many, this government was the first in decades that would have been able to break with the close and friendly relationship that has prevailed between the representatives of the state and the economic elite.

Notes

- 1 The terms “progressive alliance” and “conservative alliance” are used by Hamilton (1982). Reynolds (1972) refers to the conservative alliance as the “alliance for profits”. Knight (2001) used other terms to describe the kind of alliance that the Mexican State may have established, but their meaning is essentially the same.
- 2 In this regard, this chapter differs from Ondetti’s (2017) explanation, which argues that Mexico’s low tax revenue is caused by “the resistance of an exceptionally mobilized economic elite”, which in turn is due to “an anti-state ideology born out of conflicts with the state, especially in the 1930s”. The focus here is on the relational process between the state and the representatives of the elites, who forge an alliance that leads to a poor state.
- 3 For a detailed account of the various hypotheses proposed to explain the low tax collection of the Mexican state, see Ondetti, 2017, pp. 52–56.
- 4 The literature recognizes two stages during the period of import substitution industrialization: stabilizing development (1950–1970) and unbalanced development (1970–1982). The first stage combined high growth rates (6%) and price stability (3% per year) (Lustig, 1992, pp. 220–221). In contrast, the second stage continued to have relatively high growth rates but began to suffer periods of macroeconomic instability with episodes of devaluation, inflation, and high external indebtedness.
- 5 In 1925, the ISR schedules were as follows: I. Commerce. II. Industry. III. Agriculture. IV. Placement of money, securities, and credits. V. Contributions obtained from subsoil

- exploitations VI. Salaries derived from work. VII. Liberal professions. In 1931, the tax codes were reorganized and the first three were consolidated into one.
- 6 CFE: Comisión Federal de Electricidad (Federal Electricity Commission). PEMEX: Petróleos Mexicanos (Mexican Petroleum). Ferronales: Ferrocarriles Nacionales (National Railroads).
 - 7 According to the previously cited report “Tax Policy Planning 1955–1958”, the state-owned enterprises had access to financing as of 1949.
 - 8 Kaldor points out that many capital incomes were not taxed, and if they were, they were not taxed at progressive rates. This was the case of income from government bonds, private company bonds, interest, and yields on financial securities.
 - 9 This was proposed as early as the tax law revision commission of 1953. However, the system did not change to a nominative system until 1985 (Izquierdo, 1995).
 - 10 It is worth noting the power exercised by the Secretary of the Treasury and his officials in the history of Mexico. For many, the Secretary of the Treasury in Mexico has been akin to a vice president.
 - 11 For example, the tax on excess profits was repealed and the carrying forward of losses was introduced, which benefited many companies for decades (Solís, 1988, p. 44).
 - 12 Apart from another failed reform attempt in 1972 that sought to increase the progressiveness of the tax system (Elizondo, 1994), the only structural change was the creation of the value added tax (VAT) in 1981. Since then, there have been no changes that denote structural modifications in the tax system.
 - 13 Evidently, the unbalanced position expressed in Figure 9.2 is not the only reason for the weakness of the government in relation to the elite. Many other variables and economic policy decisions made by different governments have increased the structural and instrumental power of the private sector, especially since the early 1980s. To mention a few: (i) the monopoly power enjoyed by so many companies or economic conglomerates, some of which originated in the privatization process, and/or due to the lack of effectiveness of a weak competition commission; (ii) the closeness and similarity between the profiles of government technocrats and the economic elite, who often share ideologies and coincide in their interests.

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10 Business coordination and regressive taxation in Latin America

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Introduction

Latin America is one of the most unequal regions in the world. Despite the recent expansion of social spending (Garay, 2016) and certain success in the reduction of poverty and inequality in the first part of the twentieth-first century (López-Calva and Lustig, 2010; Holland and Schneider, 2017; ECLAC, 2018), the distribution of income and wealth in the region remains highly favorable to the wealthiest citizens. The average Gini Index in the region is still more than ten points higher than the OECD average. The richest 20% of the population holds about 11 times the income of the poorest 20% (CEPAL, 2019). The average regional Gini coefficient for wealth inequality remains the highest globally (Amarante and Jiménez, 2015; ECLAC, 2018). The economic impact of the Covid-19 pandemic needs to be measured appropriately; however, preliminary assessments show that poverty and inequality will substantially increase due to the public health measures implemented to contain the advance of the virus in the region.

Persistent inequality in Latin America results from complex historical, political, and economic processes (Coatsworth, 2008; López-Calva and Lustig, 2010; Cornia, 2014; ECLAC, 2018; Sánchez-Ancochea, 2020). However, taxation perpetuates inequality in the region. Recent studies show that tax policies do little to reduce the region's income inequality (Amarante and Jiménez, 2015; ECLAC, 2018; Sánchez-Ancochea, 2020). While in the OECD countries, taxes contribute to reducing the Gini coefficient by almost 16 percentage points, in Latin America, that reduction is below 3 percentage points (ECLAC, 2018).

A politically overrepresented business sector is probably the main obstacle to promoting tax fairness in the region. Recent studies suggest that governments do not encourage fairer tax structures because parties in government pursue different economic goals and business interest groups effectively use their political power to limit progressive taxation (see, e.g., Fairfield, 2015a; Castañeda, 2017; Castañeda and Doyle, 2019). In fact, there is now extensive literature demonstrating that the policy preferences of the business community usually prevail over collective interests, making it challenging to promote

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progressivity (for a general overview, see Flores–Macias, 2019). For example, Fairfield’s work (2013; 2015a; 2015b; 2019) shows that governments rarely pass progressive tax legislation because they face opposition from structurally or instrumentally powerful business interest groups. From her perspective, the business community in the region has an advantageous position in the policy-making process, and it is usually more successful than politicians in imposing its preferences – which are generally not tax progressive.

This literature rightly highlights the role of economic elites in designing tax policies and understanding the feasibility of progressive tax reforms (Schneider, 2013; Ondetti, 2021). It also helps us understand how representation issues shape the distributional impact of tax policies. They prove that resource-rich and well-connected business interest groups effectively limit high taxation on corporations and the rich. In sum, this scholarship sheds light on the role of business interest groups and their degree of integration into policymaking as crucial factors to explain their capacity to influence tax policy (for more examples, see Jacobs, 1988; Martin, 1991; Martin and Swank, 2004; 2011; 2012; Fairfield, 2015a; Castañeda, 2017; Castaneda and Doyle, 2019).

But how exactly does business coordination curb tax progressivity in Latin America? In this chapter, we argue that distinct coordination patterns within the business community make them more successful in preventing progressive tax structures from being adopted. A detailed examination of tax reforms in Latin America shows that highly coordinated business communities can effectively deliver lobbying strategies to stop progressive tax reforms and transfer the tax burden to less-organized groups within the business sector (i.e., small to medium-sized enterprises or SMEs) and other social strata (i.e., the middle class and the poor). For example, high levels of coordination were particularly critical for business communities in Latin America to curb the attempts from left and right governments to replace taxes on external trade with corporate and personal income taxes as their primary source of revenue right after the economic liberalization process in the 1990s.

However, examining recent tax reforms in Latin America also shows that inter-sectoral and inter-firm conflicts – e.g., conflicts of interest between large firms and SMEs – could open windows of opportunity for making tax structures more progressive. For example, in countries where the business community is fragmented and their tax preferences are heterogeneous, only a few firms or groups of firms are politically influential and the degree of coordination between large and small firms is low. In these contexts, policymakers find it relatively easy to transfer the tax burden to SMEs and reduce the tax pressure on large corporations and low-income groups. For example, in 2021, the Colombian government passed legislation that increased tax rates on SMEs to avoid new increases in corporate taxes and VAT rates – or significant expansion of the VAT base. After a series of massive demonstrations against a plan to expand the VAT base and intense demands from large firms to reduce tax pressure after the crisis provoked by the pandemic, the political weakness of SMEs made them vulnerable in the tax-bargaining process. This tension between

large firms and SMEs is not uncommon across the region, especially in countries with weak economy-wide business associations and limited resources for political influence activities (Castaneda, 2017; Renon, 2021). The redistributive effects of these tax reform instances are not entirely clear, but have given some governments the chance to reduce their reliance on indirect taxes.

After all, the scope of recent tax reforms and their impact on redistribution mainly depends on the clarity of the government's preferences for tax redistribution and the business community's ability to coordinate efforts to prevent politicians from translating their preferences into actual policies. However, when the priorities of the government and the business community do not converge, the latter will try to prevent increases in corporate and personal income taxation by supporting the expansion of indirect taxes. The success of this strategy depends on how well-coordinated and united the business community is when engaging in the policymaking process.

Our line of argumentation suggests that progressive tax reforms seem only possible in contexts where business interest groups are fragmented and/or uncoordinated political actors. It also indicates that there is a link between the business organizational complexity and the feasibility of progressive fiscal policies. In the remainder of the chapter, we carefully unpack this argument.

Business coordination and progressivity

What is tax progressivity?

Enhancing overall fiscal progressivity in developing countries requires increasing their capacity to use taxation as a redistribution tool. That is why it is essential to understand the factors shaping tax progressivity and the circumstances under which tax equity becomes a vital goal of the public agenda. Answering this question requires understanding the fiscal relationship between citizens and the state – the so-called “fiscal contract” (Timmons, 2005) – and the political conflict between those who pay taxes and those who benefit from an expanded provision of public goods. Unsurprisingly, defining tax progressivity goes beyond a mere technical discussion. It is vital to understand the nature of representation and governance in democratic societies.

Therefore, the concept of tax progressivity primarily pays attention to whom should bear the tax burden and which principles determine its allocation without causing distortions in the labor market (Slemrod, 1996; Heathcote et al., 2017). In other words, it focuses on the equity side of the optimal taxation trade-off but mainly on allocating the tax burden across different income groups. Consequently, examining the distributional impact of the various tax schedules is essential to understanding overall progressivity (Gerber et al., 2020).

From this perspective, tax progressivity focuses on how the tax burden is borne across income groups; it “measures to which degree a tax (or transfer/benefit) system deviates from proportionality” (Beramendi and Rehm, 2016).

Accordingly, understanding the progressivity of a tax system requires us to know how the tax burden is allocated across different groups and how those groups – especially business interest groups and high-income individuals – use their resources to influence such allocational decisions.

What is business coordination?

Scholarship on business power mainly focuses on the interaction between two types of business power: structural and instrumental power (Miliband, 1969; Akard, 1992; Smith, 2000; Vogel, 2003; Culpepper, 2010; Fairfield, 2015a). The concept of structural power refers to the level of dependence of the economy on the investment decisions of the business community. From this perspective, business interest groups are more influential where the domestic economy depends more on their performance and the investments from pivotal firms. Therefore, business political power depends on the credibility of disinvestment threats and the potential impact of such threats on short-term macroeconomic stability (Lindblom, 1977; Przeworski and Wallerstein, 1988; Mahon, 1996; Fuchs, 2007; Fairfield, 2015a; 2015b). From this perspective, one could expect that business structural power is lower in diversified economies where policymakers are less constrained to favor their policy goals over business interests.

In Latin America, for example, the end of protectionist industrial policies and the liberalization of capital markets in the early 1990s substantially changed the regional economic structure. Subsidized or protected industrial sectors faced significant losses when international competitors entered the domestic markets, and most economies became more diversified. The process was particularly damaging for the manufacturing industry. The contribution of the manufacturing sector to GDP declined sharply in the region's major economies from 1990 to 2020 (see Palma, 2019).

In the late 2000s, the significant expansion of Chinese demand for commodities and raw materials from Latin America deepened this process of industrial transformation. But it also created strong incentives for specialization in primary goods exports. For example, Table 10.1 shows that exports of manufactured goods (as a share of total exports) have decreased since the beginning of the twentieth-first century. Exports of primary products (as a share of total exports) increased substantially in the same period. Some scholars have described this process of industrial transformation as a process of re-primarization of the regional economy (see Ocampo, 2017).

One could reasonably expect that such a profound process of change in the economic structure would significantly impact business power. And that was effectively the case. But rather than a shift in dominant actors, the business community in the region experienced a severe process of fragmentation in its political representation. While economy-wide and industrial business associations are now in decline, organizations representing agro-business and mining sectors are recovering some of the significance they enjoyed in the past (for

Table 10.1 Exports, Latin America (1970–2020).

	1970	1980	1990	2000	2010	2020
<i>Exports of manufactured products as a share of total exports</i>						
Argentina	13.9	23.2	29.1	32.5	33.2	14.9
Brazil	13.2	37.2	51.9	58.4	36.2	27.1
Chile	4.3	9.1	11.3	16.2	12.6	12.9
Colombia	8.0	19.6	25.1	32.5	23.9	24.7
Mexico	32.5	11.9	43.5	83.5	76.0	79.7
Peru	1.4	16.8	18.4	22.4	13.7	11.4
<i>Exports of primary products as a share of total exports</i>						
Argentina	86.1	76.8	70.9	67.5	66.8	85.1
Brazil	86.8	62.8	48.1	41.6	63.8	72.9
Chile	95.7	90.9	88.7	83.8	87.4	87.1
Colombia	92.0	80.4	74.9	67.5	76.1	75.3
Mexico	67.5	88.1	56.5	16.5	24.0	20.3
Peru	98.6	83.2	81.6	77.6	86.3	88.6

Source: UN – Economic Commission for Latin America and the Caribbean.

a description of the long-term evolution of business representation in Latin America, see Schneider, 2004). However, the main change is due to industrial diversification.

Table 10.2 shows the evolution of the Hirschman–Herfindahl index of industrial concentration in Latin America between 1995 and 2017. This table shows that, despite the pattern of re-primarization in the exports sector, most economies in the region are now more diversified. It has opened opportunities for economic conglomerates – or the so-called diversified economic groups – to become the region’s dominant market and political actors.

Examples are numerous across the region. Literature on business power refers to instrumental power as the series of attributes and resources that enable

Table 10.2 Hirschman–Herfindahl index, Latin America, and the United States (1995–2017).

	1995	2000	2005	2010	2015	2017
Argentina	0.10	0.10	0.06	0.06	0.05	0.04
Brazil	0.07	0.08	0.06	0.06	0.07	0.09
Chile	0.08	0.07	0.07	0.10	0.11	0.12
Colombia	0.16	0.26	0.17	0.17	0.15	0.13
Mexico	0.65	0.70	0.64	0.54	0.55	0.53
Peru	0.08	0.11	0.13	0.09	0.09	0.12
U.S.	0.07	0.08	0.07	0.06	0.06	0.06
Uruguay	0.18	0.09	0.07	0.07	0.09	0.09

Source: World Integrated Trade Solution. The Herfindahl–Hirschman index measures the degree to market concentration. Values closer to 0 mean that market shares in the industry are less concentrated.

business interest groups (i.e., business associations, economic conglomerates, or groups of firms) and firms to participate in the decision-making process and influence policy outcomes (Culpepper, 2015). It refers to several mechanisms of political influence: networks, participation in consultation committees, partisan links, organizational capacity, economic resources, and lobbying resources. From this perspective, business interest groups are more influential if they have privileged access to different sources of instrumental power.

However, examining business power is an onerous task without reliable data on campaign contributions and lobbying activities. On the one hand, measuring the actual dimension of formal or informal social networks or the family links between business and politicians is a complicated task. Most of the time, we depend on the information provided by biased informants or not completely reliable process tracing analyses. On the other hand, it is not easy to create reliable indicators for instrumental business power if we do not have theoretical mechanisms to evaluate how its different expressions are interconnected.

A potential alternative is to assess the ability of the business community to influence the policy-making process due to its unity as a political actor and its capacity for organizing its members for effective political action. As contended by the long-established scholarship on organizational theory, interest groups are more influential when they are internally coordinated (Olson, 1965). When the business community amalgamates its political action, its policy preferences transcend its members' biased or particularistic demands, and business unity is easier to achieve (Smith, 2000). Unity and clear policy preferences substantially improve the business community's bargaining position in policymaking (Martin and Swank, 2004; 2012).

In other words, business interest groups' capacity to solve their collective action problems is a good proxy for their capacity to influence the policy-making process (Smith, 2000; Martin and Swank, 2004; 2012; Castañeda, 2017; 2018; 2021). From this perspective, we can define business coordination as the capacity of business communities to unite and coordinate their members for political action. Concrete mechanisms of business coordination are diverse. For example, encompassing business organizations (i.e., national-peak business associations or economy-wide business associations) flourished after the consolidation of the industrialization process in both developed (see Martin and Swank, 2008; 2012) and developing countries (see Streeck and Schmitter, 1999; Fuchs, 2007; Schneider, 2004). However, the business community also uses other mechanisms to coordinate its political action. For example, the presence of sector-oriented business groups (i.e., sector-level coordination), highly fragmented and pluralist business associations, or even the predominance of economic conglomerates (diversified groups of firms) is not uncommon across developed and developing economies (Martin, 1991; Hall and Soskice, 2001; Martin and Swank, 2012; Schneider, 2013).

Scholarship in comparative political economy shows that these divergent patterns of business coordination ultimately explain cross-country variation in the business community's capacity to influence policies. For example, Martin

and Swank (2012) show that business interests are very influential in countries where business organizations are highly coordinated at the national level (e.g., Denmark and Sweden) and less influential in countries where the business community is coordinated only at the sector level (e.g., Italy, Germany), or countries where the business community is very decentralized (e.g., United Kingdom and United States). In these cases, business interest groups usually do not have institutional or formal mechanisms to coordinate their political strategies. Similarly, one can argue that business interest groups are better positioned to promote their preferred policies if coordination mechanisms maximize their instrumental power. They efficiently unleash their instrumental power only if they are more united and better coordinated.

Does business coordination diminish tax progressivity?

Political economy scholarship has long documented that the distribution of the tax burden reflects the distribution of power among different social groups and the variation in their policy preferences (Bartlett, 1973; Salamon and Siegfried, 1977; Wilson, 1983; Hettich and Winer, 1988; Steinmo, 1989). This scholarship also suggests that business interest groups play a crucial role in policymaking. For example, several works have examined the role of interest groups in policymaking and have shown that their internal organization seems to have substantial effects on the further implementation of welfare, social, and economic policies in Western democracies (Martin and Swank, 2004; Culpepper, 2010; Schneider, 2013). Similarly, the scholarship on varieties of capitalism shows that distinguishable patterns in capital organization and its relationship with labor affect public policy outcomes (Rueda and Pontusson, 2000; Schneider, 2013).

These works find that business interest groups can influence policymaking when they can afford to, when their disinvestment threats are credible, and especially when they can solve their internal coordination problems. For example, Martin and Swank (2004) show that the “social organization of business” shapes social policy support among firms and makes them more or less prone to support redistributive social programs. They also show that the “centralization and coordination of employers as well as the integration of employer organizations in corporatist policymaking forums are strongly associated with shares of national income devoted to active labor market policy” in Western democracies (Martin and Swank, 2004, p. 593).

In line with this scholarship, more recent scholarship shows that progressive tax structures are unusual in Latin America because the business community is united and coordinated around strong encompassing associations or economic conglomerates (Fairfield, 2015a; Castañeda, 2017; Castañeda and Doyle, 2019). In these contexts, “encompassing” or “economy-wide” business associations and highly diversified economic conglomerates can effectively deliver electoral, lobbying, and networking strategies to prevent progressive taxation. Moreover, business unity and coordination ensure privileged access

to critical legislative committee hearings, close relationships with top government officials, and meaningful participation in policymaking forums. For example, Fairfield (2015a) and Castañeda (2017) show solid evidence that the presence of economy-wide business associations and powerful, diversified economic conglomerates (better-known as *grupos económicos*) has made progressive taxation unlikely in many Latin American economies.

However, recent studies also show that business influence seems weaker in contexts where there are significant frictions between large firms and SMEs (see Renon, 2021). In these scenarios, the business community focuses on obtaining particularistic tax benefits rather than shaping the entire tax structure. If social demands for tax progressivity were more vigorous, this segmented political strategy could open opportunities for politicians to promote fiscal redistribution policies.

The business community's influence on policymaking also depends on their interaction with policymakers. Business interest groups' political action is usually a "reactive" strategy. It is only triggered if their preferences deviate from politicians' agendas. In other words, political action from the business community usually depends on the type of politicians they face.

In any case, the business community directly displays its political power only if facing the prospects of politicians wanting to increase direct taxation. As suggested above, in environments where the business community is united and highly coordinated, business interest groups concentrate on keeping the status quo or even reaching broader policy goals like decreasing the tax burden on firms (Martin and Swank, 2004; 2012). In other words, the presence of highly coordinated and united business communities effectively attenuates the influence of progressive politicians.

In contrast, in environments where the business community is relatively segmented, and coordination mechanisms are precarious, the business community seems to be more focused on achieving particularistic policy goals and protecting those industrial sectors and firms with more capacity to deliver their instrumental power (Martin and Swank, 2004; 2012). Therefore, one could expect that, in these circumstances, politicians could potentially change the tax structure to improve progressivity via increasing corporate rates or reducing tax incentives for politically weaker industrial sectors.

In summary, this scholarship suggests that some coordination patterns make the business community more successful than politicians in shaping tax policy and effective in transferring the burden of taxation to non-organized (or less-organized) groups of citizens or firms.

Business coordination and persistent inequality in Latin America

Let us now illustrate this debate by discussing some aspects of tax politics in Latin America. Undoubtedly, the persistence of regressive tax structures in Latin America illustrates the complexities of tax politics and the pivotal role of

business interest groups in policymaking. It also shows why the political dominance of business interest groups makes it very difficult to use tax policy as a tool for redistribution (see Lustig, 2018).

As mentioned above, the de-industrialization and commodification of the economy have fostered a new pattern of business representation in Latin America. Market liberalization in the early 1990s provoked an evident fragmentation of business interest groups and the decline of traditional economy-wide business associations. Peak business associations have not disappeared; they continue lobbying on behalf of their members and actively participate in policy forums (Schneider, 2010). However, they are not the only business actors involved in policymaking and are certainly not the most relevant (Castaneda, 2017).

The fragmentation of the business community in Latin America has two immediate expressions. On the one hand, there is a significant segmentation between two recognizable groups: (i) multinational corporations (MNCs), large-sized firms, and highly diversified business groups; and (ii) small to medium-sized firms (SMEs). On the other hand, MNCs and diversified groups are now the leading political interlocutors of the business community in the policymaking process, and they have very distinctive policy preferences. They are less concerned about national development or macro-economic policies. Instead, they focus on particularistic, less-salient policy issues like capital taxation or antitrust regulation (Schneider, 2013; Jones and Lluch, 2015). Consequently, they have a different relationship with the state and have access to new (different) channels to influence the policymaking process. They are less tied to ideological or policy agendas and more politically pragmatic.

Moreover, the sources of the large firms' political power are different. For example, they primarily promote their particularistic interests by funding politicians (especially those with leadership positions in relevant legislative committees) or hiring highly specialized lobbyists (see excellent examples of these strategies in Renon, 2021).

MNCs, large firms, and diversified business groups in Latin America have adjusted their political strategy to more democratic and pluralist institutional designs (Schneider, 2004; 2013). In a way, their political power is now more instrumental than structural. They are politically powerful because of their capacity to mobilize resources and shape the agenda regarding specific policy issues.

The growing segmentation of business interest groups in the region has also increased competition among them. Unsurprisingly, more lobbyists and firms are competing for the attention of cabinet ministers and legislators. This is not a minor issue. In a time where economic legislation is becoming more and more complex, only business interest groups with considerable resources, networks, and technical capacity can successfully influence policies. Moreover, in a highly competitive lobbying environment, only diversified business groups with highly diversified political investment portfolios have the necessary resources to block government initiatives they do not like or move legislation forward

Table 10.3 Tax incentives for business in Latin America (2019), % of GDP, and total tax revenue.

Country	% of GDP	% Total tax revenue
Argentina	2.33	8.9
Brazil	4.12	21.1
Chile	2.93	16.6
Mexico	3.15	23.8
Peru	2.13	14.6

Source: ECLAC and Oxfam, 2020.

through Congress. It is also easier for them to solve coordination problems and pursue consistent political strategies – in some cases, these groups are family-owned and run, which minimizes corporate governance issues.

The case of tax policymaking in Latin America illustrates the consequences of this new policy environment. As we mentioned in the introduction, the lack of fiscal space has been a significant constraint for macroeconomic balance in Latin America since the early 1980s. Consequently, since the early 1990s, most governments have implemented substantial tax reforms to increase tax revenues (Focanti et al., 2016; Castañeda, 2017; Castañeda and Doyle, 2019). However, most of these reforms had a limited impact on total tax revenue (Focanti et al., 2016; Table 10.3). Moreover, increasing personal income taxation has proven challenging given the region’s high levels of labor informality. For example, personal income tax revenues only accounted for 2.2% of the regional GDP – 9.7% of total tax revenue – in 2017; meanwhile, personal income taxation corresponds to about 8.3% of the GDP – 23.9% of total tax revenue – in OECD countries (OECD, 2019). Given these fiscal constraints, most of the recent fiscal effort in the region comes from considerable increases in indirect taxation. Unsurprisingly, “taxes on goods and services provided the largest share of total tax revenues in the region in 2020, representing nearly half of total taxation on average” (OECD, 2022; also see Tanzi, 2003; Tanzi et al., 2013). The share of VAT revenues in total tax revenues reached 27.5% in 2020 – about 7% of the regional GDP (OECD, 2022).

The political influence of business interest groups could partially explain tax policy’s limitations as a redistribution tool. Implementing structural tax reforms in the region is increasingly challenging because the legislative bargaining process is now more complex, and more business actors are involved. The comparison between Argentina and Chile is probably the most common example of how business power explains the scope of tax reform in the region since the early 2000s. The tax burden grew substantially more in Argentina than in Chile between 1990 and 2020.

In Argentina, the business interest groups are not particularly crucial players in policymaking. Some studies show that the business community in Argentina is highly fragmented (e.g., there are more than 900 business associations registered and not a single one that could claim to represent the whole business

community) and historically dependent on state subsidies. Due to the endemic macroeconomic volatility, the Argentinian business community is also structurally powerless (Acuña, 1998; Schneider, 2004; Fairfield, 2015a). Recent governments have also promoted division among the business community by strategically allocating subsidies or government grants to gain support from specific industrial sectors. For example, the Kirchners' administrations offered subsidies and tariff protection to some industries in exchange for their disengagement with economy-wide business associations (Renon, 2021). There is also anecdotal evidence that some Argentinian governments have used some federal agencies (e.g., the federal tax agency, AFIP) to undermine business unity and discipline strategic industrial sectors (Renon, 2021). As a result of these strategies, the business community in Argentina has become increasingly fragmented, and the costs of collective action are prohibitively high (Renon, 2021, pp. 173–176).

The business community gravitates around sectorial associations such as the Unión Industrial Argentina (manufacturing), the Cámara Argentina de la Construcción (construction), or the Sociedad Rural Argentina (agriculture). Some inter-sectoral groups are also relevant representatives of the business community – e.g., Instituto para el Desarrollo Empresarial de la Argentina or the Asociación Empresaria Argentina. However, none can truly claim to represent the whole business sector. In addition, there is a clear division between organizations representing the interests of large firms and those representing small or medium-sized firms. Consequently, economy-wide business associations in Argentina are politically weak and poorly represent their members. As a result, their influence in the policymaking process is limited and they are usually incapable of blocking reformist crusades from policymakers.

Unlike its Argentinian counterpart, the Chilean business community is economically powerful, relatively well-coordinated, and well-integrated into policymaking. Moreover, the outstanding performance of the Chilean economy in the past two or three decades has strengthened business unity. Business interest groups have strong links with traditional political parties, their staff is well qualified, and their resources for lobbying are exceptional. Chilean business interest groups also actively participate in meaningful policymaking advisory boards. Consequently, the business community in Chile is much more united and cohesive than most of its counterparts in Latin America. On the one hand, the Confederación de la Producción y del Comercio unites and effectively represents powerful industrial and sectoral associations like the Sociedad de Fomento Fabril (SOFOFA) or the Sociedad Nacional de Minería (SONAMI). On the other hand, economic conglomerates or “grupos” like the Grupo Angelini, the Grupo Luksic, the Grupo Said, or the Grupo Matte are diversified enough to have a significant influence across different strategic industrial sectors. This is why they have successfully influenced economic policymaking and hindered structural tax reforms since the transition to democracy (Schneider, 2004; Fairfield, 2015a).

The policy consequences of these patterns of business coordination in Argentina and Chile are reinforced by politicians' ideological preferences. Although the Peronist Party in Argentina and the Concertación in Chile are essential expressions of the evolution of left or center-left parties in Latin America, they have very distinctive policy preferences. In Argentina, revenue-raising tax reforms were easily implemented because business interest groups were relatively weak, and left-wing governments strongly preferred increasing taxes rather than cutting public spending. However, the fiscal impact of some of those fiscal reforms has been constrained by the negative externalities of the Argentinian debt-based economic growth model and widespread tax evasion.

On the contrary, Chile's governments and business interest groups have relatively similar tax policy preferences. They agree on the importance of defending the achievements of the market-oriented model as the only guarantee for political and economic stability. It is also important to mention that the fiscal bargaining process in Chile is more complex than in Argentina. Since the turn of the twenty-first century, the number of actors involved in tax policy negotiations has increased significantly across the region. Even in countries like Chile, with a long history of business unity, more voices from the business community now have access to critical decision-making scenarios.

The emergence of a more pluralistic policymaking arena also has consequences regarding the scope of the issues under discussion. For example, in the late twentieth century, governments and encompassing business associations in the region negotiated high-salience issues regarding the nature of the tax structure and its potential impact on long-term macroeconomic trends (Fairfield, 2015b; Castañeda, 2017). Unsurprisingly, collaboration mechanisms between business and government to improve industrial policy are one of the most important legacies of the corporatist institutional architecture created during the industrialization-by-import-substitution era (Schneider, 2010).

However, those mechanisms are becoming less relevant. For example, business-government negotiations about fiscal policy are now more focused on industry-specific tax exemptions, sector-targeted tax deductions, or specific preferential treatments for capital income. Large firms or economic conglomerates with better access to policymaking networks or sufficient resources to fund lobbying, electoral, and media strategies can effectively influence these negotiations and obtain beneficial tax treatments (Fairfield, 2015b; ECLAC and Oxfam, 2020). Meanwhile, the not so well coordinated and under-resourced small or medium-sized firms cannot effectively oppose increasing tax burdens on their economic activity. Unsurprisingly, with fewer resources than diversified business interest groups and other special interest groups, SMEs and non-organized (or poorly organized) citizens are often defeated in the legislative arena and ultimately pay the cost of increasing tax burdens (see ECLAC and Oxfam, 2020).

In Argentina, for example, the high degree of fragmentation among the business community makes small or not well connected firms more vulnerable in

policymaking. Empirical evidence suggests that only large firms (with enough resources to deliver successful lobbying strategies) or firms with direct access to pivotal officials in the executive branch of government can influence policies (Renon, 2021). Although their access is still limited, the influence of SMEs in the policymaking process in Colombia or Brazil is more fluid because some sectoral business associations offer better channels of representation to smaller firms, but also because, contrary to Argentina, legislative economic committees in these countries have a more meaningful role in policymaking. The revolving doors between business and government are also more active in Brazil and Colombia than in Argentina (Renon, 2021).

Although corporate taxation has technically increased across the region in the past three decades, the business community has reduced the impact of an increasing tax burden by using different political mechanisms. For example, MNCs and large firms (about 1% or 2% of the firms in the region, although they concentrate much of the region's employment, production, and exports) have expanded their lobbying capacity to ensure or expand tax exemptions. Unsurprisingly, the dimension and fiscal cost of tax incentives in Latin America are significant (please see Table 10.3), and tax incentives are more prominent in those countries where the business community is less fragmented or more instrumentally powerful.

In those cases, the business community has been able to negotiate tax holidays, reduced corporate tax rates, and tax deductions for investment in specific industrial sectors. In Brazil, for example, firms in the infrastructure and semiconductor industries pay reduced corporate tax rates and the government offers tax incentives for firms across various sectors, including oil, gas, automotive, aerospace, and technology industries. The Brazilian export sector also benefits from tax exemptions (ECLAC and Oxfam 2020, Anexo 2). There are no reduced corporate tax rates in Mexico, but tax incentives for investment in the agro-industrial, automotive, energy, and mining sectors are widespread. Mexican subnational government also offers a variety of tax incentives for business in the agricultural sector and the maquila export industry (see ECLAC and Oxfam 2020, Anexo 2).

Tax-incentive schemes usually favor large firms, MNCs, and conglomerates. Although some governments offer tax incentives to SMEs, the scope of these schemes is somewhat limited. As we explained before, SMEs have a low capacity to display meaningful instrumental power in policymaking. In addition, their activities mainly focus on more traditional (less strategic) industrial sectors. This could explain why SMEs benefit less from tax incentives.

The SMEs' political strategy to face increasing tax pressure is different. Rather than pursuing tax incentives, politically weak SMEs (about 90% of the firms in the region) seek to reduce their tax and social security contributions by resisting formalization, keeping their firms smaller, and opposing increases in personal income taxes. They benefit from simplified tax regimes. In other words, SMEs rely on informality, low productivity, and tax evasion to minimize their lack of political influence in the policymaking process.

Now, the question is: does the described process of segmentation of the business community create opportunities to make tax structures more progressive? One could expect that expanding corporate income tax bases and even increasing tax rates for smaller firms would alleviate the pressure on indirect taxation and make the tax structure more progressive. However, the issue is far more complicated. On the one hand, MNCs, large firms, and conglomerates are increasingly more powerful and capable of intervening in policymaking. Better access to policymaking allows them to prevent substantial increases in corporate and individual tax burdens by promoting tax exemptions and deductions and making tax regulations more tolerant of tax avoidance. On the other hand, although, in relative terms, the small or medium-sized firms are less politically capable of preventing higher tax burdens, they have exit options available. Moreover, the institutional architecture changes required to reduce informality are challenging to approve and even more difficult to enforce. Therefore, increasing formal tax pressures on SMEs does not necessarily translate into larger corporate tax bases.

In other words, the segmentation of the business community and the political preponderance of larger firms or groups of firms does not necessarily create policy opportunities for progressive taxation if the institutional architecture provides incentives to stay in the informal sector or evade taxes. Unsurprisingly, the only viable option for governments – no matter their ideological or electoral roots – is to raise more revenues by increasing indirect and regressive taxes.

Conclusion

This chapter discusses the role of business unity and coordination as potential factors explaining the persistence of inequality in Latin America. In particular, it argues that the current patterns of business unity and coordination in the region prevent progressive tax structures from being adopted. The recent fragmentation of the business sector between MNCs/large conglomerates and SMEs seems to open a window of opportunity for the transformation of the tax structure in the region, especially in those contexts where informality is relatively low. However, the expansion of tax expenditures and incentives for MNCs, large firms, and business conglomerates in the early 2000s seems to cancel out the gains obtained with the growth of corporate and personal income tax bases and the increasing pressure on SMEs and middle-class taxpayers. High informality and tax evasion levels also minimize the redistributive effect of any formal expansion of corporate and individual tax bases. Moreover, the proliferation of exemptions, exclusions, deductions, credits, preferential tax rates, deferrals, and special tax regimes render it even more challenging to use taxes effectively for redistribution.

The multiplication of special tax regimes is perhaps one of the most important consequences of the transformation of tax politics over the past few decades. As we explain in this chapter, the increasing fragmentation

of the business community and the prevalence of MNCs, conglomerates, and large firms as the main political interlocutors of the business sector in policymaking have imposed an atomized model of tax policy bargaining. Rather than negotiating with a few well-established economy-wide business associations, Latin American governments now deal with many actors with different levels of resources and access to the policymaking process. This new interaction model between business and government results in increasingly fragmented (and complex) tax structures overfilled with exemptions, technicalities, and special regimes. Although tax systems in developing countries have always been complex (Bird and Zolt, 2008), the increasing complexity of the tax system in Latin America is a breeding ground for tax avoidance and evasion. Most importantly, it makes it difficult to increase tax progressivity.

This chapter illustrates the business community is effectively more fragmented now than in the early years of the market reforms. One would expect that these higher levels of fragmentation would have translated into opportunities for politicians to expand direct tax bases and put more pressure on firms and wealthy individuals. However, we also show that the pivotal members of the business community adapted well to the new circumstances and their political influence strategies to successfully protect their interests by transferring the tax burden to less-organized groups of citizens. Therefore, one could argue that the emergence and consolidation of a hierarchical model of capitalism in the region has created severe obstacles for politicians to use tax policies as effective tools for redistribution. Renewed business unity and coordination patterns seem to perpetuate an unequal fiscal contract – especially in contexts where citizens’ redistributive demands are not particularly noticeable and there are abundant opting-out options.

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11 Ground rent, capital accumulation, and the limits of taxation in resource-rich countries: the case of Argentina (1993–2020)

Gastón Caligaris

Introduction

It escapes no one's notice that the acute crisis that the Argentine economy traversed during the Covid-19 pandemic was neither simply the result of the global economic crisis nor the pandemic's specific local impact. Virtually all economic indicators show a stagnation or decline that has lasted almost a decade. There is no denying that Argentina's difficulties with economic growth began several decades ago, at least as far back as the mid-1970s – and even earlier if we take into account the differences in its economic performance with that of so-called core countries. Therefore, the underlying question cannot be reduced to the immediate causes of this crisis but must address the determining factors of the recurrently thwarted development of the Argentine economy, of which the current crisis is one more manifestation.

Broadly, it can be said that the dominant response found in the specialized literature and repeated without exception in the discourse of neoliberal-oriented administrations locates the causes of the deterioration of the Argentine economy in economic policy errors that originate from the utilization of erroneous economic theories and/or inaccurate diagnoses of the economic situation (Damill et al., 2015, for example). In contrast, the response of heterodox approaches, repeated in turn with greater or lesser virulence by populist-oriented administrations, tends to point to the local elite's ability to impose economic models that privilege them over the popular majorities (Castellani and Dulitzky, 2018, for example). Finally, it could reasonably be argued that critical or so-called radical approaches look for these causes in the way that Argentina is inserted into the world market, which is determined by the historical trajectory of the local class struggle in relation to the restructuring of the world economy, in turn determined by the course of the class struggle in each national sphere (Félic, 2020, for example). As conflicting as these three approaches may seem, all three focus their analysis, or locate the ultimate cause, on the capacities of individuals or social groups to determine the course of the economy. More concretely, they do not make any headway in explaining why the individuals or social groups in question possess these specific capacities instead of others; that is, what determines that economic policymakers adopt

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one view or another, or what determines the extent to which social classes have the power to impose their interests, whether through institutional channels or outside of them.

In contrast, this chapter will attempt to present an approach – based on a novel reading of the Marxian critique of political economy – that aims to go beyond these answers by recognizing that individual and collective actions are forms in which the alienated self-movement of capital accumulation as a reified social relation realizes itself (Marx, 1976; Iñigo Carrera, 2014). Based on this understanding, and following Iñigo Carrera's (2006; 2007) original investigation into the economic formation of Argentine society, we will consider this national sphere to be a qualitatively differentiated organ of the global unity of capital accumulation. Therefore, the analysis will focus on the trajectory of the surplus profit carried by the commodities of agrarian origin with which this national sphere participates in the international division of labor. More precisely, we will focus on the movements of ground rent captured by virtue of the relatively high productivity of agrarian labor that is due to the exceptional fertility of Argentine lands, in particular those of the Pampean Region. More concretely, we will focus on how the capital from which this mass of surplus value originally sprang manages to reappropriate it before it ends up in the hands of the Argentine landowning class. In this line of reasoning, we will seek to demonstrate that the Argentine economy's inability to emerge from its state of structural crisis has to do with the development of the contradiction entailed by the appropriation of ground rent in the hands of foreign capital. At this juncture, we will argue that, since the main mode of appropriation cannot be carried out through direct taxation, it spontaneously passes through the overvaluation of the national currency. This has the effect of limiting the capital of the local industrial sector to the domestic market, making it increasingly dependent on the inflow of ground rent to compensate for the growing difference that exists between the productivity of local labor and that prevailing in the world market. In short, we will argue that the structural crisis of the Argentine economy is due to the limits of the appropriation of ground rent through direct taxation on land and on agrarian and mining commodities. In this sense, we will see that Argentina provides a particularly rich case for the analysis of economies where the state's involvement in the appropriation and distribution of social wealth goes far beyond its fiscal policy.

The argument presented in this contribution will unfold as follows. In the first section, we will present the foundations of our approach on the specificity of raw material-producing countries, of which Argentina is a paradigmatic case. In the second section, we will present a general characterization of the economic formation of Argentine society and its limits, given the mechanisms at the disposal of the state for the appropriation of ground rent. In the third section, we will present an estimate of agrarian ground rent appropriated by the landowning class and other social subjects. This illustrates the description of the Argentine economy that we propose in the previous section and that, at the same time, allows us to offer a concrete explanation for the changes in the

political orientation of the successive governments and the principal conflicts that characterize Argentina's recent history. We will dedicate the last section to a synthesis of this work's contribution.

Capital, world unity, and ground rent

The understanding that the core of the Marxian critique of the political economy lies in the unveiling of capital as a fetishized social relation and, more specifically, as a form of social mediation that exists as an automatic subject, has become increasingly widespread among Marxists in the last decades, particularly since the work of Postone (Postone, 1993; Arthur, 2006; among others). However, as Starosta has argued, even the sharpest and most insightful versions of this understanding stop short of inferring that this kind of social mediation implies that every aspect and form of human action, individual or collective, ends up being a concrete realization of this reified social relation (Starosta, 2015). As a result, these approaches open the door to presenting the path of the capital accumulation process in a national sphere as being essentially determined, in part or in full, by class struggle and even by the capacities to design economic policies. In contrast, following the approach of the Marxian critique of political economy that Iñigo Carrera originally developed, here we will start from the understanding of capital as the concrete alienated subject of the organization of social life, and specifically from the understanding of consciousness and free will of individuals as concrete forms of the consciousness and will that are alienated in the capital (Iñigo Carrera, 2014).

From this point of view, it follows that capital is a necessarily universal social relation and that therefore capital accumulation is a global process by virtue of its immanent content, and a national process only by its form. This has also been pointed out by some Marxists in recent decades (Clarke, 1991; Smith, 2006; for example). However, the profound meaning of this statement and its connection to the understanding of the inversion of human powers as powers of capital is diluted each time it is presented to local class antagonism, whether under an institutionalized or spontaneous form, as a determining factor of the course adopted by a national process of capital accumulation. Indeed, as Grinberg and Starosta emphasized, if one is consistent with the point of view according to which the process of capital accumulation is an essentially global process, the path followed by each national sphere has to be explained by the role it plays in the world market as a qualitatively differentiated organ of the global unity of capital accumulation, with local class antagonisms and their respective forms of institutional policies being the concrete forms that mediate the establishment of this immanent world unity (Grinberg and Starosta, 2015).

As it is widely acknowledged in the debates about Latin America's economic development, the countries of the Southern Cone have historically been characterized by their participation in the international recognized division of labor that underlies the world unity of the accumulation of capital through the production of raw materials. However, despite placing this

peculiarity at the core of their analysis, Marxist-oriented critical approaches, usually grouped under the framework of Dependency Theory, have not paid attention to the basic fact that these commodities are bearers of surplus profits transformed into ground rent (Marini, 1991; Dussel, 2002, for example). Let us then begin by re-establishing what ground rent is and what it implies from the point of view of value flows at the international level, which, in these approaches, are at the heart of the discussion of the specificities of these countries.

Ground rent is a surplus profit that accrues to the landowning class exclusively by virtue of their property title to the land. In his systematic dialectic exposition of this form of surplus value, Marx identified various mechanisms through which this social class captures this mass of value, that all have as their basis the existence of a natural condition for production, linked to a portion of land that is limited and not reproducible by capital. This identification and explanation of the different mechanisms through which ground rent is generated has not been without debate within specialized Marxist literature. But, for the purpose of the specific issue we are dealing with, it is worth dwelling on the question of the origin of surplus value that constitutes ground rent. For if the surplus value in question were to come from the exploitation of workers from the industrial sector, the flow of surplus value that all the “dependency” explanations present as self-evident would be completely reversed. That is to say, instead of the central or imperialist countries systematically absorbing surplus value produced in the so-called peripheral or dependent countries, it would be the latter which would absorb surplus value produced in the former.

In essence, it is possible to distinguish two positions in this controversy. On the one hand, one position considers that ground rent is surplus value that is produced within the agrarian production sector (Lapidus and Ostrovitianov, 1929, pp. 279–280; Balardini, 2017, among others). On the other hand, the other position argues that, with the exception of absolute rent, all forms of ground rent are constituted by surplus value originating from outside of agrarian production (Itoh, 1988, p. 237; Iñigo Carrera, 2017, pp. 85–114 and 175–207, among others). From my point of view, the problem with the first position is that, as has been shown in other debates linked to the problem of value transfers, it implies that the amount of total surplus value generated in an economy is greater than the amount of total surplus labor, thus breaking the contradictory unity between materiality and social form that is characteristic of capitalist society (Mandel, 1998, pp. 92–107). In contrast, the second position is consistent with the foundations of the Marxian critique of political economy in considering ground rent as one more form adopted by surplus value when, in circulation, the unity of the movement of global social capital is established through the distribution of the total surplus value generated. In fact, as several of the authors that support this position warn, this point of view conforms to the way that Marx considers ground rent to be a “false social value” that “results from the law of market value to which agricultural products are subjected” (Marx, 1991, p. 799).

Naturally, this essential determination of ground rent cannot change by virtue of the fact that a national border stands between the landowning class and the capital of the industrial sector. However, to conclude that a mass permanently flows from the countries that consume these raw materials to the countries specialized in their production seems to contradict all the appearances presented by the national processes of capital accumulation. In effect, it should be expected that a country into which a mass of social wealth that is not produced by its own workers permanently flows from abroad would have its national process of capital accumulation strengthened. Yet these countries are normally in a situation of recurring crises, lower productivity of the labor of industrial capital, low wages, a large and historically growing surplus population, and so on. However, instead of abandoning the conclusion arrived at by the systematic development of the determinations of capital because it would appear to contradict immediate appearances, the path that follows from the method of the critique of political economy is precisely the opposite, that is, to continue developing such determinations until confronting the immediate appearances in question. In this respect, what should be examined is how the *release* of surplus value to the landowning class of the peripheral countries on the part of the industrial capitals of the central countries transforms into its opposite, that is, into the *recovery* of this surplus value. That is to say, rather than denying that ground rent is a false social value, as is done by the critical approaches derived from Dependency Theory, it is a question of revealing in what ways it is possible that the capital from whose cycle this mass of surplus value originally sprang can then reappropriate it, and, moreover, how this process of reappropriation results in obstacles to the development of the countries that produce raw materials. But for this it is necessary to come back to the determinations about ground rent deployed by Marx.

First of all, the possibility of recovering the surplus value initially ceded to the landowning class lies in the particular nature of the revenue that constitutes ground rent. It so happens that this form of revenue reproduces a social subject that plays no role in the immediate process of production, such that the appropriation of that part of the revenue by third parties does not affect that process in any way (Marx, 1988, p. 539). At first glance, it would seem that, this being the case, capital as the dominant social relation has no choice but to get rid of the landowning class, taking the exercise of the monopoly over the land directly into its hands (Marx, 1988, p. 470). However, the abolition of private property for a means of production that is as important as land cannot be achieved without calling into question private property for the rest of the means of production, and, therefore, private property in general. At this point, however, Marx points out the possibility that, through taxation, capital partially appropriates ground rent: “thus appropriating in a roundabout way what cannot be retained directly” (Marx, 1988, p. 470). In short, insofar as ground rent is a mass of surplus value that the landowner appropriates only by virtue of possessing a property title, capital can appropriate it through the state. However, precisely because ground rent is revenue accruing to the private

ownership of land, this appropriation is quantitatively limited by the very questioning of private property that it entails. As we will see in the following sections, this is the contradiction that lies at the heart of the economic structure of Argentine society and the limits that it currently runs into.

The economic formation of Argentine society and its limits

Like the rest of the countries of the Southern Cone, Argentina has historically been characterized by its participation in the international division of labor through the production of raw materials, in its case with commodities of agrarian origin. This means that, contrary to what the dependency approaches suggest for Argentina, there has been a permanent flow of a mass of surplus value from other national spheres of capital accumulation into its economy. This mass of surplus value, however, did not end up entirely in the pockets of the landowning class. As Marx summarized, the capital from whose cycle this mass of surplus value originally sprang was able to recover a good part of it through the state's action, although not simply through taxes on land or on ground rent directly. The historical complexity of the way in which the capital of the raw materials purchasing countries was able to recover part of the ground rent in question and, in particular, the way in which this complexity determined the specificity and destiny of capital accumulation in Argentina was originally developed by Iñigo Carrera, along with an estimate of this mass of surplus value from the end of the nineteenth century to the beginning of the twenty-first century (Iñigo Carrera, 2007). Here we will succinctly restate this development in order to then analyze the most recent crisis of the Argentine economy according to an update of this estimate up to the present.¹

Let us begin with the forms of appropriation of ground rent. The most direct way to prevent this mass of surplus value from ending up in the hands of the landowning class is to have specific taxes on ground rent applied to each kind of land. This mode of appropriation was attempted in Argentina through the "tax on potential ground rent" but it was never applied effectively (Nuñez Miñana, 1985). The reason for its failure is not to be found in the abstract political power of the landowning class, but rather in the "confiscatory" character, or the violation of the principle of fiscal equity, that this tax would entail given the mass of value at stake. In short, its failure is explained by the contradiction, already raised by Marx, that capital falls into by pretending to question landownership without calling into question private property in general.

Faced with the impossibility of this form of taxation, the alternative is to appropriate ground rent through a tax that affects all agrarian commodities equally. This tax has appeared time and again in Argentine history, usually under the name of "export taxes", with an immediate effect on the price of the same type of commodities that circulate domestically and the resulting cheapening of the labor power for capital. Although this tax was successfully imposed, its amount has always been limited with respect to the mass of ground rent in circulation. It so happens that, here too, once a certain proportion of

the price of the commodity concerned has been reached, the contradiction between this mode of appropriation and the general right to private property openly emerges. The conflict over the “moving export taxes” in 2008, to which we will later return, might be the most expressive historical case of the limitations of this type of tax. In this conflict, the landowning class was able to twist the government’s arm precisely by summoning – in the name of defending private property – the urban petty bourgeoisie and the working class that performs the most complex labor (Pérez Trento, 2021). The policies of fixing maximum prices for agrarian commodities that circulate domestically, together with export quotas or simply the state’s direct mediation of foreign trade, have worked in the same way. To a greater or lesser extent, depending on the case, these forms of appropriation have also been limited whenever they have tried to capture substantial amounts of the available ground rent.

Given the limits to the appropriation of this social wealth by means of taxes or direct regulations on the circulation of agrarian commodities, the recovery of surplus value ceded by the global social capital as ground rent historically made inroads in Argentina through an indirect and veiled mechanism: the overvaluation of the national currency with respect to that which functions as world money. Figure 11.1 shows the levels of overvaluation and undervaluation of the Argentine currency since the establishment of the specificity of this national process of capital accumulation.

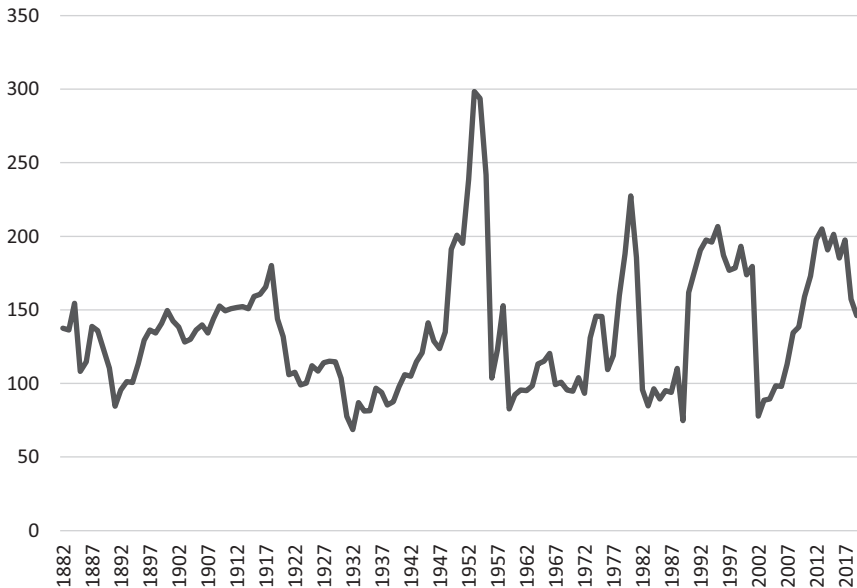


Figure 11.1 Valuation of the national currency against the US dollar (1882–2019). (Source: Data prepared by the PICT 2018–1601 research project, following the methodology developed by Iñigo Carrera (2007).)

The overvaluation of the national currency means that when one exchanges currency one receives a lesser amount of social wealth than if the exchange rate were at its parity. Therefore, it means that goods can only be exported if they bear a surplus profit that can pass through the foreign exchange mediation without affecting the normal reproduction of the capital that produced it. And this surplus profit cannot be any other than ground rent. Consequently, the recurrence of this mechanism of ground rent appropriation becomes an obstacle to the development of the accumulation of industrial capital. More concretely, the capital of the industrial sector has to limit its production to the domestic market, with, as a consequence, the greater costs entailed by the resulting smaller scale of production.

The Argentine automotive industry, usually considered the “locomotive” of the national industry, accounting for the majority of exports of industrial origin, is a paradigmatic case in this respect. Its exports to Mercosur, in itself a restricted market, do not exceed the imports of the same category, which, according to the foreign exchange regime that regulates this sector, must be balanced, thus limiting its expansion to the size of the domestic market (Iñigo Carrera, 2006, p. 193). On this basis, as Fitzsimons and Guevara observe, the average number of cars produced annually per worker is two times lower than the averages that prevail in Japan, the United Kingdom, and in the United States, even for the most productive years of the last decade. This discrepancy is significantly multiplied when we look at the highest performing production plants instead of national averages (Fitzsimons and Guevara, 2016, p. 190).

If we take into account that, according to the National Survey of Large Companies (INDEC, 2021), more than 60% of the most concentrated capital in the Argentine economy is of foreign origin and they should at least have the same rate of profit that they have in other parts of the world, it becomes clear that the higher costs that arise from their restricted scale must be offset by the appropriation of an extraordinary mass of value. Evidently, the mass of value in question cannot simply come from the overexploitation of the local labor power, as is implicitly or explicitly pointed out by critical approaches regarding the trajectory of the Argentine economy. If this were the case, far from being limited to the domestic market, foreign capitals would establish themselves in the country in order to produce for the world market, as they do in East Asian countries where they find a relatively cheap labor power.

As it follows from the same mechanism of ground rent appropriation that limits these capital’s production to the domestic market, the mass of value in question cannot be other than the ground rent that does not reach the landowning class. In effect, these capitals appropriate the ground rent that is retained in the foreign exchange mediation each time that they import means of production, remit profits to their parent companies, or purchase the local labor power that is cheapened by the consumption of imported goods. But they also do so thanks to the previously considered forms of appropriation whenever state tax revenue flows towards them through subsidies, tax exemptions, purchases of their merchandise, or indirectly through the artificial cheapening of the labor

power they exploit. Of course, this portion of ground rent that flows via state tax revenue is also shared with the foreign creditors of the public debt that lend to the state in times of crisis in order to then collect it at ludicrous interest rates in times of relative prosperity. Finally, it is important to highlight that in many cases – the automotive capitals being yet again a paradigmatic example – the restriction of the domestic market as a condition for appropriating ground rent allows foreign capitals to put into production machinery that in its place of origin is already obsolete.

If we look at the process in its unity, we see, in the first place, that the main appropriator of ground rent is ultimately none other than the industrial capital from whose original cycle the surplus value in question sprang. In short, as we indicated in the previous section, the transfer of surplus value by global social capital to raw material-producing countries such as Argentina is transformed into its opposite, that is, in the recovery of this surplus value at the hands of individual organs of this global social capital such as the foreign capitals that accumulate within the domestic market or the foreign capitals lent at the interest that make up the public debt. Second, because a condition of this recovery is the restriction of foreign capital to the domestic market, the growth of the economy remains tied to the flow of ground rent that can compensate for the higher costs that arise from the smaller scale of production that correspond to that market. And, as the gap between the scales of production that is imposed by the difference in magnitude between the domestic market and the world market becomes larger and larger, more and more ground rent is needed to compensate for it. The consequence is that the Argentine economy permanently runs into an insurmountable limit, resulting in an ever-larger surplus population, and ever lower salaries. Let us examine more closely these dynamics in the last decades, on the basis of an estimate of the total ground rent flowing into Argentina and its different courses of appropriation.

The dynamic of the crisis of the accumulation of capital in Argentina²

Let us begin by considering the ground rent that ends up in the pockets of the landowners. This portion of total ground rent is obtained by estimating the difference between what immediately appears as the annual rate of profit prevailing in the industrial sector and that of the agrarian sector. In turn, both profit rates are obtained by estimating, on the one hand, the annual sectoral surplus value as the difference between value added and the sum of the wage bill and fixed capital consumed in the year and, on the other hand, the capital advanced in each sector, given by the sum of circulating capital and annual fixed capital, including livestock in the case of the agrarian sector. As can be observed in Figure 11.2, in the last three decades, the rate of profit in the agricultural sector has been consistently greater than that prevailing in the industrial sector. The surplus profit that results from multiplying this difference by

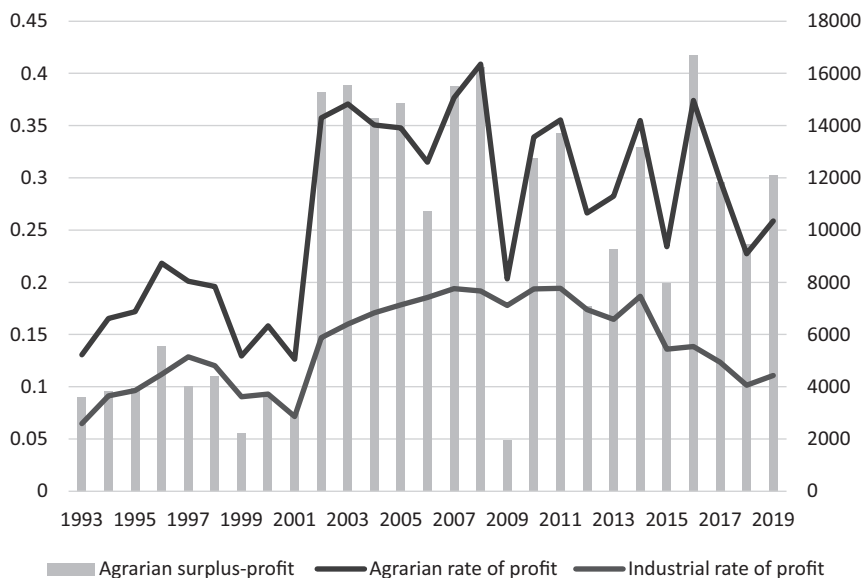


Figure 11.2 Sectoral profit rates (main axis) and agricultural sector surplus profit in millions of 2004 pesos (secondary axis) (1993–2019). (Source: Data prepared by the PICT 2018-1601 research project, following the methodology developed by Iñigo Carrera (2007).)

the capital advanced in the agricultural sector cannot be anything other than agrarian ground rent.

As can be observed, the ground rent that flowed towards the landowning class made a substantial leap in its absolute magnitude since 2002, with the exception of 2009, when a very strong drought coincided with a fall in the prices of agrarian commodities as a result of the previous year's global financial crisis. At first glance, it would seem that this leap in the magnitude of the sectoral surplus profits, appropriated as ground rent, is explained by the increase in agricultural commodity prices, known as the “commodity boom”, which in Argentina was mainly exploited through the production of genetically modified soybeans. However, as can be seen in Figure 11.3, the evolution of the magnitude of the ground rent in question does not correlate directly with the evolution of soybean prices.

In particular, between 2010 and 2013, soybean prices increased by 40%, while rent contracted. Furthermore, the 2012 price level peak coincides with the lowest level of ground rent since 2002. In turn, between 2014 and 2019, the level of ground rent recovered and even surpassed its previous highs while soybean prices fell by 35%, stagnating from 2015 onwards. These differences are explained by what was pointed out in the previous sections – the state intervention in the circulation of agrarian commodities in order to capture part of the surplus value

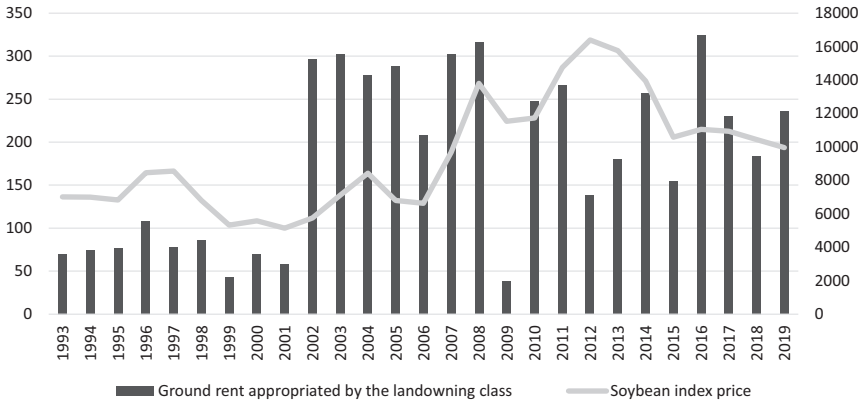


Figure 11.3 Soybean index price (main axis) and ground rent appropriated by the landowning class in millions of 2004 pesos (secondary axis) (1993–2019). (Source: Data prepared by the PICT 2018–1601 research project, following the methodology developed by Iñigo Carrera (2007).)

originating outside of the country, and received in the form of ground rent, with the goal of essentially transferring it to the industrial and commercial capital of foreign origin and to the international capital lent at the interest that constitutes the external public debt. Figure 11.4 shows an estimate of the mass of ground rent that escapes appropriation by the Argentine landowning class.

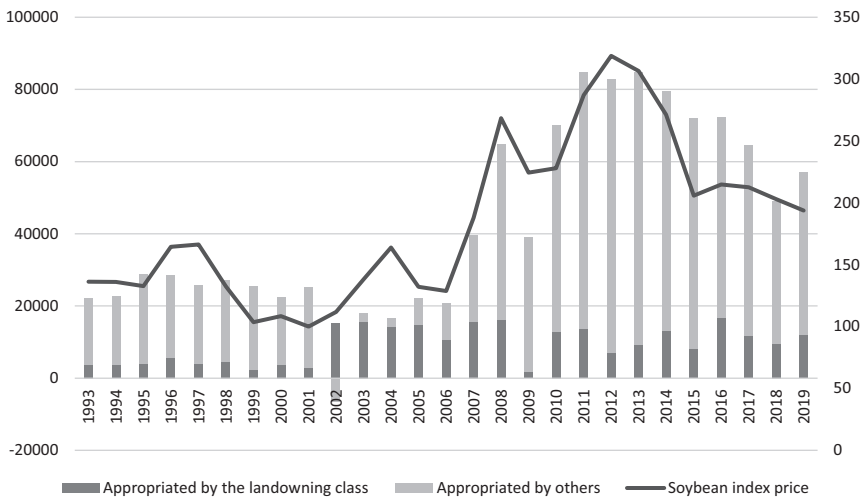


Figure 11.4 Total ground rent in millions of 2004 pesos (main axis) and soybean index price (secondary axis) (1993–2019). (Source: Data prepared by the PICT 2018–1601 research project, following the methodology developed by Iñigo Carrera (2007).)

As can be seen, the incorporation of ground rent that does not reach the hands of landowners makes the fluctuation of soybean prices consistent with the performance of the agricultural sector. This shows that, in effect, there is a mass of surplus value that, being carried as ground rent in agricultural commodities, does not reach the landowners as such. In the previous section, we indicated the principal ways in which the state intervenes to interrupt the flow of ground rent towards the landowning class. In the period we are analyzing, export taxes, the overvaluation of the national currency, the effect of both on the domestic price of agricultural commodities, and, in some years, the fixing of maximum prices for meat and wheat stand out. Furthermore, there are some years in this period in which there is overpricing on certain agrarian means of production, which should also be considered as ground rent that escapes the landowning class. Figure 11.5 shows how, over the years, these primary forms of ground rent appropriation have been distributed. The negative data points indicate that value flowed into the agrarian sector from the economy as a whole through the indicated mechanism.

The first thing that jumps out from this data is that the overvaluation of the national currency is the predominant form and the one that accounts for the largest part of the rent that escapes the landowning class. As we have seen, this is not accidental. It is a veiled form of social wealth appropriation. To appreciate the extent to which this mode of interrupting the flow of rent to the landowning class is the most potent for escaping the contradiction between the appropriation of ground rent and the principle of “fiscal equity” characteristic of the capitalist society ideology, let us briefly consider the evolution of the relationship of the landowning class with the various administrations whose policies mediated the appropriation of ground rent.

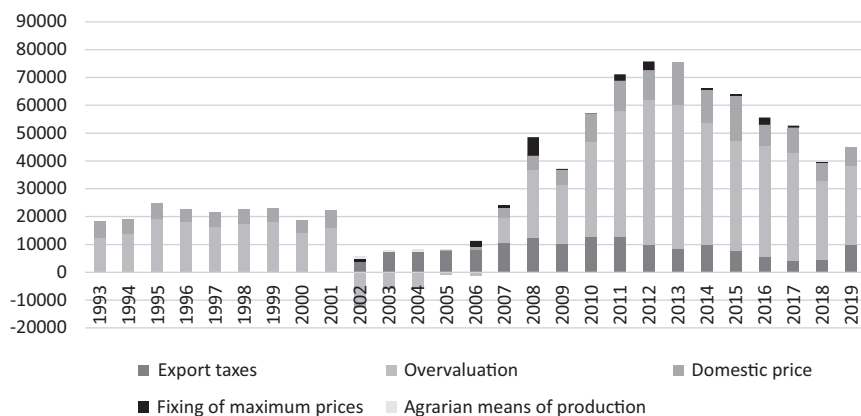


Figure 11.5 Primary forms of ground rent appropriation (1993–2019). (Source: Data prepared by the PICT 2018–1601 research project, following the methodology developed by Iñigo Carrera (2007).)

In the 1990s, there were no export taxes or price-fixing policies. Instead, the overvaluation of the national currency hovered around 100%, which meant that the local landowning class lost 85% of the ground rent carried in agricultural commodities. However, as Pérez Trento reports, the attitude of the landowning class towards the successive governments that maintained the “convertibility plan” that entailed this overvaluation was very non-confrontational. In particular, the Sociedad Rural Argentina (Argentine Rural Society), the political organization that historically brought together the upper echelons of the landowning class, maintained its explicit support for this economic plan until it collapsed in December 2001 (Pérez Trento, 2021, p. 11). This attitude completely changed in the face of the appearance of export taxes. However, the political conflict between the landowning class and the new administration did not escalate, in part because of the relative moderation of these taxes, but mainly because of the sharp devaluation of the currency combined with a small recovery of prices (Barlow and Peña, 2021), which led to nearly a quadruplication of the ground rent appropriated by the landowning class. In 2007, however, when the prices of agrarian commodities began to rise sharply and the Kirchnerist administration tried to capture the flow of the corresponding ground rent with a system of “moving export taxes”, the landowning class openly confronted the government in a long conflict that marked a milestone in the history of Argentine politics. In the previous section, we mentioned that the landowning class managed to prevent this policy of ground rent appropriation by presenting the mobile retentions as an attack on private property in general. But here we can see that it is precisely the limits of this form of appropriation that led to the use of the overvaluation of the national currency. Indeed, from that year onwards, overvaluation once again became the primary mechanism of ground rent appropriation. Yet the permanence of export taxes, the appearance of price-fixing policies, and, in particular, the informal introduction of dual exchange rates kept the landowning class in a confrontational attitude towards the government. The veiled nature of the overvaluation of the national currency became evident when the neoliberal Macri administration arrived. During this government, overvaluation continued at high levels and accounted for most of the ground rent that did not reach the landowning class. However, the unification of exchange rates and the lowering of export taxes made this social class see the Macri government as an ally. The unity between the landowning class and Macrismo went so far that two ministers of agriculture were members of the Argentine Rural Society, one of whom had been its president between 2012 and 2017.

In the previous section we already indicated that all these mechanisms for interrupting the flow of ground rent towards the landowning class are nothing other than mechanisms that divert this mass of surplus value towards industrial and commercial capital – generally of foreign origin – that operates within the limits of the domestic market, and towards the capital lent at interest which constitutes the external public debt. As we saw, the overvaluation of the national currency, in particular, implies that the accumulation of

capital develops with an immanent limit. Specifically, more and more ground rent is needed to compensate for the growing gap between the productivity of labor put into action by industrial capitals operating on the restricted scale of the domestic market and the productivity of labor prevailing in the world market. In this way, these capitals expand when the mass of appropriable ground rent increases and they contract when it decreases. This contradiction explains the revitalization of the local industry with the so-called “commodity boom” and the crisis it entered when the prices of agrarian commodities fell. In turn, the movement of the capital lent at interest which constitutes the public debt is also tied to ground rent. Concretely, when the inflow of ground rent falls or stagnates, compromising the accumulation of capital, external debt is taken on, while when the inflow of ground rent increases, this debt is more than repaid. Politically, this dynamic of capital accumulation is driven by the alternation of populist and neoliberal governments. Thus, in the ascending phase of the inflow of ground rent, the populist government enables the increase in wages that accompanies the expansion of industry, the subsidy policies for “industrial development”, and the payment of the debt that “makes the country economically independent”, while in the descending phase of this inflow the neoliberal government appears and implements the “adjustment plans” necessary to “bring order to” the financial disarray left by the “populist squandering”, with a view to gaining access to international credit.

Let us look very schematically at the last decade. From 2013 onwards, the prices of agricultural commodities began to fall until they reached a new low in 2015. As a consequence, the ground rent that was appropriable by capital stagnated and began to decrease. The populist government, which, as literally stated by its president, had acted as a “serial payer” of foreign debt, could not access foreign credit without negotiating with the “vulture funds” and eventually returning to the “conditionalities” of the international credit agencies with which it had settled the debt a few years earlier in the name of the “economic independence of the country”. Without this access to foreign credit, the accumulation of capital entered into crisis and the government began a process of adjustment that it euphemistically called “fine tuning”. However, without ground rent to compensate for the limitations of scale, the more concentrated local capital didn’t just need foreign credit. It needed first and foremost a substantial fall in wages. In the 2015 elections, the same populist government presented a right-wing candidate who voiced this need. However, the openly neoliberal opposition candidate won and indeed the Macrista administration was characterized by a sharp fall in wages and indiscriminate foreign debt-taking. During the first two years, this stabilized the economy, but with ground rent falling and the inability to maintain the pace of indebtedness, the last years were of blatant crisis. Elector’s defeat brought populism back to the government, but this time it was a more conservative “coalition”. The Covid-19 pandemic plunged the economy into an even greater crisis, but its destiny was already sealed. Barring a new “commodity boom”, all that is left is to negotiate

the debt repayment and reach a new low in the level of wages and a new high in the size of the surplus population.

Conclusion

In this chapter, we have tried to argue that Argentina's most recent economic crisis is one more expression of the immanent limits entailed by the way this national economy functions as a qualitatively differentiated organ of the world unity of capital accumulation. Succinctly, it can be said that these limits are a consequence of three contradictions. First, while the production of agrarian commodities in the relatively favorable natural conditions that occur in Argentina implies the cheapening of the labor power consumed by capital in the so-called central countries, the purchase of these commodities implies a drain of surplus value from these countries to the Argentine landowning class in the form of ground rent. Second, while the capital from whose cycle this surplus value originally sprang is the true subject to whose end all social production is subsumed, it cannot recover this mass of ground rent in a simple and direct manner, particularly through taxation, without putting into question private property as the essential juridical form of the production of surplus value. Third, although the overvaluation of the national currency results in a veiled and indirect mechanism of ground rent appropriation that transcends the limitations of the tax regulations, it implies that the capital of the non-rentier sector must restrict its production to the domestic market, and the condition for its valorization is to compensate its higher costs with the appropriation of ground rent. Thus, as the gap between the productivity of labor required for the domestic market and the productivity prevailing in the world market expands, the influx of ground rent necessary to sustain the accumulation of capital in Argentina becomes ever greater. The result cannot be anything other than recurrent crises, the fall in wages, and the secular growth of the surplus population.

Recent research has shown that these contradictions are not exclusive to the Argentine national process of capital accumulation. The existence of a relevant mass of ground rent appropriated and redirected by the state through mechanisms that transcend direct tax regulations, thus determining an economic structure that limits the development of industrial capital to the domestic market or simply prevents it, has been reported at least in the cases of Brazil (Grinberg, 2016), Venezuela (Dachevsky et al., 2016), Uruguay (Oyhantçabal, 2019), and Bolivia (Mussi, 2019). These findings put the Argentine case in perspective as an expression of a regional phenomenon, and place on the agenda the need for a substantive revisiting of the traditional explanations of the economic structures of the Southern Cone countries, particularly those based on the so-called dependency theory. They also call for a rethinking of the limits and scope of fiscal policies in these countries, or, more precisely, the role of national states in the appropriation and distribution of wealth.

In this sense, it is evident that the destiny of the Argentine national process of capital accumulation is not disconnected from the destiny of its subcontinental neighbors. As happened in the early 2000s, a rise in the prices of agrarian and mining commodities could give a boost to the Argentine economy together with its neighboring economies in the regional political framework of a new “pink tide”. But, as also happened then, sooner or later the limits immanent to the specificity of these national processes of capital accumulation would impose themselves through new crises that would bring wages and the magnitude of the surplus population to an even more pressing level. Overcoming the Argentine crisis, therefore, cannot be achieved by pretending to find the right economic policy in a given international context, nor by forcing the government to apply policies that do not favor the most concentrated capital. On the contrary, the real way out of the crisis is to overcome the specific form that the Argentine economy takes as a national space within a subcontinent that is economically determined to be a producer of raw materials in the international division of labor. But, for that, the first step is to recognize this regional specificity.

Notes

- 1 This update, as well as part of the analysis that will be presented alongside this data, has been carried out in collaboration with the members of the group responsible for the PICT No. 2018-1601 research project, titled, “The Accumulation of Capital and Its Political and Ideological Forms in Present-Day Argentina: A Change in Model?”, directed by Dr. Guido Starosta.
- 2 The following section draws on Caligaris et al. (2022).

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12 Tax system and exchange rate in the appropriation of agrarian ground rent in Uruguay, 2000–2020

Gabriel Oyhantçabal Benelli

Introduction

Taxes are a classic instrument of surplus appropriation that allow the state to cover its operation costs and to redistribute income to other subjects through transfers and subsidies. However, in economies that, given their insertion in the international division of labor, appropriate ground rent due to exceptional natural conditions, non-fiscal instruments play a central role in surplus appropriation and redistribution. Accordingly, an analysis of ground rent flows and their forms of appropriation are key to understanding the characteristics of tax systems in countries that export primary goods.

This chapter puts forward a characterization of forms of fiscal and non-fiscal appropriation of agrarian ground rent based on a case study of Uruguay in the period 2000–2020. By studying a specific country, the chapter gives an account of how the appropriation of ground rent goes beyond the use of fiscal instruments; hence the need for an analysis of this phenomenon that allows for an understanding of the different mechanisms of surplus capture and distribution in an economy in all their complexity. In particular, a comparison will be made of the importance that tax and exchange rate mechanisms had on rent appropriation during this period.

The pertinence of the Uruguayan case, a small economy wedged between Brazil and Argentina, is the centrality that agricultural goods exports have had throughout its history (Finch, 2005) that has led to recurring cycles of ground rent appropriated by means of various fiscal and non-fiscal instruments (Oyhantçabal Benelli, 2019a; 2022; Narbondo, 2022).

Likewise, studying countries that export agricultural goods seeks to highlight the fact that the centrality of ground rent does not apply only to countries that export petroleum, where the relation between (oil) ground rent, forms of appropriation, capital accumulation, and the form of state is far more apparent (Bina, 1988; Mommer, 1990; Baptista, 1997). In contrast, this distinctive feature has attracted less attention in specialized literature on countries that export agrarian goods, perhaps with the exception of Argentina (Iñigo Carrera, 2007; Laclau, 1969; Rodríguez and Arceo, 2006). In Uruguay's case, while there are academic precedents that have addressed the centrality of agrarian rents around

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the mid-twentieth century (Messina Fernández and Oyhantçabal Benelli, 2021), its study has lost its central status in the last few decades, up until the publication of a series of studies that the author has participated in (Oyhantçabal Benelli, 2019a; 2019b; 2023; Oyhantçabal Benelli and Alonso, 2017).

In this chapter, ground rent is conceptualized following the ideas put forward by Marx (1993). Surplus, or surplus value, in Marx's terminology, makes up the portion of earnings appropriated by the owners of the means of production once production costs and salaries have been paid. It is divided into two major line items: the profit of the owners of capital and the ground rent of the (urban and rural) landowners. Together, both line items are objects of appropriation and dispute among the social subjects of an economy. However, the differential nature between ground rent on the one hand and profits on the other determine different forms and degrees of appropriation.

Taxes on profits are the way in which the state "charges" for goods and services (education, health, security, infrastructure, etc.) it delivers to guarantee the social reproduction of capital (Iñigo Carrera, 2008, pp. 109–110). In the case of profits, taxes can advance to the point of not affecting the normal profitability of capital. If it goes beyond this threshold, it affects its valuation and, as a result, the general reproduction of capital accumulation.

With ground rent, the situation is significantly different to profits. It represents an extraordinary income (above normal profits) generated in the economic sectors that use finite, heterogeneous, monopolizable, and non-reproducible natural conditions as means of production, which is the case with fertile land, water resources, mineral deposits, solar and hydraulic energy, etc. As David Ricardo would posit early on, in these sectors, the price of commodities is determined by the least fertile conditions,¹ which allows other capitals on more fertile land to appropriate extraordinary surplus value that, thanks to land ownership, is converted into ground rent appropriated by landowners.

The distinctive feature of ground rent as a special form of income, compared to profits, is that it reproduces a social class that plays no role in the production process (as opposed to workers and capitalists), placing states in the position partially or completely to seize it without crippling the rentier sector.

This is particularly noticeable in countries that are commodity exporters in the international division of labor. In these national spaces, the widespread presence of exceptional natural conditions raises labor productivity, which reduces the cost of commodities (supplies or wage goods), benefiting the importing country while implying a transfer of ground rent to the owners of these exceptional natural conditions.

As Iñigo Carrera (2007; 2008; 2017) first laid out, and other recent studies have extended to different commodity-exporting countries (Grinberg, 2011; 2021; Kornblihtt, 2015; Mussi, 2019; Oyhantçabal Benelli, 2019a), ground rent cycles and forms of appropriation are essential to understanding capital accumulation. In these countries, it is found that ground rent is fought over by landowners and other non-landowning social subjects who appropriate it by means of fiscal and non-fiscal instruments.

This chapter is organized in the following manner. After the introduction, the second section presents the principal characteristics of the Uruguayan tax system and analyzes the different taxes that over time have managed to capture ground rent. The third section presents the total magnitude of ground rent, differentiating between the part appropriated by landowners and the part appropriated by other non-landowning social subjects by means of fiscal and non-fiscal instruments.² In the fourth section, the political and economic consequences of the predominant forms of ground rent appropriation are discussed. The chapter closes with a brief conclusion.

Tax structure and capture of agrarian surplus value

The taxes levied on agrarian surplus value in Uruguay operate within the framework of the general tax system. Throughout the country's history, this system shows the preponderance of indirect taxes (on transactions) over direct taxes (on subjects' income). In the first decades of the twentieth century, a priority on indirect taxation of foreign commerce (primarily tariffs) gave way to indirect domestic taxation in the mid-twentieth century, with a particular focus on value added tax (VAT). In contrast, direct taxation tended to take second place in the tax structure, making up between 20% and 30% of tax collection in the twentieth century (Azar and Bertoni, 2007), although the 2007 tax reform led to an increase in its share to around 45% (Viñales, 2019).

The changes introduced by the 2007 reform made the tax system less regressive, insofar as indirect taxes on consumption like VAT tend to have regressive effects in terms of income distribution, since lower-income homes pay more in relative terms (De Rosa et al., 2010). However, a regressive tax structure persists given the high share of consumption taxes – which, depending on the year, is around 10 points higher than the OECD average (2021) – and the low share of direct taxes.

Out of these, setting aside social security contributions, taxes on personal income make up 20% of the total funds collected in 2019. These essentially cover personal income tax (PIT, or IRPF in its Uruguayan denomination), of which category II levies salaries at progressive rates of 10% to 36% and category I levies profits at fixed rates of 10.5% (buildings) and 12% (the rest of the assets). Corporate income tax (CIT, or IRAE in its Uruguayan denomination), for its part, makes up 14% of total tax collection. This is levied on business profits at a general rate of 25%, although between fiscal avoidance, evasion, and exoneration, the effective pressure comes close to 13% (see Figure 12.2). Finally, property taxes make up 11% of total tax collection.³

In terms of social class, this tax structure reveals that, while taxes on consumption and labor contribute 75% of tax collection, profits and ground rents only contribute 25%. Capital owners' contribution is clearly inferior to their share in the product, such that the operating surplus constituted 37.5% of GDP in 2016–2017 (BCU, 2022).

In this general framework, agrarian surpluses are taxed through general taxes on business and property earnings; however, there are a few special sectoral features. Notable among these are agrarian export taxes, which currently have marginal weight,⁴ and the existence of three tax subsystems depending on the size of the farm. Following the tax reform in 2007, farms with more than 1,250 hectares (of average productivity) or an annual turnover of over 450,000 dollars (according to 2022 figures), as well as all limited liability companies, pay CIT. In 2012, this tax only affected 12% of agrarian farms, but these farms represented over 50% of productive activities. Farms with an annual turnover of between 225,000 and 450,000 dollars can opt to pay a presumptive CIT (instead of the CIT) equivalent to 3.5% of their turnover. Farms with less than 1,250 hectares (of average productivity) and turnover under 225,000 dollars can pay taxes through the Tax on the Transfer of Agricultural and Livestock Assets (IMEBA, the acronym in Uruguay) instead of CIT, which is levied on gross production (not profits) at a percentage that varies depending on the product between 0.1% and 2%.

Compared to total tax collection in Uruguay, taxes on agrarian surplus value have marginal weight, making up an average of 0.5% of GDP in 2000–2020,⁵ while the rest of the taxes make up 24.4% of GDP (Figure 12.1). Likewise, while total tax collection increased both in absolute and relative terms, going from 22.5% of GDP in 2002 to nearly 28% in 2018, agricultural tax collection only rose in absolute terms, but in relative terms it remained at around 0.5%. This indicates that in the analyzed period, agrarian capitalists and landowners were not the ones responsible for contributions made following the rise in the fiscal burden.

However, the analysis of the relative weight of taxes on agrarian surplus value in relation to total taxation on profits and ground rent shows it was 13% in the 2000–2020 period, higher than the agricultural GVA share of the GDP in Uruguay, which was 7.3%. This greater tax burden on the agrarian sector is explained by the quantitative importance that taxes on property have in the

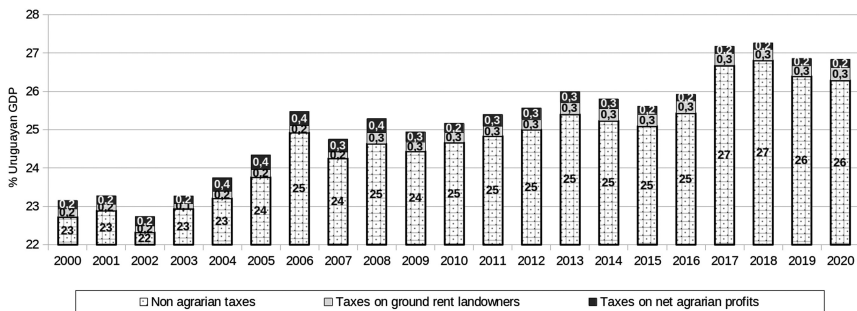


Figure 12.1 Agrarian and non-agrarian taxes' share of GDP in Uruguay (2000–2020). (Source: Agrarian taxes from Oyhançabal Benelli and Sanguinetti (2017; 2023); total taxes from the OECD (2021).)

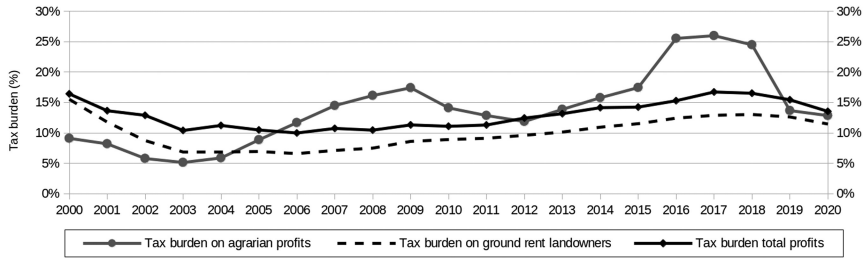


Figure 12.2 Effective tax burden (% , three-year average) on ground rent landowners, agrarian profits, and total profits in Uruguay (2000–2020). (Source: Oyhançabal Benelli and Sanguinetti (2017); Oyhançabal Benelli (2021); OCDE (2021).)

sector, which stems from the high share that ground rent has in agricultural added value, around 33% (Oyhançabal Benelli and Sanguinetti, 2017; 2023). The relative weight of taxes in respect to agrarian surplus value (profits and ground rent) shows that, while taxes on agrarian profits represented 8.5% of the taxes on business profits, in line with agriculture’s share in the GDP, taxes on agrarian property made up 21.8% of the property taxes.

Another aspect worth noting is that the effective tax burden of each line item, calculated as a ratio between tax collection and the magnitude of ground rents and profits appropriated in the agricultural sector (Figure 12.2), averaged 13.9% for profits and 10% for ground rents captured by landowners. To compare, the tax burden on all assets in Uruguay⁶ had an average of 12.9%. These figures indicate, on the one hand, that effective taxation on agrarian profits is far from the potential tax rate on profits, which was 30% up until 2007 and 25% since 2008 following the approval of the CIT. A possible explanation for this discrepancy is found in fiscal exoneration and tax evasion and avoidance. On the other hand, ground rent appropriated by landowners shows an average tax burden below that of agrarian and non-agrarian capital. The reason behind the differential performance of the fiscal burden on rents appropriated by landowners lies, as will be addressed in the following section, in the importance of non-fiscal instruments that allow other social subjects to appropriate agrarian ground rent.

Non-fiscal instruments for agrarian ground rent appropriation

As Caligaris expounds in this book, there are different forms of ground rent appropriation that vary depending on the historical context and the particularities of each type of commodity (Iñigo Carrera, 2017). These include state ownership of the natural means of production, direct taxation, and diverse instruments for indirect appropriation that operate when the state affects the aggregate value of ground rent bearing commodities. Their distinctive feature

is that they tend to disguise their content as a form of ground rent transfer from landowners to the rest of the economy.

The revenues of capitalists who produce primary goods are impinged by specific mechanisms of those instruments, and they compensate this loss by appropriating ground rent that would have gone to landowners to avoid bankruptcy. Thus, ground rent allows the state to advance on part of the primary sector's surplus value without affecting businesses' profit rate. The most transparent mechanism in this sense are export taxes, used in Uruguay in the 1960s and 1970s, which effectively are a special charge on capitalists who export certain goods. The advantage of this charge is that it allows for the direct collection of taxes, but, evidently, one sector of the economy suffers an excessive tax burden, violating the principal of fiscal equity (Caligaris, 2017). This is where other mechanisms could prove more politically effective.

A paradigmatic case of this is the overvaluation of the national currency in relation to the dollar (or another currency that operates as world currency) (Iñigo Carrera, 2017, p. 253). This mechanism implies that the nominal exchange rate (NER) expresses a magnitude less than the exchange rate parity (PPP), which expresses without distortions the same value quantity inwardly and outwardly of the economy. In other words, the national currency appreciates while the dollar depreciates. This situation negatively affects the export sector's revenue, inasmuch that when being exchanged at NER it translates into less national currency, which is compensated with ground rent. In contrast, overvaluation benefits those in the economy who buy cut-price dollars and in this way appropriate exporters' lost revenue.

In addition to export taxes and national currency overvaluation, other instruments that enable the indirect appropriation of ground rent are the cost reduction of exported goods consumed in the domestic market as an indirect effect of export taxes and currency overvaluation; the regulation of the domestic prices of goods below international prices; the reduction of land lease prices below the value of ground rent; and the domestic rise in prices of the means of production used in primary activity (Iñigo Carrera, 2017).⁷ There are also public policies like negative interest rates and domestic price subsidies that allow landowners to recuperate part of the lost ground rent (Grinberg, 2013).

In all these cases, non-landowners appropriate ground rent, which can serve to valorize individual capital or can end up in the hands of the state by means of secondary appropriation mechanisms. This is the case, for example, with import tariffs when the import prices are lowered by an overvalued currency, with the general taxation of profits in sectors that capture ground rent thanks to indirect appropriation mechanisms, and with extraordinary taxes on the consumption of cheapened imported goods.

In Uruguay's case, a significant part of agrarian ground rent is appropriated by other non-landowning social subjects by means of various public policies that have changed over the course of the 1955–2019 period (Oyhantçabal Benelli, 2019a; 2022). The main forms of indirect appropriation of agrarian ground rent include the overvaluation of the Uruguayan peso, cost reductions

of export goods consumed in the domestic market, and the regulation of domestic prices for agrarian goods and land lease. At the same time, lending policies with negative interest rates, debt forgiveness, and circumstantial domestic price fixing above international prices function as one-time ground rent recuperation mechanisms for landowners.⁸

In this period, agrarian ground rent charted recurring boom–bust cycles which had a direct impact on economic cycles insofar as it affected the magnitude of surplus value available for the valorization of individual capital. Over this period, agrarian ground rent made up 18% of appropriated surplus value in the economy, albeit with fluctuations ranging from negative values to over 50%.

As is shown in Figure 12.3 and discussed in detail in another text (Oyhançabal Benelli, 2022), agrarian ground rent appropriated by other subjects⁹ highly correlated with GDP cycles insofar as it operated as a special source of surplus value that drove capital accumulation. As the figure shows, four periods can be distinguished: two of high economic growth and two of relative stagnation. The first two (1973–1981, 2004–2019) are directly associated with the increase in ground rent appropriated by other subjects, while the last two (1955–1972, 1982–2004) show a sharp fall in the appropriation of agrarian ground rent by other subjects.

The first decades of the twenty-first century reflect both significant growth in agrarian ground rent as well as the importance that non-fiscal instruments had in its appropriation (Figure 12.4).

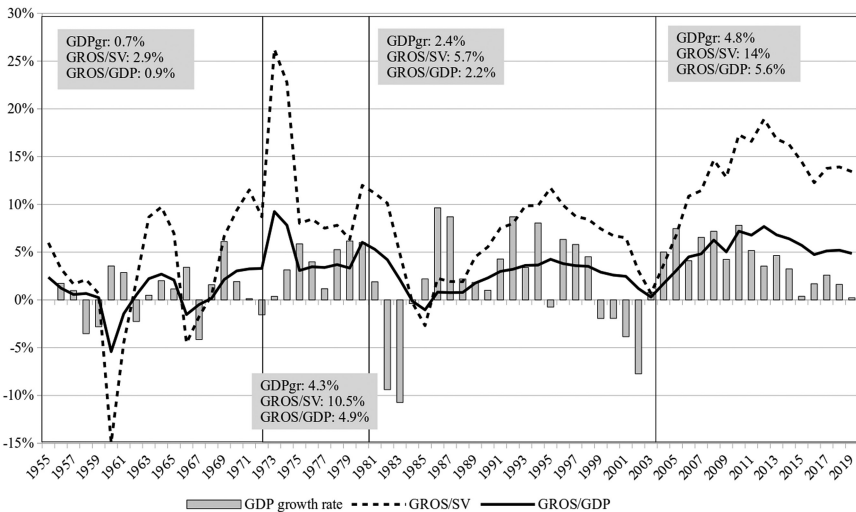


Figure 12.3 Share (%) of agrarian ground rent appropriated by other non-landowning subjects (GROS) of total surplus value (SV) and gross domestic product (GDP), and GDP growth rate (1955–2019).

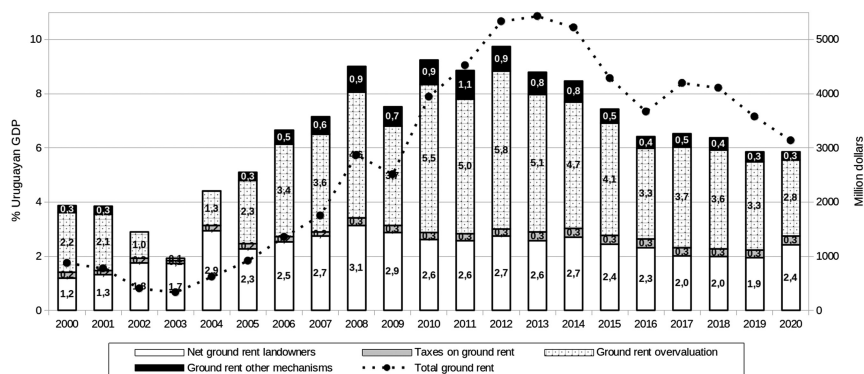


Figure 12.4 Agrarian ground rent in millions of dollars (right axis) and as share of GDP (left axis) by form of appropriation (2000–2020). (Source: Oyhançabal Benelli and Sanguinetti (2017); Oyhançabal Benelli (2019a; 2023).)

The figure demonstrates that total agrarian ground rent grew significantly between 2003 and 2013, climbing from 500 million to 5,500 million dollars and from 2% to nearly 10% of GDP, which was followed by an absolute and relative crash in 2013–2020. The boom and subsequent bust of agrarian ground rent was directly related to the last commodity price supercycle (Ocampo, 2017), which in Uruguay manifested itself in soybean expansion and forestation for pulp, and in the growth of livestock productivity. This rentier cycle, which demonstrated the ongoing importance of agrarian ground rent for the economy as a whole, enabled the roll-out of the Uruguayan version of the “pink-tide governments” (2005–2020), which took advantage of the agrarian ground rent boom to promote the expansion of real wages and public spending, in stark contrast with the neoliberal policies of the 1985–2004 period (Oyhançabal Benelli, 2019b).

Second, the figure shows that agrarian ground rent was a far cry away from being appropriated solely by the landowning class. During the 2000–2020 period, while landowners appropriated only 34% of total agrarian rent, other social subjects appropriated 66%. Like in other periods in Uruguayan history, currency overvaluation was the main mechanism for agrarian ground rent appropriation by non-landowners, making up 54% of total agrarian ground rent. Other alternatives to fiscal and exchange mechanisms followed in importance, with a share of 8% of total agrarian ground rent. Among these methods, the price lowering of exportable agrarian goods for domestic consumption stands out, reflecting an indirect effect on the overvaluation of the peso. Finally, taxes on rents initially appropriated by landowners and on exports add up to only 4% of total ground rent.

If the different forms of rent appropriation are analyzed as a share of Uruguayan GDP, ground rent appropriated by other subjects through currency

overvaluation amounts to an average of 3.4% during these years, exceeding the share held by landowners, who captured a portion equivalent to 2.3%, and far outpacing taxes, which took in only 0.2%. These figures provide a crystal-clear illustration of the marginal position of fiscal instruments in ground rent capture, while simultaneously they show the privileged position of non-fiscal instruments in the contest over ground rent. Likewise, the pressure exerted by these mechanisms on total ground rent (appropriated by landowners and other social subjects) is far greater than the tax burden on the economy's total surplus (see Figure 12.2), which is explained by the confiscable nature of ground rent and which reproduces a social class that has no productive function, as opposed to profit.

A third aspect worth noting are the fluctuations in the forms of ground rent appropriation. These indicate that while ground rent appropriated by landowners is largely stable, ranging between 1.2% and 2.8% of GDP, ground rent appropriated by other subjects registers large fluctuations, rising from 0.1% of GDP in 2003 to 7% of GDP in 2013.

Taxes, peso overvaluation, and the social subjects of appropriation of agrarian ground rent

The analysis presented in the previous section demonstrates that the main form in which other subjects appropriated agrarian ground rent was through access to cut-price dollars due to the recurrent overvaluation of the Uruguayan peso. In contrast, other mechanisms, like taxes, which would have allowed for a more purposive use of agrarian ground rent, played a marginal role. This feature of the Uruguayan economy, which dates back at least to the mid-twentieth century, has several consequences that are worth noting.

First, it demonstrates that cycles of overvaluation and undervaluation of the Uruguayan peso are a prime indicator of ground rent cycles and forms of appropriation, revealing when it is being appropriated primarily by landowners (when there is exchange rate parity), or, conversely, when it is flowing towards other social subjects (when the nominal exchange rate is overvalued). This feature is not exclusive to Uruguay, as recent literature on capital accumulation in national spaces that export primary goods demonstrates (Grinberg, 2013; 2021; Iñigo Carrera, 2007; Kornblihtt, 2015; Mussi, 2019; Rivas Castro and Kornblihtt, 2022).

Second, as my research on the 1955–2019 period shows (Oyhançabal Benelli, 2022), this form of ground rent appropriation has existed under a variety of different types of governments. These range from governments with a reformist/progressive bent that promoted ground rent distribution policies to diversify the economy and improve wage levels (1943–1958, 2005–2020) to governments that implemented structural adjustment programs like the civilian–military dictatorship (1973–1985) and the neoliberal democratic governments (1985–2004).

Third, the predominance of overvaluation has severe effects on the cycles of capital accumulation that amplify the economy's boom–bust cycles (Oyhantçabal Benelli, 2022). On the one hand, overvaluation has the potential to lower the costs of importing technological goods, driving capital formation and productivity growth. At the same time, cut-price dollars reduce the cost of external borrowing, enabling public spending growth and, by the same token, reducing the cost of imported wage goods and allowing increases in real wages.

As Iñigo Carrera (1999; 2018) discovered in Argentina, however, the main consequence of currency overvaluation is that it closes off possibilities for diversifying the production matrix and reproduces a position based on primary goods exportation in the international division of labor. Unless there are compensatory means, overvaluation involves a general reduction in commodity prices when it “crosses borders”. On the one hand, this imposes a limit on productivity growth in the primary sector, since the last (less productive) capital investments fall below the sector's regulating production price which covers costs and normal profits. This thus puts this capital at a disadvantage in comparison to capital from other countries where the currency does not tend towards overvaluation and/or primary exports are taxed. The relative evolution of agrarian labor's productivity in Argentina and Uruguay in comparison to the United States during the 1910–2020 period clearly reflects this disadvantage. While productivity increased ninefold and tenfold respectively for the former countries, in the United States it increased thirty-fivefold.¹⁰

On the other hand, currency overvaluation limits the sectors of the economy without the prospect of ground rent to reproduce in the domestic market, because they cannot compensate for the disadvantage that overvalued currency entails. This concerns practically all capital in non-primary sectors. This last distinctive feature has also been highlighted by *neo-developmentalism*, which proposes a Dutch disease model where Ricardian rent appropriation triggers a chronic overvaluation of the exchange rate, which, as a general trend, prevents the industrial sector from competing on the world market utilizing the latest technological innovations (Bresser-Pereira, 2008; 2020).

Fourth, currency overvaluation means that, in conjunction with free access to purchasing dollars that has been in force since the 1970s, ground rent is appropriated by all those who have access to cut-price dollars. This includes capital that imports technology, sends profits, and saves dollars in the form of deposits abroad, but also different segments of the population (working and non-working) that benefit from the reduced cost of consumption of imported goods, as well as the state itself that increases its capacity for external indebtedness. This wide array of subjects that benefit from the reproduction of a form of capital accumulation that allocates ground rent through the recurring overvaluation of the national currency shows that there is a series of vested interests that block the possibility of altering forms of ground rent appropriation. The problem lies in that this form of ground rent appropriation applies indiscriminately to any subject that buys dollars, limiting the possibilities of implementing alternative mechanisms like state ownership of the means

of production or direct taxation that would allow for the centralization of ground rent in the hands of the state in order for it to be used as a sovereign wealth fund.

As laid out above, the difficulties of using taxes for ground rent capture lie in that they entail a *differential appropriation* of surplus value that is only paid by the affected sectors, violating the fiscal equity principle that capitalists demand (Caligaris, 2017). This occurs when landowners are directly taxed in the form of specific ground rent taxes, or when primary good exports are taxed (and landowners and ground rent transitively). This is where the advantage of currency overvaluation lies, which, as the Uruguayan case demonstrates, does not appear as a specific tax that allows the state to “seize” ground rent, but rather as the result of “market forces” unconnected to the state, which obscures its nature of a mechanism for appropriating agrarian rent.

It should be mentioned that landowners tend to point out the problems caused by currency overvaluation, which is usually presented as an “exchange rate delay” (Pereira, 2006) and has repeatedly served as a platform of their demands (Piñeiro, 2004), given that they are aware of the damage that this cut-price exchange rate does. However, they do not realize that this implies a form of ground rent transfer to the rest of the economy. Likewise, even with openly pro-business governments that enjoy social support from rural landowners, the overvaluation of the Uruguayan peso was repeatedly resorted to (in 1968–1971, 1978–1982, and 1992–2001, for example) as a mechanism for ground rent appropriation. This specific feature has also been noted in the case of Argentina (Caligaris and Pérez Trento, 2018).

Conclusion

This chapter has addressed the importance of fiscal and non-fiscal instruments in agrarian ground rent appropriation in Uruguay between 2000 and 2020. The Uruguayan case highlights at least three main features.

First, the importance of ground rent and its forms of appropriation for understanding the general characteristics of its economy and, in particular, its tax system. The analysis demonstrates that agrarian ground rent is a value flow that is contested among landowners and various social subjects by means of fiscal and non-fiscal instruments, whose specific forms of appropriation change over time and also have important consequences for capital accumulation.

Second, the issue of rent and rent-seeking, that is of growing interest in academic literature, also applies to countries economically based on agricultural production and not just to oil- and gas-exporting countries. While there are special features linked to the markets for each commodity that differentiate national economies based on agriculture from those based on oil, the production and exportation of agricultural and livestock goods determine the appropriation of extraordinary surplus value flows, namely ground rent, which results from the use of finite, heterogeneous, and non-reproducible natural conditions.

Third, the importance of non-fiscal instruments as central mechanisms for ground rent appropriation, with particular prominence of the overvaluation of the national currency to the detriment of taxes, which had marginal weight in the 2000–2020 period. The Uruguayan case shows that exchange rate mechanisms take on central importance when private land ownership and the fiscal equity principle limit ground rent appropriation by other social subjects through fiscal instruments. The main virtue of the exchange rate is that, unlike extraordinary taxes on ground rent, it does not explicitly appear as surplus value seizure.

This instrument of ground rent appropriation through access to cut-rate dollars has important consequences. It is less efficient than taxes when it comes to the allocation of agrarian rent, given that while taxes allow the state to plan how this surplus share is used, overvaluation allows any social subject to appropriate ground rent with the purchase of cut-rate dollars. This reproduces a social fabric that is sustained through access to cheap dollars and which implies a social and political barrier to the possibility of altering the form of ground rent capture. This is particularly relevant since, as it has been argued throughout, currency overvaluation prevents countries from moving beyond a position in the international division of labor that is based on the exportation of primary goods.

In any case, it is worth emphasizing that the problems that recurrent currency overvaluation cause are not overcome by simply substituting them with taxes on exports. Such taxes involve political constraints that result from opposition from the landowning class (Bresser-Pereira, 2020) and economic constraints, since, like overvaluation, they curb productivity increases in the primary sector by making more capital-intensive investments non-viable (Iñigo Carrera, 1999).

This calls for alternative mechanisms of ground rent appropriation to be put forward, like public natural resource ownership or the levying of high direct taxes on this property, which enables the state to directly capture ground rent without the damaging effects from both fiscal and non-fiscal instruments. Clearly none of these proposals is immune to political contestation that entails discussions of private property and income and wealth distribution in a capitalist economy.

As part of a future agenda, the Uruguayan case raises the question of the importance that non-fiscal instruments have for ground rent appropriation in other economies, particularly where international insertion is based on primary good exports. An in-depth study of this issue, which constitutes part of an interesting research agenda that has specific methodologies available for its evaluation (Grinberg, 2013; 2021; Iñigo Carrera, 2007; Kornblihtt, 2015; Mussi, 2019; Rivas Castro and Kornblihtt, 2022), would allow for comparative studies to facilitate a more detailed understanding of how ground rent flows and its different forms of appropriation affect different aspects, ranging from institutional models of tax systems and inequalities between individuals

and social groups to the central features of capital accumulation and social and political conflicts in each country.

Notes

- 1 This is what Marx (1993) conceptualized as *differential rent*, and its function is to guarantee that even capital producing on less productive soils receives average gains. Additionally, he identified the *absolute rent* that derives from land's monopolizable nature, which limits competition from new capital, as well as the *simple monopoly rent*, which results from market price fixing above production costs. For further information, see Iñigo Carrera (2017).
- 2 Sources, methodology, and the series of agrarian ground rents can be found in Oyhançabal Benelli (2019a; 2021; 2022).
- 3 These include the wealth tax, property transaction tax, real estate tax (rural and urban), and the primary tax on urban and rural real estates, which is used to feed children in public schools.
- 4 Ever since 2004, by law, agrarian export taxes can only be collected on exports of unprocessed animal hides, despite the fact that in the 1960s and 1970s they constituted the principal mechanism for agrarian ground rent appropriation (Oyhançabal Benelli, 2022). Agrarian export taxes were introduced in 1959 through variable rate drawdowns of between 5% and 50% on the Free On Board (FOB) price of livestock goods exports (meats, hides, and wool). In 1968, this was modified with the approval of tax retentions on wool exports at a rate of between 1.5% and 4%.
- 5 Between 2000 and 2020, hand in hand with the last commodity boom, tax collection on profits and ground rent went from 100 million up to around 300 million dollars. From this total, taxes on ground rent went from making up an average of less than 40% to an average of 60% by the end of the 2020s. Among the taxes on ground rent that followed the 2007 tax reform, the real estate contribution and the PIT on land leases are noteworthy, while among taxes that affect profits, the IMEBA stands out, followed by the CIT (Oyhançabal Benelli and Sanguinetti, 2017; 2023).
- 6 Calculated as the sum of CIT, category I PIT (IRPF on personal profits), and wealth tax on legal entities (OCDE, 2021) over total profits minus landowners' ground rent; calculated by Oyhançabal Benelli (2021).
- 7 For more information on how each of these mechanisms operates, see Iñigo Carrega (2017, chap. 14).
- 8 There are still no definitive estimates for the 1870–1954 period. However, current research carried out by the author of this text and Ignacio Narbondo (2022) indicates that agrarian ground rent was appropriated by private landowners and other social subjects by means of currency overvaluation.
- 9 During this historical period, forms of non-landowners' appropriation of agrarian ground rent were also changing. From 1955 to 1972, a period of economic stagnation and social crisis, the form of ground rent appropriation transformed from a system of multiple exchange rates (up until 1958) to the utilization of taxation mechanisms. In the 1970s, agrarian export taxes converged with the overvaluation of the Uruguayan peso in a context of very low international credit rates and the deregulation of the national financial market that was advanced by the civilian–military dictatorship (1973–1985). The 1980s was marked by the mega-devaluation of 1982 that practically eliminated ground rent appropriation by other subjects for the rest of the decade and triggered a severe economic crisis. This situation reversed course in the 1990s, with a new cycle of overvaluation of the Uruguayan peso that lasted from 1991 to 2002 in the context of the newly created MERCOSUR (Oyhançabal Benelli, 2019a; 2022).
- 10 Data for Argentina and the United States from Iñigo Carrera (2018); data for Uruguay from Oyhançabal Benelli (2019a).

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Part III

New perspectives on political economy and tax regimes



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13 Raw materials, tax reforms, and sustainable development: lessons from Latin America

Hans-Jürgen Burchardt

The coronavirus pandemic has thrown Latin America back several decades. Ensuring political and economic stability and social equity will now require the mobilization of vast resources. This can only succeed through a collective societal effort. One plausible measure would be to demand that the richest 10% of the region's population – who were able to retain and often even increase their wealth during the pandemic – contribute their fair share as well. Tax reforms that evenly spread the burden of the crisis to all of society's shoulders would appear to be the order of the day.

And yet, political and economic actors and decision-makers are already pinning their hopes on a different option. Given the decarbonization of the world economy and the war in Ukraine, the ongoing reconfiguration of the global appetite for raw materials will likely prompt a massive rise in the demand for “green” resources, which the region is well-equipped to meet: Latin America is the site of around one-third of global copper, bauxite, silver, coal, and oil deposits, and possesses, in total, more than a third of those minerals that leading industrial nations consider strategic economic goods for achieving the transition towards net-zero economies. It also produces a significant share of global food staples. The sub-continent is a global leader in the production of energy crops for biofuels, in the mining of lithium sought by manufacturers of batteries used in electric engines, and in the storage of CO₂ in forests. Moreover, it is provided with favorable conditions for the production of green hydrogen.

Hence, we may well see the renewing of a development model geared towards the export of natural resources and raw materials, such as has already dominated the region over the past two decades. Only this time the strategy is to be guided by sustainability requirements and serve as a transmission belt driving social-ecological transformation. There are ongoing preparations for a new phase of raw materials exploitation under the banner of “green extractivism”, a model in which the use of eco-friendly high-tech, the creation of “green jobs”,¹ and climate-friendly resource-extraction methods supposedly reconcile the extraction and valorization of natural resources with the principles of sustainable development and the goal of a “low-carbon” future for all (with regard to lithium, see Voskoboynik and Andreucci, 2021).

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In order to assess the prospects of such a development model, it seems advisable to start off with an analysis of the most recent boom phase in the region's natural resource sectors (2003–2014). During this period, progressive governments in particular sought to reduce poverty and glaring social inequality by resorting to development strategies based on the export of raw materials. The following discussion starts off with an outline of some of the key characteristics of this boom phase. This is followed by an analysis, based on labor relations and tax systems, of the outcome of reform efforts during this period. Further, it identifies the prerequisites for a natural resource exporting development model to accommodate the requirements of a social–ecological transformation towards greater social cohesion and sustainable development.

Raw materials and development in Latin America

During the period from 2003 to 2014, Latin America saw high levels of almost uninterrupted robust economic growth. This growth rested to a considerable extent on the same footing that has provided economic prosperity to the sub-continent in the past: namely, the extraction and export of natural resources and raw materials.² Essentially, the beginnings of this economic model in Latin America date back to the pillage of precious metals and colonial oppression of the Indigenous population 500 years ago. “Extractivism”,³ however, did not become the dominant societal model until the second half of the nineteenth century,⁴ a period in which the determinants of development took shape that underly the state and society still to this day. First, the “export of nature” (Coronil, 2008, p. 43), i.e., a relationship with nature primarily motivated by exploitation and valorization interests. Second, natural resource-based development strategies, and thus a critical dependence on the development of commodity prices on global markets. And, third, as consolidated over the course of this “modern globalisation” (Bayly, 2004), the structural entrenchment of the particularly high rates of inequality across the region (Williamson, 2015).

At the heart of the most recent boom phase of this extractivism were sectors such as mining and fossil energy resources (oil, gas, coal), but also agricultural and forestry goods from monocultural farming like soybean, rubber, sugarcane, and palm oil (Burchardt and Dietz, 2014). The growing demand for natural resources and the corresponding rise in commodity prices quickly swelled state coffers across almost the entire region.⁵

This dynamic was not only flanked by macro-economic equilibriums and low inflation rates, but also by expansive social and labor policies, which helped mitigate the social question in a region with the highest levels of inequality worldwide. As a result, by the mid-2010s, poverty rates in most Latin American countries fell to the lowest levels in two decades: on average, “only” one-third of the population lived in poverty. In addition, there was a broadening of the middle classes – who constituted around 20 million people in Brazil alone – and clear indicators of upward social mobility. At the same time, the share of gross domestic product (GDP) dedicated to social spending rose

significantly in many countries (Blofield and Filgueira, 2020; CEPAL, 2012b; ILO, 2013). Furthermore, a series of initiatives were implemented to improve the situation on Latin America's highly disparate labor markets – which, given their high levels of informal work, have been described as “factories of inequality” (CEPAL, 2012c, p. 225) – resulting in a reduction of officially registered unemployment by almost half (ILO, 2013).

Besides, Latin America's democracies turned out relatively stable. Contrary to all prophecies of doom, democratic conditions were consolidated in most of the region's countries, complete with real political competition and alternating governments and political elites. By and large, the governments of the so-called “*pink tide*” (Ellner, 2019) enjoyed broad political support throughout society.

This blend of economic success stories, social improvements, stable democracy, and strong socio-political legitimacy marked a significant stage in the two-centuries-old history of Latin American independence. Ever since independence, the state has undergone a remarkable reappreciation, and its activities in terms of economic, social, and structural policies have been vastly expanded. The following analysis of the rise, success, and subsequent failure of this extractivism should help illuminate the potential and the risks inherent in the natural resource-based development model and allow for an assessment of extraction-based economies' capacity for transformation.

From raw materials to labor

During the latest boom in natural resources, most Latin American governments regarded extractivism as a temporary strategy to mobilize the necessary funds for establishing a solid economic base and dealing with the social question. Irrespective of differing paradigms or political camps, the ultimate aim of development was substantiated with such concepts as “productivity increase”, diversification, or “integrative growth” (ILO, 2013; World Bank, 2012).

These kind of concepts and strategies are always linked to the question of the organization of work (ILO, 2012). It therefore needs to be established to what extent Latin America's natural resource exporting development model has managed over the past two decades to generate high-quality employment by ensuring adequate professional training and reliable social security, thereby increasing labor productivity and preparing the ground for a productive and sustainable economy. For this purpose, it appears conducive to analyze the region's labor regimes with a view to three indicators: (1) sectoral and structural shifts in employment; (2) the embedding of labor relations in social security policies; and (3) productivity development and, linked to this, the contribution of labor to the aggregate value added. In the following, several important macro-trends concerning these aspects will be outlined.

With regard to sectoral and structural shifts in employment, total employment in the primary sector (natural resource extraction) in Latin America decreased by more than 3% during the most recent boom phase, despite the sector's overall economic ascent. Extraction-centered economies frequently

constitute economic enclaves, requiring either only a relatively small number of staff and/or generating very few formal labor tasks. Generally, extractive activities are capital intensive and provide employment for only a very small proportion of the labor force (Ericsson and Löf, 2018). The share of jobs in the manufacturing sector (slightly above 20%) and public services (at about 11%) in the region's total employment has hardly changed. The industrial sector's employment figures therefore indicate neither deindustrialization nor any substantial participation of wage earners in the boom. The reality that public employment did not grow during these years owes, among other things, to the fact that in Latin America many central services and infrastructural facilities are often provided in a privately controlled – and frequently informal (especially household and domestic work) – fashion, which is why this labor is largely assigned to the tertiary sector in official statistics. By and large, then, the employment effects of the most recent boom period in Latin America primarily made themselves felt in the – predominantly informal – tertiary sector, which comprised almost two-thirds of the entire labor force (ILO, 2013; CEPAL, 2022).

With a view to the embedding of labor relations in social security policies, there are only very few signs of change in Latin America's traditional patterns of "exclusive social policy". Measured by the expended resources, there was a prevailing restoration of previous modes of social security provisions that follow the Bismarckian logic of tying insurance status to formal (privileged) occupational status and are marked by strongly regressive effects regarding their redistributive potential (Filgueira et al., 2011; World Bank, 2012): most social security provisions are available primarily to those in formal employment and to workers and income groups who already enjoy a degree of social protection as it is, while the poorest fifth of the population received only a meagre 10% of all social transfers even during the boom period.⁶ Other social groups – better resourced and/or powerful enough to assert their vetoes – continue to enjoy the lion's share of social security provisions, whereas less influential groups and strata are mainly supported through what are referred to as "assistentialist" policies.⁷ Demands for the codification of an effective and broadly applicable provision of social security as a universal social right (Barrientos, 2013) were only very rarely accommodated and implemented in the region. Land reforms, a key measure for Latin America as a region with an extremely high concentration of land, to help the fragmented economy and society to become more resilient and cohesive, were not introduced either. On the whole, there was no significant reduction of the traditionally large proportion of informal labor during the boom phase; in some instances, lower-income groups' access to social security systems was restricted even further (CEPAL, 2011). Given that assistentialist services were funded not through tax revenues but primarily via additional commodity export revenues, they remained highly dependent on world market prices and vulnerable to crisis impacts (Borges, 2018).

The absence of efforts to universalize social security policies and (through professional training opportunities and social security protection) to create

high-quality working conditions had a direct impact on labor productivity. Studies investigating the development of the productivity of labor hence suggest a conservation of the region's status quo: irrespective of a few labor policy measures over the past ten years – particularly the introduction and regular increase of a minimum wage – Latin American economies continue to be marked by extreme *structural heterogeneity*.⁸ This pertains both to the productivity of labor and to the employment structure itself. The extractive sector is marked by particularly high levels of labor productivity, albeit in the absence of any gradual alignment with the productivity levels of other sectors.

Figure 13.1 illustrates that mining operations in particular show labor productivity levels that exceed average aggregate productivity more than twelvefold. It appears that there is no alignment mechanism in the region to interconnect the distinct economic sectors. The structure of the labor market corroborates this finding while highlighting, moreover, that the creation of backward and forward links between different economic sectors failed. In this sense, a small segment of the workforce enjoying high levels of social security and occupying an important economic status contrasts with a partially regulated middle segment of small enterprises employing a large number of workers in the informal economy whose contribution to the national aggregate value added is regarded as negligible (see Figure 13.2). This becomes clearer when we correlate the size of enterprises and their staff numbers with their corresponding share in regional GDP: the first segment employed 19.8% of the total workforce, mostly in businesses with more than 200 staff and generated

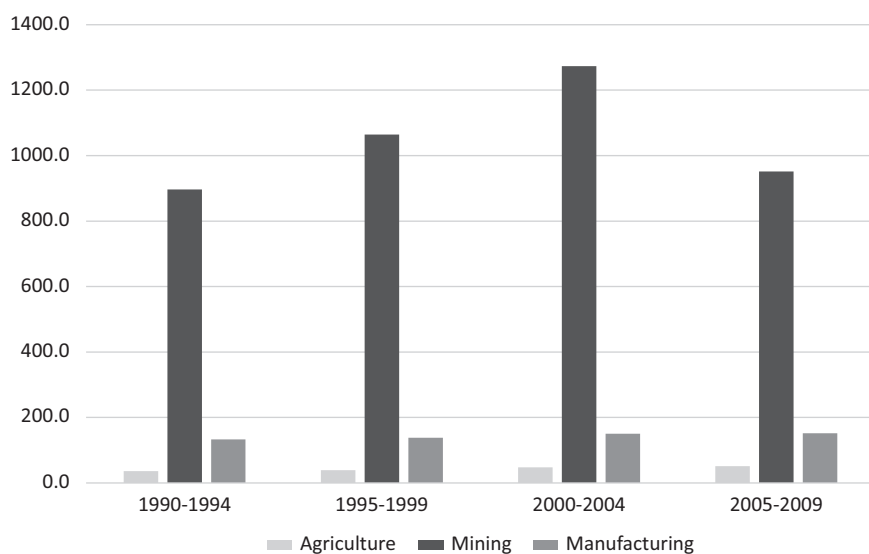


Figure 13.1 Sectoral labour productivity as share of total average labour productivity in Latin America (1990–2009). (Source: Author's own elaboration based on the Economic Transformation Database (ETD) (De Vries et al., 2021).)

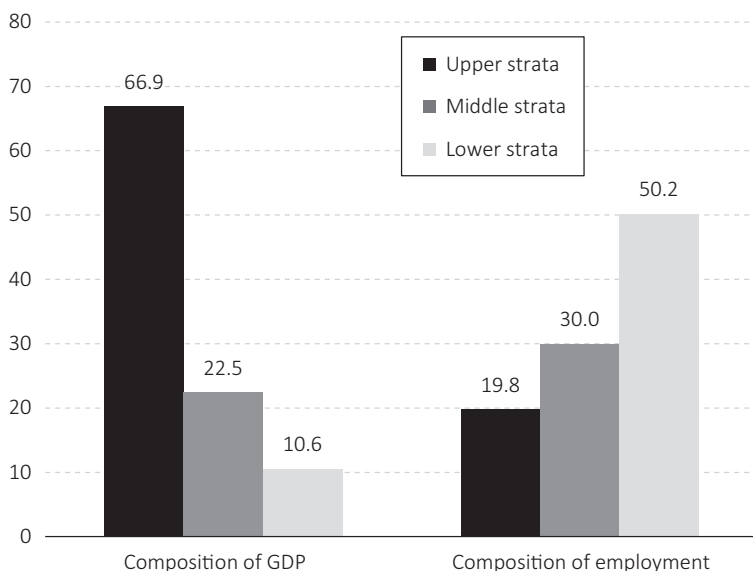


Figure 13.2 Latin America (18 countries): indicators of structural heterogeneity (in %), around 2009. (Source: CEPAL, 2011, p. 110.)

some 66.9% of GDP. The second segment comprised medium-sized or small enterprises, which accounted for 30% of the total workforce and a 22.5% share of GDP. Around half of the economically active population in Latin America, however, was employed in the third segment, which generated less than 11% of GDP. Per-capita productivity in the most productive segment is more than 16 times higher than in the low-productivity segment (CEPAL, 2011, pp. 110ff.).

This fragmentation of the labor markets, with their high proportion of informal work, was only very tentatively addressed during the boom years and remains a structural characteristic of Latin American societies: today, the figure for informal work in the region quite consistently hovers around 50% of the working population; this corresponds to more than 160 million people; the majority of them are young people, women, and members of ethnic minorities (ILO, 2020).

Latin America's traditionally highly disparate labor markets, with their low productivity, in turn complicated or even prevented the productivity increases targeted during the "pink tide". Several indicators illustrate this: if the international average value for *employment elasticity* – in which high elasticity is an expression of labor-intensive production and low labor productivity – was at an average of 0.32–0.37 points during the boom period, the figure for Latin America was almost double. For three decades, it had hovered around 0.6 points, and it showed little improvement even during the boom phase (ILO, 2013, p.

25). The regional increase in production, then, was not primarily achieved through high-quality labor, but through the expansion of labor-intensive tasks:

the region made some progress between 2002 and 2010, with labour productivity rising at the rate of 1.5% a year. But this progress falls short of that seen in other regions such as Sub-Saharan Africa (2.1%) and, above all, East Asia (8.3%, not counting Japan and the Republic of Korea). Moreover, in many of the countries of the region these gains have not been distributed equitably.

(ECLAC and ILO, 2012, p. 2)

In other words: what was being created, more than anything, was employment without productivity.

The same tendency can be observed in the development of the wage-to-GDP ratio, which, according to various calculations, decreased in 13 countries during the boom period; the calculated wage-to-GDP ratios ranged from 23% to 48% and plateaued at 40% in the region as a whole.⁹ By comparison, during the same period, the OECD countries maintained an average wage-to-GDP ratio of more than 50% (ILO, 2012, p. 40). It is commonly assumed that a decreasing wage-to-GDP ratio entails a diminished participation of wage earners in the aggregate value added and, consequently, growing income inequality. Paradoxically, however, the reality in Latin America during the last decade was the opposite: not only did the wage-to-GDP ratio decrease, but so, too, did the Gini coefficient and thus the degree of income inequality that it measures. Various studies account for this contradiction with reference to an empirically verifiable reduction of inequality inside the wage structure itself (ILO, 2013): the discrepancies between high and low incomes decrease, albeit *within* the (shrinking) share of the region's total wage bill. And, indeed, income inequality in Latin America decreased. However, both investments and employment effects during the natural resource boom still indicated a continuing concentration on low-skilled and non-tradable services; moreover, this was accompanied by the devaluation of higher professional skills and qualifications (CEPAL, 2013, pp. 136ff.). In other words, the growing harmonization of wages was achieved through the expansion of low-skilled labor and the simultaneous devaluation of formal professional levels and certificates.

Considering this dynamic and the fact that Latin America's average employment ratio in the service sector (65%) was already markedly above the corresponding international average, the World Bank came to the following, somewhat distressing, conclusion:

what is normally considered to be a positive development – the decreasing inequality in labor earnings – may hide a worrisome trend, namely, a tendency towards specialization in low-skill, low-productivity non-tradable sectors.

(World Bank, 2012, p. 39)

Although earnings from wage-labor did increase in lower-income sectors, the wage bill as a whole did not. In spite of their positive employment effects, then, the labor policies of progressive governments also entailed a tendency towards the devaluation of formal employment (e.g., in Brazil and Chile) or (concealed) informalization. The economic differences between workers decreased, albeit without any simultaneous improvement of their socio-economic position within the economic system as a whole.

Regardless of the various efforts that were indeed undertaken, during the latest natural resource boom in the region the implementation of structural changes to longstanding labor regimes failed to materialize. The extent of informal work hardly decreased, and nor was the heterogeneity of the distinct labor markets tackled, as it continued to generate high levels of inequality without providing meaningful impulses towards advances in productivity. The reduction in income inequality across the region resulted, to a great extent, from the expansion of an inadequately trained and poorly socially protected sector of low-skilled labor. The resources mobilized to provide for this sector, in turn, relied not on redistributive or, in particular, tax policies, nor on productivity gains, but largely on the growth in revenues from natural resource exports.

Thus, during the most recent boom phase of the export-oriented development model, the desired productivity increased and, consequently, economic diversification failed to materialize.¹⁰ Instead, there was a trend towards the weakening of productive sectors in favor of low-skilled, non-tradable services in the tertiary sector. This will entail further productivity losses in the mid-term and heighten the dependence of the region's economies on natural resource exports and world market prices even more in the future.

One [labour demand force] that is very relevant for LAC [Latin America and the Caribbean] is given by the changes in the sectoral structure of the economy possibly driven by Dutch disease-type effects associated with the commodity price bonanza, whereby productive resources tend to be shifted away from non-commodity tradables and towards non-tradables.¹¹

(World Bank, 2012, p. 31)

From this emerges a straightforward initial finding: although new social and labor policies did reduce the social vulnerability of certain parts of the population during the boom period, there remained high entry barriers to the formal, socially protected labor market, which, correspondingly, was not expanded to any significant extent. Instead, employment with low skill requirements was promoted, which indirectly facilitated the devaluation of professional titles and roles. Although this did lead to a decrease in income inequality, it failed to change the longstanding patterns of production and social stratification in the region. After the boom in natural resources and raw materials abated during the mid-2010s, these social policies, whose scope was tied to world market prices, subsided. The result was that poverty and inequality were on the rise again and caused renewed crises even before the pandemic (PNUD, 2016).

It appears as if most Latin American countries remain caught in a so-called “middle income trap” (De Felipe et al., 2014; Kang and Paus, 2020), which is why they are unable to abandon their primary specialization on exports and attain a more sophisticated level of high-quality production through increases in labor productivity.¹² If the new boom in “green” resources is to serve as a vehicle to escape this trap – and if the region is determined to transform its natural resource exporting economic model into a socially and ecologically sustainable system, in which the quantitative rise in export earnings translates into resource-friendly qualitative growth that includes productivity increases – it is absolutely imperative to revalue labor. This would be feasible through the universalization of high-quality education and professional training and comprehensive social security, facilitating a significant reduction in informal work and laying the foundations for an increase in labor productivity and the creation of highly efficient and less resource-intensive “green jobs”. The additional resources required may initially be generated by proceeds from the new boom in “green” resources. As the last boom period taught us, however, this alone is insufficient, and will not solve the problem beyond the short term; that is why revenues must be generated outside of natural resource export revenues. What is needed is the swift development of additional sources of income that are less dependent on global market trends and enable the implementation of long-term strategies. Until productivity increases and successes in diversification start having an impact, this can only be achieved through fiscal measures that simultaneously help mitigate the structural heterogeneity of production and labor markets. That is to say, “green extractivism” can only benefit development and prove to be truly “green” if it understands and uses its public legitimacy – which usually rises during periods of economic prosperity – as an opportunity to implement, in an integrative manner, four (distinct) goals: (1) advancing the universalization of social security; (2) reducing informal work thereby (3) gradually building up productivity potentials; and (4) installing, from the very outset, a rigid, redistributive tax system, which supports the development of a productivity-oriented economic structure and, moreover, social and economic cohesion, beyond the export sector. This makes the question of tax reform – alongside agricultural reforms – one of the central issues of Latin America’s development in the twenty-first century.

Raw materials and distribution

According to the latest research (Atria et al., 2018; Flores-Macías, 2019; Mahon et al., 2015), Latin America’s tax systems are marked by three characteristics.

First – levies that have historically been (and still are) strongly focused on raw materials exports and foreign trade. While the total sum of export tax in this context was largely a question of price developments on global markets – subjecting public revenues to substantial volatility, encouraging foreign debt, and contributing to economic crises – the import tax particularly on consumer and wholesale goods often included an element of protectionism. Both forms

of taxation assigned a crucial role to foreign trade from early on – particularly the trade in agricultural products and commodities – and thereby benefited the economic elites involved in these sectors (Bértola, 2016, in this volume; Ocampo, 2017). This historical dependence of tax revenues on commodity exports (Clemens and Williamson, 2012) was not diminished during the latest boom phase, and in some cases it was even heightened.

Second – their strongly regressive character, based on a consistently low direct taxation of wealth, high incomes, and corporate profits. During the commodity boom, progressive governments failed to raise the taxation of the rich through direct taxes. According to new CEPAL figures (2021, p. 67), income taxes account for about 5.6% (OECD: 11.5%) and wealth taxes for 0.8% (OECD: 1.9%) of GDP across the region.

At the same time, businesses and wealthy individuals enjoy numerous tax privileges. These include legal tax exemptions or reductions for new industries, investments, or the import of investment goods, as well as accelerated depreciation. Income is subject to very high tax-free allowances and very low maximum tax rates of about 26% in Latin America, as compared to 41% in the EU (Jiménez, 2017). There is no, or only very low, inheritance tax, paralleled by a culturally veiled tolerance for illegitimate tax evasion by both individuals and transnational corporations (CEPAL, 2021). According to some estimates, these historically high levels of tax evasion amount to a constant ratio of 50% in the area of income and business tax (Centrángolo et al., 2017, p. 350), while its total value is estimated at 60% of potential regional tax revenues (CEPAL, 2020b, p. 58). As a result of these policies, the wealthiest 10% of the population today pay an effective tax rate of 5.4%, compared to 20% in the European Union (Busso and Messina, 2020, p. 286).

Yet, a parallel feature is the high (and frequently raised) level of indirect taxes (particularly VAT). Again, there were no significant changes here during the boom phase: taxes on goods and services currently amount to 46.2% of total tax revenues, compared to the OECD countries' 32.3% (CEPAL, 2021, p. 67). Indirect taxes in Latin America are thus almost 14 percentage points higher than the OECD average.

By and large, then, Latin America's tax systems continue to place a remarkably low tax burden on the rich and relatively high taxes on lower incomes. They are highly regressive (Clifton et al., 2017); instead of reducing inequality, they perpetuate and in some countries even aggravate it.

Third – a traditionally both distributive and allocative tax policy (pursued to this day) that benefits particularly the middle classes and economic elites.¹³ Public spending is commonly focused on key government responsibilities (military, administration, business subsidies, as well as debt service), while neglecting important areas of public services that would legitimize taxes (e.g., healthcare, education, culture). In this sense, ever since its emergence, the Latin American tax state has fulfilled its redistributive function only to an extremely limited extent, and taken very few steps to solve the region's problem of structural heterogeneity.

This scenario has likewise hardly changed since the latest commodity boom; despite the above-mentioned rise in social spending and a slight improvement in the progressivity of regional tax systems (Martorano, 2018), the redistributive potential of taxes in Latin America amounts to a mere 5%. To put this into perspective: redistribution via taxes currently lies at 38% in the EU–OECD countries (Izquierdo and Pessino, 2020, p. 283). This reflects both the low taxation of high incomes and wealth and the high levels of informal employment in the region: around half of the working population have very limited or no access to tax-funded public services, and even less so to state subsidies for business development. At the same time, however, this half of the working population certainly contributes – through indirect taxes – to funding fiscal distribution and allocation policies that particularly benefit high-income groups.

In sum, it seems fair to say that although governments in Latin America encountered or created all the necessary conditions for implementing structural reforms in their respective tax systems during the most recent natural resource boom – lasting economic prosperity, expansive social policies, and solid political legitimacy – they largely refrained from or avoided doing so (see also the chapter by Domínguez Martín in this volume).

Only few countries (such as Argentina, Chile, Ecuador, and Uruguay) dared to enact rather tentative tax reforms with a modicum of redistributive potential (Strada et al., 2021). The excessively concentrated wealth among the economic elites, however, was left largely untouched, i.e., not taxed at all.¹⁴ At the same time, during the boom period, the regressive value added tax – affecting lower-income groups far more heavily – was raised by one-third to about 40% and has since become the greatest source of public revenue (Cornia et al., 2011; CEPAL, 2021).

However, the lacking implementation of tax reforms is only in small part due to the often-insinuated deficient institutional assertiveness. Nor do political faintheartedness or opportunism alone serve as an adequate explanation. It is, rather, a structural consequence of the natural resource exporting development model itself: on the one hand, this model has engendered small yet very agile and powerful (economic, political, military) elites who, given the poorly diversified economy and lack of social differentiation, possess considerable vetoing power, and sabotage any form of redistributive policies that might affect them.¹⁵

On the other hand, governments were tempted by the vast public funds generated from natural resource exports during the boom years to leave these conflicts unresolved and instead use the additional revenues to mitigate the social question and thereby increase their political legitimacy.

A new “green extractivism” that seeks to invest its resources in sustainable development will only succeed if it abandons this logic and this culture. That is not to imply that it should necessarily involve a conflict with the elites. And yet, the economic prosperity of the next boom phase must be used to implement democratically legitimized structural reforms. A tax reform that places

effective taxes on higher incomes and wealth is not simply a technical issue of implementation. It must simultaneously raise tax legitimacy, i.e., reverse the hostility towards taxes among important groups in society. This cannot be achieved simply through legislation or efficient administration but by a state that provides effective, universally accessible, high-quality public goods and services, improves professional training and working conditions for a large proportion of the working population, and thereby unleashes productivity potentials that dynamize both the economy and society. This means setting the course for a kind of fiscal distribution and allocation policies that meaningfully increase taxpayers' quality of life.

The reforms this requires can be implemented through different measures.

What is certainly urgently needed is an improvement of the availability of data concerning high incomes, wealth, and land and real-estate ownership, both in individual countries and across the entire region. This may be achieved through the establishment of public wealth registries and an observatory body for monitoring wealth and taxes, providing up-to-date information that allows for comparing and correlating current national levels of wealth concentration with the respective tax conditions.

This would be a solid basis for an effective fight against tax evasion and fraud, to be enforced through a generalized threat of sanctions – i.e., through applicable law. According to different estimates, this would raise regional tax revenues by at least 50% (CEPAL, 2020b, p. 54).¹⁶ Depending on the country, the abolition of wholesale tax exemptions for high incomes and wealth could generate additional revenues between 2% and 6% of GDP (CEPAL and Oxfam, 2019, p. 24; Ruiz, 2020). Considering the relatively low maximum tax rate (25% to 40% for high incomes, only 5% to 15% for financial and capital income), there is quite some room for improvement here, too. The only countries in Latin America that have a wealth tax are Argentina, Uruguay, and Colombia (CIAT, 2018); inheritance and land property taxes are extremely low or entirely absent. By and large, there is vast scope to take action without having to make anyone poor. To put this into proportion: if the richest 10% of Latin Americans were subjected to the effective EU tax rate, inequality throughout the region could be reduced almost to the OECD average (Valdés, 2017, p. 84).

Wherever an adequate level of tax legitimacy cannot be achieved, and proactive redistribution policies lack political backing, the reduction of business patronage and subsidies as well as the launching of a tax-funded structural policy benefiting the public sector could facilitate passive redistribution. Correspondingly, research on Latin American tax systems from the perspective of allocative interests and alliances as well as (inter-)sectoral coalitions between distinct economic sectors clearly needs to be ramped up. Another question requiring further study is which non-fiscal instruments for the regulation of wealth and natural resource rents can be discerned in the context of price-, trade-, and currency-related interventions (Ocampo, 2017; see also the chapter by Fehling in this volume).

Conclusion: raw materials and transformation

The most recent boom phase in Latin American raw materials sectors has illustrated that development (or, rather, a lack thereof) is not a matter of scarcity. Sufficient resources are available. The task is to mobilize and distribute them in a prudent manner. Development based on the export of natural resources and raw materials is thus always also a question of enacting the right policy.

This analysis of labor relations and tax systems shows, moreover, that the state and policymakers have failed – despite favorable conditions and a clearly articulated political will to advance structural change – to achieve their goals even remotely.

The reason is that states and governments cannot escape the restrictions of the natural resource-based model but are indeed shaped by them: in extraction-centered economies, revenues are generated via the exploitation of natural resources. The earnings from raw materials and natural resources are, for the most part, not matched by any meaningful labor or investment effort by the recipient – they are essentially (almost) freely available. The contribution of labor to the creation of prosperity is negligible or non-existent. At the same time, the distribution of natural resource export revenues is not determined based on economic allocation, competition, and efficiency, but above all politically – and usually by the state as the central actor (Warnecke-Berger, 2021).¹⁷

In addition, the revenues from natural resources and raw materials, which originate outside the country, relieve the state of the task of taxing its population. Yet, wherever there is no need for a fiscal social contract between the state and society, the requirement for the state to legitimize itself through opportunities for democratic and social participation is diminished: “no taxation without representation”. States and governments can afford insufficient responsiveness to social demands or particular interests and increasingly act as mere distributive agents. Hence, it is not democratic participation that ensures the state’s public legitimacy but the promise of material participation in the distribution of natural resource revenues.

In extractivist societies, the primary objective of the government’s spending policy is thus to secure political loyalty and stability.¹⁸ The (unequal) distribution of natural resource revenues among the population allows the state to co-opt different social groups and largely pacify society – at least during times of high revenues.

This particular configuration limits the transformational capacity of governments and states adhering to natural resource exporting development models: if power, status, and prosperity depend primarily on the access to natural resource revenues and thus on access to the state, the creation of development alternatives that would facilitate higher productivity, diversification, or sustainable growth becomes dysfunctional for the state apparatus as a whole (Warnecke-Berger and Ickler, forthcoming). Instead, many state and government actors have an interest in institutionally entrenching and further expanding the extraction model in order to protect their autonomy and privileges.

This helps explain why, during the latest boom phase, political elites in Latin America failed – despite ideal conditions for implementing reforms (parliamentary majorities, consolidated democratic systems, economic prosperity, well-stocked public coffers, high levels of public legitimacy) – to advance the universalization of social security policies, agrarian reforms, a stronger regulation of informal labor, or a mode of fiscal redistribution that guarantees higher levels of social cohesion, economic productivity, and lasting political stability.

The dynamics of this structural power configuration can be described as a kind of “elevator effect”, i.e., collective upward social mobility, raising the position of (almost) all groups concerned without changing the structural makeup of society as a whole. The state’s central function was to consistently regulate this social balance of forces. Conflicts with influential groups, particularly with economic elites, which would have inevitably emerged in the case of more proactive labor policies or tax reforms, were offset and avoided through additional spending. Economic elites thus managed not only to retain their wealth under the reign of progressive governments, but in many cases to increase it (Heredia, 2016; Wolff, 2016). Ultimately, the resulting consensus did not rest on social cohesion or the acknowledgment of the common good, but on a kind of commodities-based “community of beneficiaries”, which remained intact as long as there were sufficient resources to be distributed (Burchardt and Dietz, 2014).

However, it is characteristic of political alliances founded primarily on a community of beneficiaries rather than compromise that their institutional legality and democratic institutions will gradually erode. Studies show that the assertion of authoritarian politics is facilitated in natural resource exporting development models, as elites are less required (and less able) to legitimize themselves and their role via economic or political merit and frequently resort to repressive measures, particularly during crises (Ross, 2012). Both the strengthening of authoritarian tendencies in countries like Venezuela and the dramatic rise of (right-wing) populist governments and movements across Latin America substantiate the concern that the progressive governments in office during the last raw materials boom, who attempted to raise social participation across the region through natural resource extraction, may in the long term have weakened precisely the form of government that brought them to power: democracy.

And yet, only at first glance is this a pessimistic assessment. For this insight allows for some substantial conclusions to be drawn. The most recent natural resource-based boom phase in Latin America first serves as a prime lesson for how “green extractivism”, as a natural resource-based model, can be transformed into one of sustainable development and broad social participation. This also reveals some important considerations for the future.

To summarize: in economic terms, the orientation towards raw materials and natural resources reduced the competitiveness of non-extractive sectors and cemented a situation of low labor productivity. With regard to social and labor market policies, the model mitigated poverty only temporarily at best, while leaving the underlying causes of structural heterogeneity unaddressed. Instead of real fiscal redistribution, what occurred was the (increased) distribution of

additional revenues from natural resource exports. The renunciation of structural reforms, afforded through raw materials exports, helped to effortlessly avoid social distributional conflicts and soften the resistance of the middle and upper classes. At the political level, there was a consolidation of (often exclusive and clientelistic) power structures that developed around the natural resource-centered export model and had no interest in transformation. These dynamics did not reflect a natural law but particular patterns that depended heavily on their respective institutional, social, and cultural embedding, thus implying clear courses of action for the politics of tomorrow (Karl, 1997; 2004).

Raw materials and sustainable development: back to the future

From the findings of the preceding analysis, we may deduce several recommendations for policymakers and researchers.

The roadmap for a policy that harnesses a renewed boom in natural resources and raw materials to social–ecological transformation is quite straightforward: the use of green technology alone will not suffice. To achieve real sustainable development, “green extractivism” must consistently be tied to structural reforms in the areas of social policy, agriculture, labor relations, and tax systems, thereby facilitating a reduction of structural heterogeneity; this would require extremely close-meshed mechanisms to ensure that each and every newly launched extraction activity is paralleled by specific reform measures.

Reforming the tax system must be a crucial priority of any natural resource exporting strategy in pursuit of social–ecological transformation (Bárcena Ibarra and Prado, 2016): taxes allow the state to generate revenues that are neither directly linked to and dependent on the exploitation of nature nor subject to the volatility of global market dynamics, and which, in the long term, help fund the expansion and provision of high-quality public services in the sense of social rights, while, moreover, advancing economic diversification and productivity potentials. Although the funding of such measures may at first rely, in part, on new revenues from raw materials and natural resources, the mode in which they are to be progressively converted into tax-funded models must be clearly specified from the outset. The best time for governments to win broad acceptance for such tax reforms is during periods of economic prosperity.

The correspondingly emerging fiscal social contract furthermore guarantees the democratization of the relationship between the state and society: tax revenues and public spending require political legitimation, the “community of beneficiaries” morphs into a participative society that ensures equal participation for all the various social groups. Ideally, *taxation and representation* become the new underlying principles of social organization.

Simultaneously, the politics of “green extractivism” must find new answers to the ongoing structural changes in the world economy, which is moving towards decarbonization and digitalization. Fossil energies will lose their significance in the mid-term, underscoring the likelihood of painful revenue losses for oil- and gas-exporting countries such as Venezuela, Bolivia, and Ecuador.

The traditionally pursued rearrangement of natural resources and raw materials in the basket of export goods (as, for example, Venezuela is attempting through efforts to develop mining operations in the Amazon region) has meant a prolonged approval of and acquiescence to additional and increasing destructive environmental impacts, regardless of any use of green technologies. A profound structural change is thus more than overdue in these countries.

Minerals and rare earths (e.g., lithium, copper, aluminum, magnesium, nickel), by contrast, will become more important, promising fresh high earnings.¹⁹ Contrary to oil and gas exploitation, however, mining operations are usually not embedded in a centralized organizational framework nor subject to government regulation. Instead, local-level entities as well as private and transnational actors are gaining influence. If this state of affairs is not responded to with adequate forms of regulation and control mechanisms, Latin America may well risk a dangerous increase in territorial disparities that could lead to renewed political conflict and instability (on this, see Jiménez in this volume).

Our reflection thus far has shown: it is certainly possible for Latin America to rely on “green extractivism” to escape the “middle income trap” and overcome the region’s structural heterogeneity in order to advance sustainable development. That said, this requires each and every further endeavor in the extraction of natural resources to be paralleled by specific measures working towards the universalization of social security policies, agrarian reforms, and the reduction of informal work, which are to be subsequently coupled with redistributive tax mechanisms as swiftly as possible. The key objective of such efforts is the creation of social-security embedded, high-skilled employment in less resource intensive *green jobs* and *high-value jobs*. These will enable both an increase in labor productivity through knowledge-based and technologically efficient production and the establishment of domestic technology production. In the context of sustainability, this latter ultimately results in a new pattern of integration into the global economy.

Should this fail to materialize, the expected boom in Latin America will advance neither ecological sustainability nor social cohesion. What will remain is a region even further depleted of resources and people. History may well repeat itself – only this time as a farce. After all, the responsible politicians were fully aware of what had to be done in due time.

Researchers ought to end the constant debate about the pros and cons of natural resource exporting development models. Furthermore, future research should focus less on the – rather overstudied – environmental and social movements critical of natural resource exploitation, nor on the – traditionally suspicious – transnational actors, but instead concern itself more thoroughly with the generation, distribution, and legitimation of natural resource extraction (Burchardt et al., 2021).

This includes, in particular, studying the mechanisms and social practices that ensure majority popular support in extractivist societies for the exploitation of the natural world despite the negative economic, social, and ecological consequences. After all, these practices engender winners and losers, determine

social structures as well as ethnic and gender-specific ascriptions, (re-)produce or change social inequalities, and cement particular political configurations. The aim should be to provide an analysis of the natural resource-based economic and power structures of entire states and societies.

One promising endeavor in this regard is to engage with the various concepts and categories of rent-theory approaches, with the aim of dissolving some of the methodical and theoretical distinctions they entail – say, between the rent economy postulated by neoclassical economics and the institutionalism-inspired rentier state – and developing and refining these concepts through novel syntheses. What is clearly needed is a historical and context-sensitive approach that considers cultures and social practices alongside structures and institutions and transcends Western categories (see Burchardt and Leinius, 2022). Natural resource exporting countries may be understood as particular social formations that adhere to their own patterns and they will only insufficiently be grasped by grand concepts such as capitalism, liberal democracy, the bourgeois state, or postcolonialism. One productive impulse is provided by a more recent approach to the natural resource exporting model that proposes the concept of “rent-based societies” (see Fehling in this volume).

In a nutshell: we must always remember, both in the analysis of Latin America’s tax systems and in the outstanding scholarly debate and study of an evolving green extractivism, *to bring the rent back in*.

Notes

- 1 The United Nations Environment Programme (UNEP) defines “green jobs” as “work in agricultural, manufacturing, research and development (R&D), administrative, and service activities that contribute substantially to preserving or restoring environmental quality. Specifically, but not exclusively, this includes jobs that help to protect ecosystems and biodiversity; reduce energy, materials, and water consumption through high efficiency strategies; de-carbonize the economy; and minimize or altogether avoid generation of all forms of waste and pollution” (UNEP, 2008, p. 3).
- 2 Given the limited scope of this chapter, the presented argument is based largely on aggregate data covering the region as a whole; however, the extraction model is generally divided into three regional dynamics. The *first* dynamic comprises the Andean countries, which are traditionally characterized by a particularly high share of purely natural resource-based revenues, such as Ecuador and Venezuela (oil), Peru and Chile (mining), and Bolivia (gas). In this zone, the value-based share of natural resources in total exports was more than 85% on average in 2010; in Bolivia and Venezuela the figure was even above 90%. The *second* dynamic includes those South American countries whose domestic economic structures are more diversified and whose extractive sectors are less dominant, but who also saw a rise in the latter’s significance, nonetheless, as was the case in Argentina and Brazil (agricultural exports and mining); in the Southern Cone, primary goods made up 65% of total exports in 2010. The *third* dynamic, differing from both mentioned regions, pertains to the Central American countries and Mexico, which, due to their stronger integration into the North American domestic and labor markets, have placed the least emphasis on natural resource revenues thus far; here, the primary goods’ share of exports amounted to around 25%, albeit displaying an overall growth trend (CEPAL, 2012a; CEPAL, 2022; UNCTAD, 2022).
- 3 The term “extractivism” is derived from the Latin word *extrahere* (“to drag out”) and denotes the retrieval, exploitation, or mining of raw materials and natural resources. It

was originally used primarily in economics to describe economic models and sectors (especially mining) that rely on the exploitation of natural resources. For more than a decade now, the concept of “extractivism” has been applied in the Latin American discussion of a specific model of development and regulation through which political decision-makers increasingly seek to rechannel the rents from the export of primary goods towards social development and the expansion of social participation. See also www.extractivism.de.

- 4 In contrast to the notion argued by various authors (e.g. Acosta, 2013; Gudynas, 2020) whose analysis of extractivism insinuates a continuous evolutionary line from colonial times to the present day and thereby complicates a more profound understanding of this model of society, a historical investigation shows that the export sector and the corresponding specialization in natural resources and raw materials in Latin America took shape during the nineteenth century, as it became increasingly easier and cheaper to ship goods across the Atlantic in large quantities.
- 5 According to the World Bank (2021), commodity prices rose by about 135% between 2000 and 2008, while the price for energy resources increased by about 227% during the same period. Or, to put it in a more illustrative way: “In the year 2000, the price of a basic mobile phone corresponded to the value of 10 to 15 barrels of crude oil. Barely a decade later, a barrel-and-a-half of crude matches the price of an iPhone. One hundred metric tons of soybean cost the equivalent of a middle-range Toyota in June 2002; by June 2011, the price had increased to that of a luxury BMW. In this brief timespan, Prebisch died once again” (Mazzuca, 2012, p. 5; translation amended). According to calculations by CEPAL (2013), more than a quarter of the growth of per capita GDP in Latin America between 2003 and 2011 resulted exclusively from the improvement of the international terms of trade.
- 6 Only 11 of the region’s 33 countries have introduced unemployment insurance schemes to this day, and only one-third of low- to middle-income household members have some form of pension scheme (CEPAL, 2020a).
- 7 Just how strongly social security-embedded employment continued to be the privilege of strategically important professions in the high-productivity labor market segments related to formal employment is illustrated by the high rates of social security coverage among public sector workers (91.4 %), skilled trade workers (67.9 %), and highly qualified and expert staff in the private sector (72.2 %). By contrast, the indicated levels of social security coverage among the typical occupational groups in the low-productivity segments of the labor market, such as domestic workers (22.7 %) or low-skilled staff in the private sector (15.1 %), are far lower; moreover, this sector is marked by significantly lower incomes and the absence of applicable collective bargaining agreements or labor contracts (CEPAL, 2011, chap. 4). In this sense, the increase in social transfers during the boom phase aside, the effect on the distribution of inequality was only very limited. By comparison: in Europe, income inequality is reduced by about one-third through social transfers.
- 8 The concept of *structural heterogeneity* was developed by CEPAL in the 1970s to capture the political-economic situation in Latin America. Its aim is a combined analysis of world market integration, production structures (the export of natural resources in particular), inter-sectoral productivity differentials, the segmented labor-income groups and labor markets, as well as the corresponding graduated patterns of consumption. More recent approaches complement these elements with the issue of the vast, culturally entrenched inequalities with regard to wealth, income, opportunities, and rights that persist in the region in the sense of a self-perpetuating consequence of these conditions (Bárcena Ibarra and Prado, 2016; CEPAL, 2018).
- 9 It should be mentioned that the surveys of the wage to GDP ratios contain country-specific error rates, seeing as informal labor is represented in official statistics only to a very limited extent (if at all). In this sense, the calculations rather indicate a tendency, which then requires more in-depth case-by-case scrutiny.

- 10 More recent figures reveal the failure of the efforts towards diversification: according to statistical data from UNCTAD (2022), primary raw materials exports accounted for more than 80% of total exports in Venezuela, Chile, Ecuador, and Bolivia in 2018; in Argentina and Brazil, this share was well above 60%. Wherever the manufacturing sector is better developed, the growth rates in these productive sectors still remain lower than those in the natural resource and raw materials sectors, as is the case in Brazil and Argentina. Statistical figures published by CEPAL (2022) show, for example, that the natural resource sectors (agriculture and mining) in Argentina accounted for 9.1% of GDP in 1990, whereas the share of industry was at 20.3%. By 2010, the industry to GDP ratio dropped to 15.8%, while that of the natural resource sector rose to more than 12%. Ultimately, in the region as a whole, there were no industries that managed to evolve independently from the resource-extracting sectors, and diversification failed to materialize. The region's overall industry to GDP ratio dropped from 17.8% in 1990 to 12.6% by 2018.
- 11 Research findings thus far suggest that the actual extractive economy of natural resource exporting countries as such produces only negligible employment effects due to its pronounced enclave-like character, but often leads to an inflation of public employment and an expansion of the tertiary sector. Furthermore, the extraction of natural resources results in permanently overvalued national currencies, which, in turn, entails a decreasing international competitiveness of the domestic economy alongside de-industrializing effects causing a loss of employment in the manufacturing sector. This dynamic is often referred to as "Dutch disease" in the literature (Auty and Furlonge, 2019).
- 12 The concept of the "middle-income trap" refers to the difficulties middle-income countries face in catching up with advanced industrialized countries because of their inability to enact the transition from low-value-added sectors (primary products and industrial goods, both of which critically require natural resources and cheap labor) to high-value sectors (such as technology-intensive manufacturing, expertise, and knowledge-based production) (Doner and Schneider, 2016; Griffith, 2011).
- 13 In this context, CEPAL (2018, p. 31) notes a combination of privileged access to natural resource revenues and the appropriation of public funds or quasi-rents by actors with greater economic and political power, which taxation models have thus far been unable to resolve, as the system of extensive tax exemptions and low-income tax rates is supported and sustained by a "culture of privilege" (CEPAL, 2018, p. 31).
- 14 Latin America remains the region marked – historically and currently – by the highest levels of inequality and income and wealth concentration worldwide. According to the most recent available data, the wealthiest 1% of Latin America's population owns about 46% of all wealth. This proportion is higher than the global average (38 %) and the figures for the EU (24 %), Asia (36 %), and sub-Saharan Africa (37 %) (WIID, 2022).
- 15 On the power of economic associations, see Castañeda (2017), Fairfield (2015), and Palma (2019; 2020); on institutionalized blockades, see Hallerberg and Scartascini (2019).
- 16 This requires an accompanying structure of bilateral and multilateral agreements on the automatic exchange of information between financial authorities and the softening of banking secrecy. It also includes pushing for a global minimum corporate tax rate of 25%, applicable in the respective country in which a company sells its goods or services.
- 17 Coronil (2008, p. 19) has put this quite succinctly: whereas in market economies "the business of politics is business", i.e., the state defines the key parameters for capitalist accumulation, in rentier states, "the business of business is politics".
- 18 This includes measures such as direct subsidies for food, housing, or fuel as well as the indirect subsidizing of consumption through an overvalued national currency. Further measures applied include the creation of public employment, e.g., through public works and infrastructure projects, and subsidies for internationally uncompetitive private enterprises, as well as the renunciation to raise taxes, the implementation of assistentialist social programmes, and the government's awarding of public contracts, import licenses, etc. to individual business actors.

- 19 The International Energy Agency (IEA, 2021) predicts that by 2040 the demand for lithium will have risen forty-threefold compared to 2020, that for copper twenty-eightfold, and that for cobalt twenty-onefold.

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14 **Contours of rent-based societies: concluding remarks and new perspectives on political economy and taxation**

Philip Fehling

Introduction

Tax systems represent complex structures, influenced by global trends as well as by specific social, economic, and political contexts. Shedding light on these structures is a precondition for comprehending the reality of taxation and its role in the (re-)production of social inequalities in Latin America. For this reason, this volume conceptualizes tax systems and policies as “tax regimes”¹ and investigates them from distinct angles in the different countries of the subcontinent.

The region boasts a vast abundance of natural resources that has informed and shaped its societies since independence and created specific social configurations and distributional conflicts. The region’s integration into the world market, based on this wealth of natural resources, continues to have an impact in many areas. It has engendered external and internal structures and dynamics that entail many different obstacles to development and can be analyzed via the concept of structural heterogeneity.² The formative power of structural heterogeneity manifests itself in varying allocation and growth models and conflict configurations that shape the fiscal policy of each country. In order to understand Latin American fiscality and perspectives on distribution, it is essential to discern the role of natural resource rents.

Proceeding from a number of rent theory-based considerations, this concluding chapter discusses the findings developed and presented in this volume with a view to the concept of structural heterogeneity and the specific allocation policies chosen to respond to this reality, through distinct growth models. The chapter ends by mapping out the contours of a rent-based social configuration, a perspective conducive to refining our understanding of the Latin American tax state and its tax regimes.

The political economy of the natural resource rent and the tax state

Given the vital role of commodity sectors in Latin American economies, the natural resource rent becomes the starting point for understanding Latin

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American fiscality. The region's early and one-sided inclusion in the world market and the persistence of this international division of labor have brought vast prosperity for one side and continuing marginalization for the other. The concentrated abundance of natural resources and cyclically accruing resource rents have historically engendered a per capita income that is economically disproportionate vis-à-vis regional productivity as a whole (Laclau, 1969; see Ocampo, 2017; see also Burchardt in this volume) and simultaneously opened up substantial scopes for re-allocative and distributive measures (see Mahon, 1992). The natural resource rent is therefore deeply inscribed in the region's political economy, social configurations, and political dynamics (see O'Donnell, 1978; Oxhorn, 1998). In the following, proceeding from the German development economist Hartmut Elsenhans, a few considerations regarding the political economy of the natural resource rent and statehood shall be elaborated and reflected on with a view to the nature of the tax state in Latin America.³

The perpetuation of the historically even international division of labor has entailed a spatial division of nature, too, as a result of which the natural resource rent – not profit – is the “dominant tendenc[y]” (Coronil 1997, p. 32) in the commodity-rich countries in Latin America and the Global South as a whole.⁴ This means that the production of wealth occurs mainly via investments in commodity sectors that promise high windfall gains and not in (high-) productivity areas outside the commodity sector. The economy is marked by the “dominance of rent over profit, the latter of which can only be appropriated by investing in the most efficient technology” (Elsenhans, 1997, p. 163; translation amended). The pervasive marginalization of broad segments of society, in turn, prevents the adoption of a course of capitalist growth that proceeds through state-subsidized consumption, as pursued by (Western) advanced industrialized countries. What historically emerged in the post-colonial countries as a result is the “bureaucratic development society” (Elsenhans, 1996), evolving prototypically alongside the Latin American models of import substitution industrialization (ISI). Given its monopoly on the “direct regulation of the circulation of social wealth within the national boundaries” (Iñigo Carrera, 2007, pp. 17–18; translation amended) and the resulting ability to monopolize and reallocate rent incomes, this state, as the “abstract landlord” (Coronil, 1997, p. 65), assumes genuinely economic significance (Coronil, 1997, p. 8; Elsenhans, 1996, pp. 63ff.).⁵

According to Elsenhans, accumulation-enabling structures take shape once the social order's “structure of privilege” is no longer defensible without at least partial responsiveness to popular demands, which requires a greater scope and capacity for distribution (1996, pp. 130ff.). The motive for setting up production facilities and advancing industrial development can ultimately be boiled down to the ruling class's fear of system-threatening resistance by the under-privileged masses. This makes it primarily a problem of “political legitimation” (Elsenhans, 1977, p. 36; 1996, pp. 127–128).⁶ The political-economic basis of this, he continues, rests on the possibility of the political allocation and distribution of natural resource rents via the state bureaucracy (Elsenhans,

1977, pp. 58ff.). In contrast to profit, the natural resource rent is not tied to the productive process itself but rather to access to natural resources that can be subjected to monopoly control. Protected from the pressure of the competition-driven capitalist valorization imperative, the natural resource rent is relatively freely available and can be appropriated by the state without threatening the large landowners' social reproduction (Caligaris and Oyhançabal in this volume; Neelsen, 1997). This is the reason why the question of who controls the state is so crucial and fiercely contested in many countries in the Global South. "Given the certainty of system stabilization [...] a consistent course of economic and social policy cannot be assumed" (Elsenhans, 1977, p. 40; translation amended), but can only be determined historically, by social and political power relations. In this regard, here we especially see the contrasting historical models of the oligarchic state – in which political rule is largely exercised by landowners and the associated structures of commercial and financial capital (Bértola and Ocampo, 2013; Gilbert, 2017) – and the populist development state with its strong middle-class bias (Oxhorn, 1998).

In commodity-based development models, in which the natural resource rent becomes the pivotal factor for aggregate national (re-)production, the relation between state and society must be conceptualized in a different way than for a Western industrialized nation. This, even if this latter's structural principles and constitutional normativity are regarded as a blueprint for democracies and their fiscal constitutions worldwide. One key structural principle of the Western tax state is the (relative) separation of state and society, which is the reason for the high constitutional and legal barriers for state interventions in the actions of its citizens and legal entities. In Western societies, the relationship between state and society is crucially shaped by the financial relationship between the two, characterized by the state interfering with a sphere of wealth production entirely alien to its own realm in order to appropriate the resources it requires for its own functioning – including, in particular, the creation and safeguarding of the framework conditions for market-dominated capital accumulation. By collecting taxes, the state appropriates a portion of the circulating value added, which may cause political discontent but does not affect the institution of private property as a social relation of wealth production (Preuß, 1981, p. 55). From the perspective of democratic theory, taxes, in their normative rationale, could be seen as a virtually "perfect economic medium of participation in representative democracy" (Huhnholz et al., 2018, p. 4; translation amended). This means guaranteeing society – as it were, in exchange for a general readiness to pay taxes – certain rights to participation and, more importantly, to oversee and control the government. It is precisely this interrelation that has prompted the research on development and state formation to focus more strongly on taxes and taxation policies (Bräutigam et al., 2008).

Yet, if the state is thoroughly involved in the creation and preservation of accumulation-enabling structures in the long term and economic activity depends on the political channeling of resources, there can be no question of any (relative) separation of state and society. Not political protection against

state interventions, but economic access to the state becomes the prime motive for (quasi-)private economic actors. To put it more succinctly: in capitalist market societies, the task of politics is to create the framework conditions for private enterprises to operate in – *the business of politics is business*; whereas in commodity-based development contexts, private entrepreneurship requires direct access to the state – *the business of business is politics* (Coronil, 2008, p. 19). Correspondingly, neither the (neo-)Weberian notion of an autonomous sphere of a bureaucratic institutional state (Skocpol, 1985) separated from society nor the neo-Marxist assumption of the state's relative autonomy vis-à-vis the economy and society sufficiently acknowledges the genuinely economic role of the state nor the genuinely political role of the economy in Latin America's commodity-rich societies (see Coronil, 1997, p. 79): if the mechanism of competition is suspended within the domestic market, there can be no market control (price system), and in the absence of a (bourgeois) class independent of the state there is no effective political scrutiny and control of the efficient use of the social surplus product (see Elsenhans, 1996, pp. 147–148). The latter can thus be appropriated by the state bureaucracy as long as it is available as natural resource rent. Political institutions must therefore be understood in terms of their quasi-economic role as a mechanism of rent allocation – of which corruption scandals are only the most superficial expression. They represent instruments for managing the participation of different social segments in the natural resource rent.

Structural heterogeneity and taxation

Thus, the political-economic conditions in Latin American societies do not allow for taxation according to the Western model. The much-cited comparison with Western tax states, especially with a view to the relative weight of income and corporate tax in the OECD states' tax systems (e.g., CEPAL, 2021; OECD et al., 2022), neglects the political-economic preconditions particularly for direct tax instruments. The latter acquire their central significance under conditions of relatively self-sustained and stable economic growth processes and relatively high and homogeneous income levels. Due to the central role of the commodity sectors and the structural heterogeneity of economy and society (marginality), these preconditions for the comprehensive taxation of the populace are absent in Latin America. This complicates both the taxation of earnings outside the commodity sectors and the comprehensive inclusion of society in the fiscal nexus of state and society.

Structural heterogeneity and marginality become felt in various areas, contributing to a complex structure of inequality within Latin American societies (on this, see Domínguez Martín in this volume). Both phenomena are closely linked to the commodity sectors; given the natural cost advantages, they resemble islands of high productivity, while other economic sectors largely exhibit very low labor productivity. Nowhere in the world is the productive structure more heterogeneous than in Latin America. The discrepancy

between labor productivity (GDP share per labor force) in the most important economic sectors is twice as great as in other world regions (Bértola, 2016, pp. 255–256). As Burchardt illustrates in this volume (Figure 13.1), the natural cost advantages and capital-intensive production in the mining sector contribute to high labor productivity, whereas no relevant productivity increases have materialized in other industrial or agricultural sectors since 1990. At the same time, the productivity of the sectors closely linked to the commodity sectors is itself highly volatile, as it is tied to global price trends. Consequently, Latin America exhibits not only the most pronounced discrepancies in labor productivity between different economic sectors, but also the greatest fluctuations in these inter-sectoral productivity differentials, at least when measuring sectoral productivity as a share of overall economic activity. Seeing as economic performance is closely tied to the rhythm of world market prices for the most important export goods, we may establish the following: the stronger the economic performance, the higher the commodity sector's productivity-to-GDP ratio, albeit entirely related to any technological dynamics (Bértola, 2016, pp. 255–256). The natural resource rent thus remains the crucial factor for the generation of taxable gains. Any taxation beyond this level runs the risk of encroaching on the very substance of the economy or preventing an adequate profit rate that would render the investment of capital worthwhile (Neelsen, 1997, p. 130), thereby robbing itself of its own sources of revenue.

The drive towards re-primarization initiated by the most recent commodity boom (2003–2013) rather conspicuously illustrates the pro-cyclical pattern that shapes the commodity-dependent economies in Latin America in general and thus also the respective fiscal policy in particular (in the following, Ocampo, 2017, pp. 64ff.): according to this pattern, the price cycles of the commodity sector translate into pro-cyclical investment patterns, financial flows, and financing costs as well as exchange rate fluctuations⁷ and fiscal policies. Funding these latter via taxes and credit depends on commodity prices, and austerity during times of crisis usually increases the political pressure to expand spending in moments of rising public revenues (Ocampo, 2017, p. 69). Pro-cyclical fiscal policy thus tends to imply “sharing the spoils” (Burchardt and Dietz, 2014, p. 476) during boom periods and implementing brutal adjustment policies in moments of crisis, as was the case in Latin America between 2014 and 2016 (Ocampo, 2017, p. 68). This is not only a problem of one-sided fiscal coupling to the commodity sector. Macroeconomic volatility and frequent macroeconomic shocks affect the state's tax revenues as a whole. Fluctuations in exchange rates and of the national currency (inflation) as well as debt cycles and debt-based growth through financial instruments affect the ratio of assets to liabilities on companies' balance sheets and have an impact on both business planning and administrative tax assessment. Thus, in the context of structural heterogeneity and marginality, the taxation of business enterprises generally proves rather difficult. National tax authorities therefore usually operate special taxes, specializing in major taxpayers, as a result of which public revenues from corporate tax are – in contrast to the OECD average – markedly more

substantial than those from income tax, although they cover only a comparatively small number of companies. That said, major national and transnational capital actors operating in strategic sectors can commonly rely on generous tax exemptions, which, moreover, determine high formal tax rates (should they even exist). The influence of these actors is additionally enhanced by their important function for the state as taxpayers and intermediaries, contributing payroll and consumption taxes. Besides this, given the large informal sectors, which employed 50% to 70% of the population even during the latest commodity boom phase, a large part of the economy is able entirely or partially to avoid taxation (Bergman, 2019, p. 59, Table 3.3). Small to medium-sized enterprises (SMEs) in particular elude formal taxation by resisting formalization, keeping their businesses small, benefiting from simplified tax regimes, and organizing political opposition against any increases in personal taxation via income tax (see Castañeda in this volume). The widespread tax avoidance of SMEs is largely accepted. The consequent taxation of informal economies could bankrupt thousands of self-employed workers and small businesses, as many could not survive under conditions of regular taxation. At the same time, this would mean the disappearance of informal markets which are able, due to the absent tax burden, to offer cheap goods and services and thus expand the consumption opportunities for the large low-income sectors. Tax evasion in this sense constitutes an indirect state subsidy of mass consumption, earning governments increased political approval rates (Bergman, 2019, p. 72; see Dewey, 2015).

Marginality and the corresponding segmentation of labor markets and income opportunities as well as the glaring social inequalities all lead to the fiscal disintegration of large parts of society. Owing to the pronounced social stratification and segmentation of income and labor markets in Latin American societies, (personal) income tax, which, according to Schumpeter (1929), constitutes the “pinnacle of the liberal bourgeoisie’s repertoire of taxation”, is essentially meaningless. The reason is not so much the fact that rich people pay only negligible taxes, which are entirely disproportionate to their income and wealth, but rather the fact that large parts of the population simply have no regular income, at a level that would allow their full integration into an income tax system. Income tax never played a significant role in Europe as long as it represented essentially a wealth tax (with very moderate tax rates), as originally conceived in the nineteenth century (Seligman, 1894). In the wake of its substantial increase, designed to fund the debt burden at the end of World War I, “the industry of tax evasion was born” (Zucman, 2015, p. 9) and Switzerland rose to become a major financial hub and tax haven. It was not until World War II and the vast financial needs of the state which resulted, that income tax gained weight in fiscal policy, changing from a “‘class tax’ into a ‘mass tax’” (Steinmo, 2003, p. 213) and encompassing the bulk of society. Its structural precondition was the sharp rise in industrial employment including regular wage payments and the declining significance of agriculture (Steinmo, 2003, pp. 211–212). While around 80% of the working population are liable to income tax in Western industrialized

countries, the situation in Latin America is the reverse. As Jorge Atria illustrates in this volume, 75% of the working population in Chile are not included in the income tax system. In Uruguay, income tax has included essentially the top 20% of wage incomes since the much-celebrated tax reform of 2007, although generous exceptions and reduced tax rates for capital earnings remain in place (Rius, 2015). In the remaining Latin American societies, usually only the top 10% of (wage) income groups pay income tax (Corbacho et al., 2013, chap. 7); in Bolivia, given its labor market structure, which is characterized by a large number of “labor-power entrepreneurs”, and widespread informality, currently (2020) only 308,000 individuals pay regular income tax (Paz Arauco and Jiménez in this volume). Any attempts to increase this number is met with harsh resistance and comes at a high political cost. A substantial proportion of society is included in the tax system, as is the case in most countries in the region, by simplified tax regimes based on low flat taxes with a rather symbolic character, such as were introduced across the region during the 1990s (see González, 2009).

This “fiscal” configuration of society has implications for the possibility and legitimacy of fiscal social-contract arrangements. In structurally heterogeneous economic formations, increases in general prosperity and public welfare through the state’s collection and utilization of taxes are rather likely, as both commodity-based enclave economies and productive economic sectors can develop only little intrinsic demand for skilled labor and an expansion of public education. Added to this is the spatial segmentation of commodity industries, which often limits income opportunities, tax revenues, and economic dynamics to few local or sub-state jurisdictions and thereby creates highly equal conditions of life in spatial terms (on this, see Podestá and Jiménez in this volume). The implementation of alignment mechanisms based on revenue-sharing schemes usually encounters fierce political resistance if local particular interests are left considered. This is especially problematic because the commodity sectors are often located in sparsely populated jurisdictions, where they enjoy a special political weight. This allows governors to gain strong national influence relative to other, more heavily populated jurisdictions in exchange for fiscal resources (“malapportionment”) (see Tommasi et al., 2001). Heterogeneity and inequality are aggravated even more as a result (see Ardanaz and Scartascini, 2013). In these conditions, fiscal social-contract arrangements tend to assume the form of pacts between influential groups and thereby further entrench existing social segmentations and stratification.

when taxable resources are extremely concentrated and governments need revenue to provide benefits for the broader populace, offering elites greater political participation or material benefits in exchange for their tax-dollars may be counterproductive.

(Fairfield, 2013, p. 42)

Given the extreme inequality and the dominant economic structures, ever since the process of state formation in Latin America, local elites have shown

little interest in public goods such as education and their tax-based funding (Sokoloff and Zolt, 2006). These groups can hardly be persuaded to accept their own taxation, in the sense of “quasi-voluntary compliance” (Levi, 1988), in favor of general welfare gains (see Breceda et al., 2009). Conversely, considering the often privately organized provision of public services, tax demands directed at wage and salary earners are met with very little acceptance, revealing the lack of legitimacy of such measures, when, for example, (high-quality) services in the education or health sectors have to be paid privately at the same time. The fiscal social contract so often praised in the literature mostly lacks a material base under conditions of structural heterogeneity, fading into no more than an idealistic invocation.

Growth models and fiscal regimes

The modern tax state requires self-sustained economic growth dynamics that consistently produce a value added as its financial basis, thereby differing fundamentally from the bureaucratic post-war development state and its present-day liberalized remains. Whereas “self-sustained capitalist modernization creates the need for state regulation in order to contain the centrifugal forces of social disintegration” (Habermas 2022, p. 35; translation amended), Latin American societies do not display such “self-sustaining modernization” in the same way. While the Western welfare states, on the one hand, “ensure adequate valorization conditions for capital in order to generate tax revenues” and, on the other hand, have to secure “democratic legitimation” through the legal and material accommodation of the interests of broad sections of society (Habermas 2022, p. 35), under the conditions of structural heterogeneity the latter is implemented primarily via the creation of corresponding accumulation-enabling and bureaucratic structures, as the commodity sectors hardly absorb labor power.⁸

As a result – and depending on the specific context, history, and pressure to earn legitimacy – primary income generation through political resource allocation can take precedence over secondary income generation via redistribution. The natural resource rent provides the material preconditions for this. The appropriation of this rent led to an “overexploitation” of commodity sectors during the most recent boom phase, in part causing the drying up of much-needed reinvestments as a result (Monaldi, 2019).

The different responses of Latin American governments to structural heterogeneity in the form of allocation policies can be discerned from distinct growth models, which, besides general trends in the historical longitudinal section (on this, see Bértola et al. in this volume), account for the heterogeneity among the fiscal regimes in the countries of the subcontinent. This changes nothing about the fact that wealth in the region largely eludes taxation. In what follows, differing growth models are discussed with a view to (a) the export structure of various selected country-specific case studies from this volume and (b) several key economic figures on state finances and tax systems in the region.

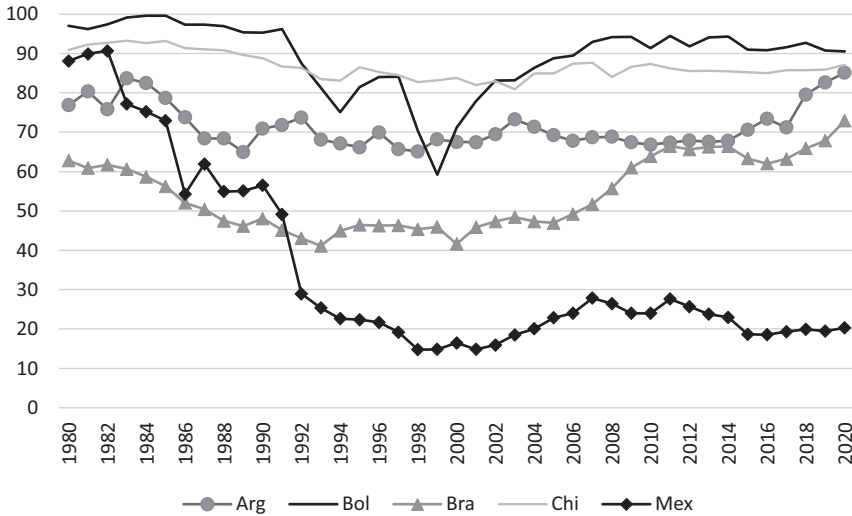


Figure 14.1 Share of commodity exports (including processed foodstuffs) in total exports in selected Latin American countries. (Source: Author's calculation based on CEPALSTAT.)

If we consider the region's export structure, we note the enduring centrality of commodity exports in total exports (Figure 14.1). With regard to their export structure, Brazil and Argentina exhibit various similarities. During the last peak in commodity prices around 2011, the share of commodity exports in total exports was at 70% in both countries. A substantial proportion of the remaining 30% of industrially manufactured goods exports were vehicles, which circulated – in accordance with the rules of a compensatory exchange and under strongly protectionist conditions – mainly among the Mercosur countries, particularly between Argentina and Brazil (see Bértola and Ocampo, 2013, p. 293; Fitzsimons and Guevara, 2016). Subsequently, access for Argentinian motor vehicle exports to the protected Brazilian market was tied to the proportional opening of the Argentinian domestic market for Brazilian imports in return. As a result, the Argentinian export volume remained limited to the confines of the domestic market, in which the capital-intensive, high-tech automotive industry could never produce at a profit under normal conditions given the small production scales (Fitzsimons and Guevara, 2016, p. 191). In this circumscribed market, eight of the largest automotive corporations worldwide operated production plants during the latest commodity boom phase (Fitzsimons and Guevara, p. 188). Correspondingly, even with regard to the 1990s (six active major car manufacturers), Iñigo Carrera already raised the following question:

How do they fit into a market of only 36 million [today 45 million, P.F.] inhabitants, almost half of whom live below the poverty line today and

whose average wage is just one tenth of the American wage? Conversely, in Italy, with a population that is two thirds larger and an average wage close to the American one, there is only one car manufacturer which is, furthermore, able to sustain independent capital ownership.

(Iñigo Carrera, 2006, p. 193)

The answer lies in the natural resource rent. It can be regarded as the key compensation mechanism to offset the high production costs resulting from limited production-scales and/or the use of technologically obsolete production facilities (Fitzsimons and Guevara, 2016, pp. 186, 192ff.). The natural resource rent makes taxation expendable; it can be deployed to reduce the price of labor power, fund subsidies, sell cars at inflated prices (by global standards), and, through the overvaluation of the national currency, to cheapen industrial goods imports for the automotive sector and to transfer extra profits to corporate headquarters abroad or directly into offshore tax havens (Caligaris and Oyhančabal in this volume). The Argentinian automotive industry is essentially an assembly industry, which hardly uses any locally manufactured components and is mainly geared towards vehicle sales on the Argentinian market (Gaggero et al., 2014, p. 40; Manzanelli and Basualdo, 2016, p. 32). Throughout the entire boom phase between 2003 and 2015 it caused a considerable trade deficit for the sector, which reached its peak at more than US\$4 billion in 2013, i.e., the same year that the automotive sector achieved an all-time record share in total industrial goods exports (42%) (UN Comtrade Database, 2020). It therefore seems safe to say with regard to the automotive industry that this form of industrial export is disastrous in terms of both foreign trade and fiscal revenue, further cementing the structural centrality of the commodity sectors. Taking into account the comprehensive tax exemptions, it primarily serves domestic luxury consumption, the corresponding business deals this entails in politics, trade and the financial sector, and the creation of jobs.

In Brazil, the automotive industry and all other strategic sectors, including the semiconductor, aerospace, and other industries, enjoy generous tax incentives (Castañeda in this volume); and yet this has not led to a decoupling of the economic dynamic from commodity prices. When world market prices for Brazilian primary export goods dropped, towards the end of president Dilma Rousseff's term in office, Brazil entered into a severe economic crisis. Even before the "cold *coup d'état*", which put an abrupt end to the Rousseff government, the course towards austerity had already been set (which, incidentally, is equally true for the end of the Kirchner government in Argentina in 2015). In contrast to Brazil and Argentina, Bolivia's and Chile's total exports almost exclusively consist of commodity exports; in the case of Bolivia this pertains especially to the export of natural gas, in that of Chile to the export of mineral resources, although the country has strongly diversified its exports in the primary goods and food sectors over the past decades (see Frohmann, 2004, p. 596). In Chile, almost all economic activity is based on varying primary goods sectors and related industries. In contrast to Brazil and Argentina, the country

has no car industry, and its economic strategy relies, above all, on comparative cost advantages (Herzer, 2006; see Bértola and Ocampo, 2013, p. 276).

Mexico is the exception in this sample. Here we can observe, beginning in the 1980s and accelerating during the 1990s, a marked decline in commodity exports – particularly in the oil industry – in favor of industrial goods exports. Outside the premium pricing phase for commodities between 2003 and 2012, industrial exports constituted 80% of Mexico's aggregate exports. This is mainly related to Mexico's preferential treatment by the US market as well as comprehensive free trade agreements (NAFTA in particular) and the pronounced openness to foreign direct investment (with the exception of the state-operated oil sector), which have marked the country's economy since the 1980s. Here, the maquila industry and, again, especially the car industry, account for the bulk of exports of industrial goods (Bértola and Ocampo, 2013, p. 293). The manufacturing sector consists mainly of assembly industries with a high share of imported components, thus contributing very little value added nationally: despite the enormous growth in industrial goods exports between 1990 and 2010, Mexico exhibited only low overall growth (GDP) by regional comparison (Bértola and Ocampo, p. 295). Due to the competition from Chinese industrial exports, particularly those countries with a smaller volume of commodity exports such as Mexico accrued substantial trade deficits during that same period (Bértola and Ocampo, pp. 280–281). Considering extensive tax exemption provisions and a low value added, this sector appears primarily to serve, in terms of industrial policy, the absorption of cheap labor, but cannot be regarded as a fiscal macroeconomic stabilizer.

The varying development models are reflected in differing tax and fiscal regimes across the region, which can be explained by distinct historical–political development paths (on the historical genesis of different tax and development state models, see Gutiérrez and Ondetti in this volume). Table 14.1 shows the varying fiscal regimes associated with the country-specific case studies in this volume.⁹

If we inspect the largest national economies in the region more closely, we find that Argentina and Brazil exhibit the highest public-spending-to-GDP ratio in the region for the period 2003–2015, each averaging around 40%, thereby lagging only slightly behind the OECD average. These states are thus fully integrated into the national economy as a whole and, hence, by regional comparison, have political control of a large proportion of resource allocation and dynamics. Measured by their tax-to-GDP ratio, consequently, the two countries are among the strongest tax states in the region. A look at their tax structure shows that they source their revenues via indirect, especially consumption-based taxes (50%) to an extent matched in the region. Argentina exhibits by far the highest figure for spending on economic subsidies (almost 5% on average). Yet, we ought to keep in mind that the period under examination marks one of the most prosperous growth phases in Latin America's history. Brazil, in contrast, exhibits relatively generous tax exemptions, at a volume of 4% of GDP. We find a similar situation in Uruguay, where myriad tax-free

Table 14.1 Fiscal regimes: public spending and taxation (selected items) in selected Latin American countries (2003–2015).

	<i>Taxation (including social contract)</i>						
	<i>Public spending as % of GDP</i>			<i>as % of GDP</i>			
	Total expenditure	Social protection	Economic affairs	Total tax	Tax expenditure*	Indirect tax	Direct tax
Argentina	36.4	10.8	4.9	28	2.3	52.4	20.9
Brazil	39.2	12.7	2.3	33	4.0	45.5	22.5
Bolivia	33.7	4.5	n/d	23	1.3	61.4	18.4
Chile	20.7	6.3	2.7	20	4.8	52.0	39.6
Mexico	18.0	6.0	2.6	13	4.5	37.9	40.9
Uruguay	22.5	5.4	1.3	24	6.0	49.4	26.2

Source: CEPALSTAT for public spending; CEPAL and OXFAM, 2019 for tax expenditure; OECD Statistics for taxes.

Notes: total expenditure Brazil (Gobierno General); Argentina (Sec. Pub. No Financiero); Chile, Bolivia, Mexico, and Uruguay (Gobierno Central)*For tax expenditure, 2007–2015; indirect taxes also included the financial transaction tax due to its cascading effect.

“free trade zones” and investment programmes result in the most comprehensive tax exemptions among the countries considered, namely at 6% of GDP, while the role of direct economic subsidies is negligible. Argentinian governments thus retain significantly more effective political control over resource allocation. Uruguay, by comparison, despite its rather inflated state bureaucracy, shows relatively low figures for public spending and dispenses with taxation of major corporations altogether, particularly in agriculture and forestry as well as related industries (Oyhantçabal in this volume). Here, the revenue department appropriates part of the available surplus product slightly more thoroughly via direct taxes. Since the tax reform of 2007, it has done so particularly through the taxation of wage incomes, the total tax revenues of which have surpassed those from corporate tax (OECD *Statistics*). In comparison, Argentina raises the highest corporate tax in the region (35%) (see Figure 1.1, in the Introduction) but also suffers from historical record levels of tax evasion. In this regard, the tax-free zones in Uruguay and certain legal constructs for tax avoidance in Chile (see Atria in this volume) provide a regional architecture for comprehensive capital flight and tax evasion practices (see Grondona in this volume). In a context of ubiquitous tax evasion, controlling the tax administration becomes all the more vital, and tax-related prosecution can turn into a political instrument to the benefit of allied segments in politics and society, or to the detriment of rival groups. Correspondingly, a total of 49 directors of the national tax authority between 1947 and 2002 surpasses even the already impressive number of Argentinian presidents (Melo, 2007, pp. 125–126). In the governments since 2003, too, there have been abrupt replacements of the entire leading staff of the national tax office (see Gaggero et al., 2013, p. 25). Ever since its introduction in 1956, tax amnesty has become the reliable norm (Mitchell, 2006, p. 246).¹⁰ To put it in more schematic terms: while Uruguay largely does without corporate tax, Argentina first establishes high tax rates and subsequently decides for whom they apply.

Chile and Mexico, with their high proportion of direct taxes, exhibit the most progressive tax structure in the region, with Mexico furthermore standing out due to the relatively small share of consumption taxes. By regional comparison, however, both countries raise only very moderate taxes and therefore show a relatively low public spending-to-GDP ratio. More specifically, Mexico, despite the size of its economy, has a tax-to-GDP ratio comparable to that of Guatemala and Paraguay. The low tax rates in both countries and the tax composition can be traced to the respective growth model in each case. For several decades, the two countries have pursued an economically liberal model of growth and development that includes strong fiscal incentives (tax exemptions) at a volume of some 4.5% of GDP. A closer inspection of the composition of direct taxes reveals the differences between the economic models of Mexico and Chile. While Mexico collects direct taxes mainly through income tax from formalized workers in its industrial sector (Gutiérrez in this volume), the Chilean treasury obtains its direct tax revenues largely via corporate tax (OECD *Statistics*). The Chilean economy, which is

entirely geared towards the commodity sector and natural cost advantages, allows for a stronger secondary taxation via taxes from corporations themselves, while broad exemption provisions and tax planning models weaken the personal income tax despite a relatively strong tax authority (see also Atria in this volume). Here, the economic elites, aided by the Pinochet dictatorship, successfully enforced a low overall tax burden on society and a free-market-oriented, allocation-neutral state (Ondetti in this volume). Seeing as the total circulating economic surplus product that can be fiscally appropriated – be it through direct or indirect taxes – ultimately represents a reduction of the surplus product available for private appropriation, then the low overall tax burden, in turn, allows economic elites to appropriate a significantly greater share of the natural resource rents than they can in other countries. As a result of the violent phase-out of the import-substitution industries during the long years of the Chilean dictatorship, a relatively homogeneous economic structure emerged, which is expressed in powerful and coherent industrial associations who assert their influence to ensure generally low tax rates (see also Ondetti in this volume; Fairfield, 2010). In many other countries in the region, which have less coherent business association structures, it is the individual nationally and transnationally influential economic groups and corporations who attain more specially tailored tax breaks (Castañeda in this volume).

In Mexico, the centrality of natural resource rents for the country's economy can be discerned from the high share of public revenues from the oil sector in aggregate economic output (Farfán-Mares and Morayta, 2011). At a volume of 10% (2008) of GDP (CIAT-IDB Dataset), the share of these revenues in aggregate economic output corresponds to or exceeds that in Ecuador and Venezuela, which, in contrast to Mexico, are typically regarded as rentier states, and in which oil exports account for 50% to 90% of total exports. Even in the absence of characteristic rentier state features, such as the export-induced overvaluation of the national currency, the economy is therefore firmly based on natural resource rents, which amount to about a third of public revenues on average and compensate for the discrepancy between tax revenues (total) and public spending (only central government represented above) (Farfán-Mares and Morayta, 2011). At the same time, Mexico's waiver of large-scale oil exports allows the country to generously supply its national economy with energy. The Mexican private sector thus benefits from public spending and extensive tax breaks without being burdened by fiscal obligations, as the latter sources the bulk of its funds from the state-operated oil sector. This is the backdrop to the many public enterprises – among which the oil and energy sectors stand out – that have shaped the Mexican development state. Between 1970 and 1982, their number rose from 272 to more than 1,555. And yet, not only did they fail to generate revenues for the state, but, on the contrary, they made the state even more dependent on credit and thereby strengthened the structural power of the economic elites, who, for their part, were largely relieved from taxation (Gutiérrez in this volume). This “enormous Mexican public sector allows us to reconcile the image of a large state that

intervened in the economy during the ISI period with the tax poverty of the Mexican state” (Gutiérrez in this volume). The current spending figures (2020) of the Mexican central government reveal a far greater public spending-to-GDP ratio when considering public enterprises (non-financial public sector), at 26.4%, than without the inclusion of state-owned enterprises (20.4%) (CEPALSTAT, n.d.), thereby conveying a more realistic picture of the state’s presence in the national economy. Historically, many of the public enterprises provided the industrial sector with upstream inputs at below-market prices, thereby subsidizing the consumption of basic goods for broad sections of society (CEPALSTAT, n.d.). Resembling the function of public enterprises in Argentina during the period preceding the 1970s–1980s military dictatorship, as described by sociologist Ana Castellani, the Mexican counterparts also created “privileged accumulation spaces” (Castellani, 2013), which allowed private enterprises and economic groups to produce at below-standard costs and thereby create or protect corresponding job opportunities. Such a form of allocation policy is the functional equivalent of extensive public spending on direct subsidies for industry and funding the state bureaucracy and therefore obviates the tax-based extraction of the available surplus product.

In sum, we can ascertain varying manifestations of the same pattern. Wealth is subject to only very limited taxation, or at least not in accordance with universal tax principles, instead depending on sector-specific possibilities of rent appropriation. The tax systems are primarily expressions of differing growth models through which governments respond, in distinct ways, to structural heterogeneity. These strategies seek to create employment through tax waivers or comprehensive subsidies and thereby improve accumulation structures for capital and offset the need for technological innovation.

Concluding reflections: contours of the rent-based society and tax regimes

Latin American tax regimes need to be reappraised from the perspective of the political economy of natural resource rents. Correspondingly, the debate on the politics of taxation in Latin America must first abandon its one-sided focus on the (re-)distributive function of taxes in accordance with Western models. As a general rule, politics of taxation tax policy are always (and at the same time) allocational politics (Haffert and Mertens, 2019). This applies in particular in development contexts in which self-sustained economic accumulation and modernization dynamics outside the commodity sector are absent, where tax policy intervenes in the resource flows of the market and channels them to the advantage of other sectors. Allocation policy is an instrument for creating or preserving economic sectors that generate income and profit opportunities outside of concentrated commodity sectors and thus serve the participation of broader segments of society in the available surplus product – in Latin American economies, reliant to a large extent on natural resource rents. In structurally heterogeneous societies, the preservation of economic structures

through allocation policies can therefore become the main distributive concern for governments. It creates primary income opportunities (usually understood as market income) and reduces the concern for secondary sources of revenues (after taxes and transfers) to a low-priority fiscal issue. Correspondingly, allocational politics must be understood, alongside distributive politics, as a primary determinant of Latin American tax regimes, engendering not only vertical inequality emerging from the property ownership relations, but also horizontal inequalities and disparities between different social segments. It can form the basis of (structurally) cross-class alliances that perpetuate this matrix of inequality. A brief glance at the example of Argentina helps illustrate the configuration of inequality emerging from this. The net profits (profit rate) of the 500 largest non-agricultural business enterprises in Argentina between 2002 and 2015 averaged 12%, thereby significantly surpassing the average profit rate of capital in Germany and the United States. At the same time, the share of government subsidies in net profits was at 20% on average between 2009 and 2015 (author's own calculation based on figures from INDEC).¹¹ In other words, one-fifth of the net profits (after tax) of the largest companies on the Argentinian market were sourced from public funds. At the same time, these corporations pay the highest wages on Argentina's labor market. This way, the fiscal policy benefited the largest corporations and a very limited segment of the Argentinian working class, whose wages were made possible through a corresponding allocation policy that did not threaten corporate profits or exert any pressure to increase productivity. This tends to contribute to the reproduction of productive structures and prevents demands for higher taxes on capital or, conversely, on wages.

By waiving taxation, granting subsidies, and other instruments, such allocational politics create structures of privilege, which provide a limited part of the population with opportunities to earn profits and (formal) incomes, essentially determining who in society is permitted to assume the social function of an entrepreneur and who is granted the social role of a (formalized) worker. In this sense, the state's allocation of rents constitutes a *process of political socialization*. Being an "entrepreneur" as well as being part of the (formalized) "working class" as such constitutes a privilege. From this culture of privilege (see Domínguez Martín in this volume) emerge the contours of a rent-based society.

Allocational politics that sustain (economically dependent) structures of privilege indefinitely reproduces the hierarchical mode of selective (material) representation and integration of society and thus the complex vertical and horizontal structures of inequality. The question of who is taxed is not decided based on merit and performance or the principle of equal treatment, which characterize and delimit the Western tax state. Rather, it is determined in accordance with the specific growth model and the particular distributive alliance.

This political form of socialization requires resources from the commodity sector at a scale that makes it incompatible with the (Western) liberal order

of property and ownership or the corresponding principles of taxation. It would be extremely difficult to assert politically. One alternative to politically contested taxation are instruments of primary appropriation and channeling of the rent from the commodity sector (Caligaris and Oyhantçabal in this volume). This form of reallocation is possible because the state is able to channel the rent through various macroeconomic instruments before it reaches the major landowners and has to be appropriated via (secondary) tax instruments. Historically, this has included pricing interventions, differential exchange rates, export duties, and currency overvaluation. Caligaris and Oyhantçabal have shown in this volume that the overvaluation of the national currency has represented the key instrument for channeling natural resource rents to other sectors in Argentina and Uruguay over the past three decades. Instruments of primary allocation can therefore be regarded as functional equivalents and alternatives to (secondary) fiscal policy, rendering further taxation expendable. On the other hand, this form of rent allocation helps industrial structures using limited and obsolete technology (at least by global standards) to remain in the market through cheap imports of production inputs and inflated profit transfers. As a result, the configuration of the rent-based society is perpetuated.

Given these particular conditions, the question of the prospects for overcoming the grave inequalities in Latin American societies and of the status of allocation and fiscal policy in the process appears in a new light. Three key instruments, which are closely interlinked, would appear most conducive. (1) The nationalization of commodity sectors or commodity-related key industries – wherever this is possible and has not already been done – would constitute a form of primary appropriation that does not entail immediate allocation-induced impediments for development. Furthermore, this would allow for the maximum surplus appropriation in the respective sectors. (2) Wherever this is not possible, the coupling of the commodity sector's taxation with specific, widely demanded social expenditures could mobilize additional sources of legitimacy that would justify more comprehensive and more effective taxation (see Paz Arauco and Jiménez in this volume). This may include, in particular, the universalization of social security systems and the provision of high-quality public services. Although this tax earmarking violates liberal principles of taxation and budgeting, it may well represent an alternative to equivalence-oriented constructions of social and fiscal contracts that contribute to the reproduction or deepening of inequality. (3) Wealth – to be understood as the consolidated income both domestically and abroad – must be systematically and comprehensively taxed across all sectors. This requires further international efforts to combat tax havens (see Grondona in this volume), but also strong popular pressure that offsets the power of the rich. Here again, the consequent earmarking of a wealth tax could mobilize sources of legitimacy and build political pressure.

Needless to say, all this requires a democratization of decision-making processes concerning the utilization of the available social surplus product. So long

as the tight interwovenness of state and society engenders and protects structures of privilege and property relations that systematically contribute to the enrichment of a few and the marginalization of the many, nothing is gained by handing these networks and structures even more resources. Economic structures that can only be sustained through protectionism and the political allocation of rents turn the social function of the entrepreneur and capital owner into a privilege that is not matched by a meaningful contribution to the economy or society.

The “rent-based societies” perspective set out here allows for a more profound understanding of the specificities of Latin American fiscal policy. This constitutes an important precondition for developing new strategies to reduce structural heterogeneity, ensure all groups’ effective participation in society and the sharing of its wealth, and advance the implementation of sustainability demands that usually fall victim to political distribution alliances. More social participation in political and economic decision-making, then, marks a key point of leverage to overcome structures of privilege, foster a democratic culture and, ultimately, to devise a new social contract that allows for the reproduction of society within the planet’s limits.

Notes

- 1 In the English language, the term “tax regime” is usually used synonymously with “tax system” or, as is the case in Spanish, too, to denote specific areas of tax regulation, concerning, for example, certain investments or particular taxable groups. In this volume, the term refers to the totality of the tax-related, political, economic and social regulations, arrangements, and interweaving that give shape to the reality of a tax system. The term thus emphasizes the comprehensive embeddedness of the fiscal nexus of state and society, a concept widely used in the discipline of fiscal sociology (see Atria et al., 2018, p. 12; Martin et al., 2009).
- 2 The concept of “structural heterogeneity” was developed by CEPAL in the 1970s to capture the political-economic situation in Latin America. It aims to afford a combined analysis of world market integration, production structures (especially the export of natural resources), inter-sectoral productivity differentials, the segmented labor-income groups and labor markets, as well as the corresponding graduated patterns of consumption. Structurally heterogeneous societies are characterized by the marginalization of large parts of society (see Burchardt in this volume; Elsenhans, 1987).
- 3 Elsenhans has thoroughly engaged with political economy and development since the 1970s and continues to be one of the most distinguished scholars in the area of rent theory (see Boeckh and Pawelka, 1997).
- 4 The international division of labor accounts for the significance of differential rents: the value of primary goods is determined based on the production costs in cultivation areas with the lowest-quality and least-yielding soils and raw materials deposits, the products of which can only barely be sold at a price that meets average profit expectations which justify the investment. Given the abundance of natural resources and the particularly high-yielding soils in Latin America, there are considerable differential rents to be appropriated, emerging from the difference between the relatively low production costs locally and prices on the global market. These rents are beyond the average profit expectations of capital that motivate an investment. For a detailed discussion of the rent concept, see Neelsen (1997). In general, it is quite difficult accurately to survey the rent volume empirically, as rents only appear in combination with profit in real life. Although

the threshold values for a distinction between strong, weak, and middling rentier states (see Beck, 2007, p. 46) proposed in the rentier state debate represent an attempt empirically to capture different categories of the extent of rent, they remain at the level of state revenues without taking into account their allocative function for industrial structures and appear rather arbitrary. Given this problem of the threshold value, the question of whether rent realization and distribution or capitalist value-creation becomes the dominant moment can only be assessed through a qualitative analysis of the conditions under which rent accrues, is appropriated and distributed, and influences the respective form of socialization.

- 5 This circumstance is expressed by Elsenhans's (1977) concept of "state classes": if individual class affiliation is determined by the position of an individual within or in relation to the productive process, which, in turn, affects income and participation opportunities in varying ways, then a bureaucracy that appropriates and controls the social surplus product can be regarded as a social class (Elsenhans, 1996, p. 174).
- 6 Elsenhans identifies this as the central social and political reason for establishing a bureaucratic development state, as emerged in many Latin American countries during the phase of so-called "import substitution industrialization" (ISI).
- 7 During high-price cycles for commodities, aggregate demand leads to currency revaluation and thereby further boosts demand, while in times of crisis the currency is devalued and further amplifies the contraction of demand (Ocampo, 2017, p. 65).
- 8 One exception is agriculture, which absorbed around 20% of the working population on average in Latin America in 2020. Wherever the agricultural sector represents the dominant natural resource sector, i.e., wherever it is central for the economic dynamic as a whole, the situation is different. In Uruguay, for example, where agriculture clearly constitutes the most important economic sector, a mere 8% of the working population were employed in this sector in 2020 (CEPALSTAT, n.d.).
- 9 Not all the data used is equally reliable. Methodological differences and the quality of country-specific data may distort representations, especially with a view to tax exemptions. Concerning methodology, it should be noted that the figures are taken from the same study. If nothing else, this data at least provides orientation and illustrates plausible patterns and differences between countries.
- 10 In the light of an imminent tax amnesty in Argentina, a speaker mentioned during a debate in the senate in 2008 that there had been 88 or 89 tax amnesties in the country's history (Senado Ley, 2008, p. 12). At least another four were added by 2020.
- 11 The data referred to is taken from the INDEC survey among the 500 largest business enterprises in Argentina. The calculation of the profit rate adheres to the method of Castells and Schorr (2015, p. 59).

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Index

Page numbers in **bold reference tables.

**Page numbers in *italics* reference figures.

- Act of Bogota 141, 152n2
Afro-American region 26
agrarian commodities 219–220; state intervention 223–224
agrarian ground rent appropriation, Uruguay 236–240
agrarian reform 140–141, 143–145, 264, 266
agrarian sector 222, 225, 235
agricultural commodities: Argentina 223–228; exports **126**
agricultural sector surplus profit 222–225, 292n8
agro-export period 26
Alliance for Progress 140–145
allocating fiscal resources, policies for 58–63
allocation policy 288–289
allocational politics 10–12, 14, 159, 288–289
allocative politics 12–14
anti-statists, Brazil 170–171
appropriating ground rent, Uruguay 236–240
Argentina 116; agricultural commodities 223–228; allocating fiscal resources 59; automotive industry 221, 283; business interest groups 205–206; capital flight 129; Covid-19 118; crisis economy 214–215; crisis of the accumulation of capital 222–228; direct taxation 33; economic formation of society 219; economic subsidies 284; export taxes 54, 219–220, 226; fragmentation of business community 207–208; ground rent 219, 221–222, 226–227; hydrocarbon royalties 54; labor power 221; net profits 289; overvaluation of commodity imports 125–128; overvaluation of national currency 220–221, 225–226; royalty payments 120–121; tax administrations 117; tax reforms 207; tax revenues 29; undervaluation of exports 125–128
assistentialist policies 254
asymmetric allocation 59, 62
automotive industry 221, 282–283
avoidance schemes 116
Bolivia 75; Covid-19 79, 86; crisis, generating tax reforms 83–84; direct tax on hydrocarbons (IDH) 59; expansion of taxpayer base 86–87; Financial Investigations Unit (UIF) 85; fiscal policy 88–90; Gas Referendum 78, 91n8; Gas War 78; GDP 81; hydrocarbon subsidies 79; hydrocarbon taxes 82; hydrocarbons 78; income tax 280; lithium mining 91n5; Multilateral Debt Relief Initiative (MDRI) 92n10; nationalization of hydrocarbons 91n9; Plurinational State 88; reducing tax evasion 87–88; Securities Market Act 85; structure of tax revenues (2006–2020) 79–83; tax burdens 160–161; tax havens 85; tax reform and natural resources (1986–2006) 76–78; tax revenues 29; taxes on work and capital 85–86
Bolsonaro, Jair 169, 171
Brazil: automotive industry 283; Covid-19 169; custom tariffs 33; elites 170; financial compensation for mineral

- exploitation (CFEM) 55; hydrocarbon fiscal regimes 54; Party of the Liberal Front 171; protectionism 169; sales taxes 33; social security 168; state intervention 168–171; tax burdens 157, 161–164; tax incentives 208; tax revenues 163, 169
- bureaucratic development society 275
- business associations 159–160, 167, 201–207
- business community: Chile 206; fragmentation of 204; sectorial associations 206
- business coordination 197, 199–202; inequality 203–209; tax progressivity 202–203
- business influence 203, 205
- business interest groups 196–207
- business power 199–201
- business unity 201–202, 206–207, 209
- businesses, tax incentives **205**
- capital 216, 218; Argentina 222–228; social capital 217; taxes, Bolivia 85–86
- capital accumulation 178, 187, 190, 215–220, 227–229, 238, 240–242, 276
- capital flight 115, 129
- capitalist market societies 277
- CEPAL *see* Economic Commission for Latin America and the Caribbean
- Chicago Boys, Chile 166
- Chile 96; allocating fiscal resources 61; business community 206; Concertation 166, 168; direct taxation 286; economic elite and taxes 103–106; exports 283; GDP 164; income tax 280; investment companies 107–108; mineral resource extraction 163; mining activity fiscal regimes 58; pension systems 164; public spending cuts 38–39; redistributive reforms 163–165; reform and liberalism 164–168; social spending 102; state intervention 165; tax burdens 103–106, 157, 161–164; tax evasion 286; tax evasion and avoidance 106–107; tax policy 101–103, 109; tax reforms 102–103, 207; tax revenues 163; value added tax (VAT) 103
- CIT *see* corporate income tax
- Colombia, allocating fiscal resources 61
- colonial heritage, nation-state formation (c. 1082–1870) 27–29
- colonial tax system 29
- commercial income tax, Mexico 182
- commodities 115–116; ground rent 219; overvaluation of commodity imports 125–128
- commodities supercycle 149
- commodity boom 5, 68, 223, 227, 260, 278
- commodity export sectors 11–12
- commodity exportation 128
- commodity exports 282; Mexico 284
- commodity superbloom (c. 1998–2019) 41–44
- commodity-based development models 276
- comparing Brazil and Chile 161–164
- compliance 99–100
- Concertation, Chile 166, 168
- Confederación de la Producción y del Comercio 206
- consumption taxes 5, 101, 286
- coordinated business communities 197; *see also* business coordination
- coronavirus pandemic 251; *see also* Covid-19
- corporate excess profits tax 178, 182–183, 190
- corporate income tax (CIT) **52**, 55–57, 62, 67, 79, 149–150, 187, 209, 234–235; *see also* income tax
- corporate tax rates **7**, 208, 269n6
- corporate taxation 5, 8, 208
- Corporation for Production Promotion (CORFO), Chile 164
- coups d'état 102, 144, 165, 283
- Covid-19: Argentina 118; Bolivia 79, 86; Brazil 169
- CPC *see* Confederación de la Producción y del Comercio
- crisis of the accumulation of capital, Argentina 222–228
- Cuba 140–141, 143, 159
- custom tariffs 33
- custom taxes 39–**40**; relative to central government revenue (1930–1979) **35**
- debt sustainability **84**
- debt-led growth 37
- decarbonization process 50
- democracy 95, 102, 109, 158, **162**–163, 206, 253, 264, 267, 276
- dependency theory 144, 217–218, 228
- developing countries 2, 38, 63, 125, 128–130, 198, 210
- development: income distribution 139–140; raw materials 252–253

- development models 25–26, 38, 157–161, 163, 166–169, 171, 251–253, 261, 284; commodity-based development models 276; export-oriented development model 258; natural resource exporting development model 263–266; natural resource-based development model 15
- deviations by agricultural commodity export type **127**
- differential appropriation of surplus value 242
- differential rent 244n1, 291–292n4
- digitalization 50
- direct tax on hydrocarbons (IDH), Bolivia 59, 88
- direct taxation 5, 26, 234, 260
- distribution of raw materials 259–262
- dividend payments 120
- Dominican Republic, tax burdens 161
- double taxation 120–121, 124–125; Molinos Rio de la Plata group 122–123
- Dutch disease 269n11
- ECLAC *see* Economic Commission for Latin America and the Caribbean
- Economic and Social Development Plan (PDES), Bolivia 84
- Economic Commission for Latin America and the Caribbean (ECLAC) 138–139, 141–142
- economic conglomerates 206
- economic development, tax burdens 158
- economic elite: Chile 103–108; Mexico 184–188; *see also* elites
- economic groups 177
- economic growth from raw materials 252
- Economic, Social, Communitarian, Productive Model (MESCP) 76, 79
- economic sociology 97
- economic subsidies 284–286
- Ecuador, allocating fiscal resources 61
- education, tax burdens 159
- elasticity pessimism 140
- elite cohesion 159–160
- elites 144, 150–151, 264; Brazil 170; Mexico 189; *see also* economic elites; financial elite
- Emergency Assistance Program for Work and Production (ATP) 118
- employment, sectoral and structural shifts in 253–254
- Euro-American region 26
- exchange rate 13, 32–33, 37–38, 183, 221, 226, 232, 237, 239–243, 278, 290
- expansion of taxpayer base, Bolivia 86–87
- export taxes: Argentina 54, 219–220, 226; agrarian export taxes, Uruguay 244n4
- export-oriented development model 258
- exports 283–284; agricultural products and manufactured goods of agricultural origin **126**; commodity exports 282; Latin America (1970–2020) **200**; *see also* export taxes
- expropriation 72n2, 144, 159–160
- extraction-centered economies 263
- extractive activities, employment 253–254
- extractivism 101, 252–253, 267–268n3; *see also* green extractivism
- financial elite 177–178; *see also* elites
- fiscal contract 9, 14, 198, 210, 280, 290
- fiscal equity 225
- fiscal policy, Bolivia 88–90
- fiscal reforms 8, 14, 33, 137–138, 142–143, 145–149, 207
- fiscal regimes: growth models 281–287; hydrocarbon fiscal regimes 51–55; mining activity fiscal regimes 55–58
- fiscal resource mobilization 4–8
- fiscal sociology 9, 96, 108, 291n1
- fiscal surplus 38, 75, 79
- foreign capital 30, 32, 215, 221–222
- foreign credit 180, 186, 222, 227
- foreign trade, taxes on **28**, 30–31
- fossil energies 265; *see also* hydrocarbons
- fossil fuel extraction 11
- fuel taxes 33
- Gas Referendum (Bolivia) 78, 91n8
- Gas War, Bolivia 78
- GDP *see* gross domestic product
- General Treasury of the Nation (TGN) 59
- Gini Index **80**, 147, 149, 196
- globalization 29–31, 37–41, 115, 152
- green extractivism 251, 259, 261, 265, 266
- green jobs 251, 259, 266, 267n1
- gross domestic product (GDP): Bolivia *81*; Chile 164; hydrocarbons as percentage of 66–70; Uruguay 235
- ground rent 217–219, 232, 233; Argentina 221–222, 226–227; soybean index price 224; Uruguay 236–240
- ground rent appropriation (1993–2019) 225; Uruguay 243
- growth models 12–13, 274, 281, 286, 288–289; fiscal regimes 281–287

- high-value jobs 266
Hirschman-Herfindahl index (1995–2017) **200**
hydrocarbon fiscal regimes 51–55;
 allocating fiscal resources 58–63
hydrocarbon subsidies, Bolivia 79
hydrocarbons: Bolivia 78; fiscal revenues
 63; mining 63–66; as percentage of GDP
 (2000–2019) 66–70; taxes, Bolivia 82
- IDH (direct tax on hydrocarbons), Bolivia
 59, 88
imbecile institutions 150–151
import levies 30
import substitution industrialization
 (ISI) 12, 32, 140, 176, 191n4, 207,
 275, 287, 292n6; *see also* state-led
 industrialization
income and profit taxes relative to total tax
 revenue (1990–2019) **43**
income distribution 43, 138–142, 145–146,
 148, 234
income inequality 258; *see also* inequality
 income redistribution 141
income taxes 33; Chile 101–102; Mexico
 182–186, **189**; relative to central
 government revenue (1930–1979) **36**;
 see also personal income tax
Independent Democratic Union (UDI),
 Chile 160, 167
indirect taxation 4, 260
Indo-American region 26
industrial transformation 199
industrialization 186–187, 201; state-led
 industrialization 26, 31–37, 146; taxes
 measures (1925–1952) 182–184
industrialization through import *see* import
 substitution industrialization
inequality–development relationship 139
inflation 37–38, 77, 139, 146;
 hyperinflation 171; inflation rate 77;
 inflationary 28; inflationary pressures
 41; inflationary process 186; inflationary
 taxes 38
influence, business 203, 205
informality 87, 149, 205, 208–209, 280
infrastructure 10, 13, 32, 50, 61, 68,
 70–72, 84, 180, 208, 233
inheritance tax 260
institution–building (1870–1930) 29–31
instrumental power 176, 178, 182,
 186–188, 190, 199–202, 208
Inter-American Development Bank
 (IADB) 140, 146
international division of labor 115, 215,
 219, 229, 232–233, 241, 243, 275,
 291n4
international management of debt crisis 38
International Monetary Fund 38
investment companies, Chile 107–108
- Johnson, Lydon B. 144–145
- Kaldor, Nicholas 8, 142, 152n3, 187
Kuznets 147, 153n8
- labor power, Argentina 221
labor productivity 255–259, 278
labor relations 254–255
landowning class, Argentina 215, 217–228,
 239, 243
large firms 208; political power 204
Latin American syndrome 137
Law 843, Bolivia 77
Law for the Promotion of Manufacturing
 Industries, Mexico 183–184
liberalism, Chile 164–168
lithium mining, Bolivia 91n5
local governments 39, 62, 68–69, 90
lost decade 32, 41
Lula da Silva, Luiz Inácio 170
luxury consumption 139, 283
- Manufacturing Industry Laws, Mexico
 183–184
marginality 279
market liberalization 204
market-oriented development model 160
market-oriented think tanks 167
metals, prices 64–65
Mexico 176–179; allocating fiscal
 resources 61–62; commodity exports
 284; conservative alliance 178;
 corporate excess profits tax 183;
 custom tariffs 33; direct taxation 286;
 economic elite 184–188; failed reforms
 (1950s and 1960s) 188–190; hydrocarbon
 fiscal regimes 54; hydrocarbons as
 percentage of GDP 68; income tax
 182–183, **189**; income tax reforms
 (1953–1955) 184–186; Law for the
 Promotion of Manufacturing Industries
 183–184; Manufacturing Industry
 Laws 183–184; mining activity fiscal
 regimes 55, 58; missed opportunity
 of 1961 186–188; natural resource
 rent 287; personal income tax 187;
 progressive alliance 178; state-owned
 enterprise sector

- (SOE sector) 180, **191**; tax collection 179–181; tax measures (1925–1952) 182–184; total federal government budget revenue **181**; windfall profits 184
- middle class 252
- middle income trap 259, 266, 269n12
- mineral resource extraction, Chile 163
- minerals: fiscal revenues 63; prices 64–65; *see also* raw materials
- mining 11, 118; hydrocarbons 63–66; hydrocarbons as percentage of GDP 66–70
- mining activity fiscal regimes 55–58
- mining operations 266; labor productivity 255–256
- mining royalties 55, **56–57**, 59, **60**, 61–62, 88
- modes of development 14, 25
- Molinos Rio de la Plata group 120, 122–123
- Montalva, Eduardo Frei 165
- moving export taxes 220, 226
- Multilateral Debt Relief Initiative (MDRI), Bolivia 92n10
- multinational conglomerates (MNCs) 208; political power 204
- National Renewal (RN), Chile 167
- nationalization of hydrocarbons, Bolivia 91n9
- nation–state formation (c. 1082–1870) 27–29
- natural resource dependence 3, 76, 90, 158, 258
- natural resource exporting development model 263–266
- natural resource rent 28; Mexico 287; political economy 274–277; *see also* ground rent
- natural resource revenues 6, 50, **60**, 64, 66, **69**, 70, 76, 258, 263, 265
- natural resource–based development model 15
- natural resources 252, 263; Bolivia (1986–2006) 76–78; *see also* raw materials
- net profits, Argentina 289
- non-fiscal instruments 232–234, 236–240, 242–243, 262; *see also* non-tax revenue
- non-renewable resources: fiscal revenues 64–66; policy for allocating fiscal resources 58–63; *see also* hydrocarbons
- non-tax revenue 6, 33
- oil: Brazil 54; Ecuador **53**; Mexico **53**, 287; Peru **60**; soy oil **126–128**; taxes on 51, 67; *see also* hydrocarbons
- oil prices 54, 64–65, 75, 90, 92n13; Bolivia 92n13
- oil revenue 61–62, 153n10, 179–**181**, 265
- oil royalties 54, 78
- oligarchies 144
- Organization of American States (OAS) 140–141
- overvaluation: of national currency 290; Argentina 220–221, 225–226; of commodity imports 125–128; Uruguay 237, 240–242
- Palma ratio 147
- Panama Papers 85
- Party of the Liberal Front, Brazil 171
- PDES (Economic and Social Development Plan), Bolivia 84
- pension systems 149, 164
- per capita tax revenue (1820–1870) **28**; per capita tax revenue (1900–1930) **31**
- personal income taxes 6, 150, 205, 279–280; Mexico 187; Uruguay 234; *see also* income taxes
- Peru: allocating fiscal resources 62; hydrocarbons as percentage of GDP 68; mining activity fiscal regimes 58; tax revenues 28–29
- Petróleos Mexicanos (PEMEX) 180
- pink tide 8, 253
- Pinochet, Augusto 165–169, 171, 287
- Plurinational Legislative Assembly (ALP), Bolivia 85
- Plurinational State, Bolivia 88
- political economy 3, 9, 11; business coordination 201–202; ground rent 217; natural resource rent and statehood 274–277
- political power, large firms 204
- political socialization 289
- Popular Unity (UP), Chile 165
- poverty rates 252
- private property, Argentina 226
- private sector accumulation 10
- privileged accumulation spaces 288
- privileged class 151
- pro-cyclical fiscal policy 278
- productivity: labor 255; sectoral productivity 278
- profits 233; net profits, Argentina 289; rate of 221–223; surplus profit 216; windfall profits 54, 178, 183–184

- progressive alliance, Mexico 178
 progressive fiscal resource mobilization 4–8
 progressive governments 147–148
 progressive taxation 2, 141, 150, 196, 202
 progressivity 198–199
 property tax 40, 102, 149–150, 234, 236, 262
 property threats 159
 protectionism 31, 259; Brazil 169; trade protectionism 32
 public investment financing, Mexico **186**
 public spending 29, 260, 284–285
 public spending cuts, Chile 38–39
- rate of profit 221–223
 raw material sectors 11–12
 raw materials 10, 50, 115–116, 251, 263; development 252–253; distribution 259–262; labor 253–259; sustainable development 265–267; transformation and 263–265
 reallocation 290
 redistribution 138–139, 261; elite cohesion 159–160; inequality 161
 redistributive reforms 157, 160–262; Chile 163–165
 redistributive threats 160; *see also* redistributive reforms
 reducing tax evasion, Bolivia 87–88
 Re-IVA (value added tax cash refund), Bolivia 83–84
 rent theory 267, 274
 rent-based societies 15, 267, 291
 re-primarization 278
 resource mobilization 1–2, 4, 78, 88
 Rousseff, Dilma 170
 royalties: hydrocarbon royalties 51, 54; mining activity 55; mining royalties 55, 59, 61–62, 88; royalty payments, Argentina 120–121
- sales taxes 33
 sectoral productivity 278
 sectoral profit rates, Argentina 223
 sectoral shifts in employment 253–254
 sectorial associations, business community 206
 single revenue source dependency 3
 small to medium-sized enterprises (SMEs) 197–198, 208, 279
 social capital 217
 social inequality 138, 147, 149
 social pacts 78, 90–91, 141
 social security 37; Brazil 168; embedding labor relations in 254–255
 social spending 149, 161, 252–253; Chile 102
 Sociedad Rural Argentina 226
 solvency indicators of public sector's foreign debt, Bolivia **84**
 soybean index price 224
 special mining levy (GEM) 58
 special mining tax (IEM) 58
 spending, industrialization period 37
 state classes 292n5
 state intervention 276; agrarian commodities 223–224; Brazil 168–171; Chile 165
 state-led industrialization period (c. 1930–1980) 26, 31–37
 state-owned enterprises 32, 177, Mexico 180, 186, **191**, 288
 statism 161; Brazil 170
 structural heterogeneity 151–152, 255–256, 268n8, 274, 277–281, 291n2
 structural power 176, 189–190, 199, 264, 287
 structural reforms 139; Alliance for Progress 140–145; during globalization (c. 1980–1998) 37–41
 sub-national governments (SNGs) 50; fiscal revenues 70
 surplus profit 216; *see also* ground rent
 surplus value 217–219, 222, 233; Uruguay 234–236
 sustainable development 251, 261; raw materials 265–267
- tariffs 28, 31; custom tariffs 33; trade protectionism 32
 tax administrations 3, 11, 97, 103, 117, 120, 128, 287
 tax amnesty 286
 tax avoidance 149; economic elite, Chile 106–107
 tax base erosion and profit shifting (BEPS) 117
 tax burden 6; average tax burden (2015–2019) **158**; Brazil 157, 161–164; Chile 103–106, 157, 161–164; distribution by income categories 143; tax burden variance 158–161; Uruguay 236
 tax collection 149; Mexico 179–181
 tax culture 12–13, 95–101, 108
 tax earmarking 290
 tax education 97–98
 tax evasion 115, 117, 149–150, 260, 279; Argentina 115, 117, 124, 129; Bolivia

- 87–88; Chile 106–108, 286; *see also* personal income tax
- tax evasion rates 8
- tax exemptions 8, 12, 260, 262, 286
- tax havens 115; Bolivia 85
- tax holidays 208
- tax incentives for businesses **205**, 208
- tax knowledge 99
- tax morale 12, 88, 97–100
- tax planning 106, 117–118, 120, 287
- tax policy 288; Chile 101–103, 109
- tax policymaking 205, 207, 209
- tax politics 203, 209
- tax potential 152n3
- tax progressivity 198–199; business coordination 202–203
- tax rates **7**, 262
- tax redistribution 198; *see also* redistribution
- tax reforms 39, 138–140, 261; Argentina 207; Bolivia 76–78, 83–84; Chile 102–103, 207; Mexico 184–188; Uruguay 42
- tax regimes 4, 274, 288, 291n1; *see also* tax systems
- tax revenues: Bolivia (2006–2020) 79–83; Brazil 163, 169; Chile 163; custom taxes relative to central government revenue (1930–1979) **35**; growth rate and revenue relative to GDP (1990–2019) **42**; income and profit taxes relative to total tax revenue (1990–2019) **43**; income taxes relative to central government revenue (1930–1979) **36**; natural resource exporting strategy 265; per capita tax revenue (1820–1870) **28**; per capita tax revenue (1900–1930) **31**; per capital (1935) **179**; as percent of GDP **179**; ratio of tax exemptions 12; relative to GDP (1930–1979) **34**; structure (% of total tax) **44**
- tax state 176, 178, 189–190, 260, 274–277, 281, 284, 289
- tax structures 5–6, 39, 42; Uruguay 234–236
- tax systems 259–260, 274
- tax treaty shopping 120–121
- tax-to-GDP ratio 284, 286
- trade openness 159
- trade protectionism 32
- transfer pricing 116, 118, 120, 125, 127, 129–130, 131n18
- transnational businesses 129–130
- transport revolution 29
- treaty shopping 120, 130, 131n13, 131n17
- typology of Bértola and Ocampo 26
- unbalanced growth 180
- undervaluation of exports 125–128
- United Fruit Company 144
- United States 141–144; custom tariffs 33; Hirschman–Herfindahl index **200**; income distribution **142**; payments for declared financial operations **119**; productivity 241; royalty payments **121**; tax revenue per capita **179**; taxable minimums 150; wealth 1
- Uruguay 232–233; agrarian export taxes 244n4; agrarian surplus value 234–236; income tax 280; non-fiscal instruments for agrarian ground rent appropriation 236–240; overvaluation of national currency 237, 240–242; personal income tax 234; tax burdens **236**; tax exemptions 284, 286; tax reforms 42; tax structures 234–236
- valuation of national currency, Argentina 220
- value added tax (VAT) 77, 85, 103, 197, 234, 261
- value added tax cash refund (Re-IVA) 83–84
- Venezuela, raw materials 266
- wage goods 233, 241
- wage-to-GDP ratio 257
- Washington Consensus 38, 146
- wealth 288, 290
- wealth tax 8, 260
- wholesale tax exemptions 262
- windfall profits 54, 178, 183–184
- work, taxes, Bolivia 85–86