ECONOMIC POWER AND POLITICAL INFLUENCE:

BUSINESS GROUPS AND TAXATION IN LATIN AMERICA

by

Néstor Castañeda-Angarita

B.A. Economics, Universidad Nacional de Colombia, 2001

M.A. Latin American Studies, University of Texas at Austin, 2007

Submitted to the Graduate Faculty of the

Kenneth P. Dietrich School of Arts and Sciences in partial fulfillment

of the requirements for the degree of

Doctor of Philosophy

University of Pittsburgh

2014

UNIVERSITY OF PITTSBURGH

KENNETH P. DIETRICH SCHOOL OF ARTS AND SCIENCES

This dissertation was presented

by

Néstor Castañeda-Angarita

It was defended on

April, 2014

and approved by

Barry Ames, Andrew Mellon Professor, Political Science

Scott Morgenstern, Associate Professor, Political Science

Marla Ripoll, Associate Professor, Economics

Advisor: Aníbal Pérez, Associate Professor, Political Science

ECONOMIC POWER AND POLITICAL INFLUENCE:

BUSINESS GROUPS AND TAXATION IN LATIN AMERICA

Néstor Castañeda-Angarita, PhD

University of Pittsburgh, 2014

The influence of organized business interests in the fiscal policymaking is understudied. A long tradition of research has studied the emergence of business interest groups, their political activity, and their role within democratic political systems. Some scholars have offered theories of about the relationship between government and business, and the implications of the varieties of capitalism for the design of welfare policies. Empirical research on lobbying activity and campaign contributions is also extensive and offers evidence that money buys political access and influence. However, it is still unclear how exactly business interest groups shape fiscal policy outcomes and under which particular conditions they are more successful than politicians and technocrats in shaping tax policy outcomes.

This dissertation argues that cross-country variation in tax policy outcomes mainly depends on two factors: the agenda-setters' fiscal policy preferences and the patterns of business organization. I develop a theory of tax policy change that builds on the existing literature on

business interest groups, but incorporates the patterns of business organization as a crucial factor in explaining fiscal policy choice. This theory suggests that if there is no convergence between the policy preferences of agenda-setters and business interest groups, the latter will display their economic and political power in order to avoid increases in direct taxation and transfer any costs of fiscal consolidation to consumers or non-organized citizens by increasing value-added taxes or other indirect taxes. In particular, I suggest that market power, centralized business organization, and policy integration altogether make business interest groups more effective for lobbying activities, and consequently, more influential for tax policy decision-making.

The rationale of the theory is straightforward. Both, agenda-setters and business interest groups, have distinctive preferences over types of taxation (direct vs. indirect), tax rates (corporate, income, value-added taxes, etc.), tax bases, and tax administration (centralized, state-level, local-level, etc.). Agenda-setters' tax policy preferences are usually partisan-oriented and depend on the characteristics of the government coalition. Business interest groups usually prefer lower corporate tax rates, and their preferences about personal income and value-added taxes are ambiguous. If their preferences do not converge and both, agenda-setters and business interest groups, follow their most preferred policies, the feasibility of tax reforms will depend on business interests groups' market power (diversification of the economy) and their organizational capacity to coordinate firms, industry-level organizations, or economic conglomerates. Tax policy outcomes will vary as the patterns of business organization range from (multi-sector) centralized national associations to sector-oriented associations, or considerable intra-business competition (pluralism). Consequently, the relative success of revenue-raising tax reforms varies as a function of the business interest groups' market power and organizational capacity, and their conditional effect on the agenda-setters' policy preferences.

Overall, this dissertation finds support for strong and systematic links between patterns of business organization and tax reforms. Additionally, I present empirical evidence that contradicts the widespread argument that agenda-setters are the predominant actors for economic policy-making in presidential regimes. In fact, I find that non-institutional actors or de-facto veto players have substantial influence on fiscal policy outcomes.

These findings enrich political economy theories of democratic governance by modeling the role of business interest groups in policymaking and its implications for policy change. This dissertation not only offers a new theoretical approach but also new methodological tools to understand how business interest groups are actually influential for policymaking. Finally, this dissertation also makes an important empirical contribution for the study of business politics beyond the limited sample of developed countries.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ACKNOWLEDGEMENTS

First and foremost, I would like to express my deep gratitude to Professor Aníbal Pérez-Liñán, my academic advisor, for his patient guidance, enthusiastic encouragement, and useful critiques of this dissertation. His advice on both research as well as on my career have been priceless. I cannot imagine a better advisor and mentor for my doctoral studies. He is the best example of what a scholar should be.

I would also like to thank Professor Barry Ames and Professor Scott Morgenstern for their encouragement, insightful comments, and hard questions. Both Barry and Scott encouraged me to push this dissertation in a new direction beyond my original expectations. Also thank you to Professor Marla Ripoll for providing such critical comments that helped me to improve several sections of this dissertation. I am also grateful to the Center of Latin American Studies at the University of Pittsburgh, whose financial assistance gave me the opportunity to conduct the fieldwork for this project.

I would like to thank my parents and sisters who have supported me in all my pursuits and have taught me so much about hard work and love. And finally, words cannot express how grateful I am to Cassie who was always been my support in the good and bad times. She has been the best companion and advisor along this process.

This dissertation is dedicated to my parents, my sisters, and lovely Cassilde.

1. INTRODUCTION

In 2000, the newly elected Chilean president Ricardo Lagos proposed a reform package aimed to avoid tax evasion and increase tax revenues. President Lagos, the first socialist president since Salvador Allende (1970-1973), proposed the so-called Anti-Evasion bill to fund new social spending programs. The Anti-Evasion bill included several measures to close tax loopholes, eliminate tax benefits, and expand some tax bases. The reform was aimed at reducing tax evasion by 20% and collect additional tax revenues for about US$800 million. The bill proposal also established new regulations for the VAT base, restrictions on VAT refunds, restrictions on the use of tax losses in mergers, the elimination of corporate income tax loopholes, and limits on presumptive income. All these measures were aimed at increasing effective corporate income and personal income tax rates. The Anti-Evasion bill also introduced a significant administrative reform to the *Servicio de Impuestos Interno (SII)* – the Chilean tax agency. This administrative reform included a significant expansion of the SII, the implementation of a real-time database of financial transactions administrated by the SII, and the boosting of the SII's enforcement capacity.

The government was clearly in favor of fighting tax evasion, but its main goal was to cut out tax avoidance, increase effective tax rates, and improve horizontal equity. In fact, the finance minister at the time, Nicolas Eyzaguirre, presented the Anti-Evasion bill as the appropriate mechanism to improve horizontal equity and restrict unjustified tax benefits for the rich.

After several months of intense legislative discussion, the Chilean Congress approved Lagos' Anti-Evasion bill. However, the approved version of bill was completely different than the one proposed by Lagos and his finance minister. The scope of the tax reform was substantially reduced. Despite Lagos' immense political capital – he was one of the most important actors in the process of democratization - and the intense government campaign to promote the tax reform, it failed miserably.

Scholars, politicians, and journalists explained Lagos' failure to reform the tax structure as a consequence of an electoral system that clearly favoured right-leaning political parties. This seemingly straightforward interpretation, however, is overly simplistic. It undermines the role of non-partisan actors involved in the economic policymaking process and their capacity to influence tax policy. In particular, such interpretation does not take into account the active role that well-coordinated business interest groups (i.e. the *Confederación de la Producción y el Comercio*) played in the negotiation. Was the bargaining process only driven by ideological and partisan concerns? Would Lagos' tax reform have been approved if the business interests groups were not as well coordinated around the *Confederación de la Producción y el Comercio*? How do business organizations shape tax policy?

Similar questions surround interpretation of failed and successful tax reforms elsewhere in Latin America. For example, recent governments in Argentina introduced around 83 tax reforms between 1988 and 2008 (25 of them introduced significant changes in the tax structure).

Like Lagos in Chile, Nestor Kirchner and Cristina Fernandez not always had strong legislative majorities and faced strong opposition from regional powers. In fact, the electoral system in Argentina privileges regional interests –frequently associated with the right - and some of these interests have fiercely opposed the central government's attempts to implement tax reforms. However, the *Peronism K* has been quite successful in reforming the tax policy. Some scholars and journalists would argue that such level of success could be explained as the result of the strong support that Kirchner and Fernandez received from grassroots political organizations (e.g. young *Peronismo – La Campora)* and the effect of the economic crisis on public opinion. However, public support is not enough to pass legislation in hostile legislative environments. What are the conditions that made tax reforms more successful in Argentina than Chile?

My contention is that different patterns of business organization explain such level of success. In the 1990s, after the implementation of radical trade reforms, Latin American countries faced similar pressures to increase taxes. Taxes on external trade should be replaced by other sources of revenue. The access to external debt was limited, privatizations provided restricted flows of revenue, and not all governments could have access to the financial benefits of the abundance of natural resources. Tax reforms were the only policy tools available to all presidents in the region to raise government revenues. However, they had varied success. I argue that the difference is not only in parties or institutions—but it is a function of the business organizational structures. President Lagos in Chile was not very successful –despite his popularity and his willingness to reform – because Chilean business interest groups were well organized and coordinated around the CPC and were able to stop Lagos' Anti-Evasion reform (as many others in the 1990s and 2000s). On the contrary, Nestor Kirchner and Cristina Fernandez were more successful in reforming Argentina's tax structure – despite political polarization and

their relative weak bargaining position in Congress before 2005 – because business interest groups in Argentina are fragmented, less coordinated, and less concerned about broad taxation issues. While Chilean business interest groups are centrally coordinated (around the CPC) and well integrated to the policy-making process, Argentinian business interest groups are quite decentralized (there is no encompassing, cross-sectorial business association in Argentina) and they are not integrated to policy-making.

Let me provide an additional example. Tax reforms are very frequent in Colombia. More than 15 tax reforms have been implemented since 1991 (that is, one tax reform every two years). However, most of these reforms are only partial; they have only slightly increased VAT rates, hardly increased corporate taxes, or simply added minor taxes. In fact, most of them are commonly known as "mini" tax reforms (*mini reformas tributarias*). Presidents and technocrats in Colombia seem to be very successful in reforming the tax structure. However, their achievements are so modest that they have to repeat the process every two years. In Colombia, tax reforms bills are easily approved in congress, but legislators and interest groups introduced so many tax loopholes that additional tax revenues are not enough to pay for short-term government activities.

Unlike the case of Argentina, Colombian presidents usually have strong legislative majorities. Public opinion is generally opposed to new tax reforms and populist projects have not been very successful in Colombia. Thus, scholars and journalists explain the limited scope of these reforms as a consequence of the high level of party fragmentation in Congress. Colombian presidents usually manage to hold a legislative majority but, as party fragmentation increases, they have to deal with an increasing number of veto players, legislative bargaining is more complex, and then, passing structural reforms is more difficult. However, party fragmentation

has decreased recently and tax reforms are still quite limited. For example, president Santos (2010-2014) implemented a tax reform in late 2012, and his finance minister is already preparing a new reform in 2014. Why are tax reforms in Colombia are so limited? Is it only a matter of political fragmentation? Does domestic patterns of business organization explain such the limited success of Colombian technocrats? In this dissertation, I argue that Colombian businesses are centrally organized around a national, encompassing business association (*Consejo Gremial Nacional*) but their level of coordination is still low and sectorial interests predominate over cross-sectorial, broad interests.

In addressing tax and other reforms from a comparative perspective, existing work focuses largely on the role of political and economic institutions (Poterba and Von Hagen 1999; Persson and Tabellini 2002; Rodden 2006; Hallerberg, Strauch, and Von Hagen 2009). Some scholars explain the success of revenue-raising tax reforms as a result of the government's ability to capitalize crisis environments, avoid legislative gridlock, and induce powerful business interests to comply with the new rules of the game (Fenno 1973; Alesina and Drazen 1991; Bird 1992; Mahon 2004; Fisher 2009; J. Alt, Preston, and Sibieta 2010). Other scholars focus their attention on lawmaking process, the preferences of key institutional actors, and ideological space between the agenda setters and legislators (Richter, Samphantharak, and Timmons 2009; Profeta and Scabrosetti 2008; Schick 1980).

While these institutional factors have been shown to explain the dynamics of fiscal politics, such factors alone do not provide a full accounting of variation in the implementation of revenue-raising tax reforms (Martin 1991; Jacobs 1988; Martin and Swank 2004). I build on the contributions of the existing literature by arguing that the organizational attributes of business

interest groups and their power of influence over policy-making should be taken seriously in explaining tax policy choice (Martin and Swank 2004; Fairfield 2010).

In particular, this dissertation argues that the variation in the scope of the tax reforms and their impact on tax revenues will depend on two main factors: the agenda-setter's tax policy preferences and business interest groups' ability to influence tax policymaking and outcomes, which is a function of their organizational structure. Where the president and the business interest groups have similar tax policy preferences, no revenue-raising tax reforms will be passed, and consequently, tax revenues and rates will not increase. However, if there is no policy convergence between the president and the business sector, the latter will try to prevent any increases in corporate or personal income taxes. The success of business interest groups' strategies for policy influence will depend on their market leverage (credibility of disinvestment threats) and their level of internal coordination (business centralization and policy integration). Business interest groups will be able to block or soften revenue-raising tax reforms only if they are centrally coordinated and well integrated to the main policy-making forums. In sum, higher levels of business coordination and policy integration would result in more difficult scenarios for structural tax reform.

I develop and evaluate this argument for middle-income, presidential regimes. Middle-income countries allow for variance in the level of business coordination, policy integration (civil society autonomy), and market power of influence (economic diversification). Presidential regimes allow for a clear identification of the agenda setter's (presidents or finance ministers) policy preferences. Specifically, I consider the case of powerful agenda-setters facing continuous fiscal pressure and interacting with business groups with different levels of organizational complexity. My efforts focus on understanding whether the success of revenue-raising tax

reforms varies as a function of the business sector's power of influence over the policy-making process, and its conditional effect on the agenda-setter's capacity to change policies. In particular, I identify several patterns of business organization and their impact on tax policy.

To evaluate this theoretical framework, I have compiled an original data set on business groups and associations for all countries in Latin America between 1990 and 2010. Data were collected from institutional archives, visits to business associations, and in-person and phone interviews with high-rank executives, business sector representatives, and country policy experts. The resulting dataset is unique for a region characterized by low levels of data transparency, lack of information about lobbying, and almost inexistent data on business interest groups.

Overall, this analysis uncovers a strong and systematic link between the patterns of business organization and the feasibility of implementing austerity policies. Additionally, I show empirical evidence that contradicts the widespread argument that agenda-setters are predominant actors for economic policy-making in presidential regimes. In fact, I find that non-institutional actors and *de-facto* veto players have substantial influence on tax policy.

These findings have important implications for democratic governance. By understanding the role that business interest groups play in shaping tax policy-making, we can better understand institutional and non-institutional incentives that facilitate responsible fiscal governance.

1.1. INSTITUTIONS AND FISCAL GOVERNANCE

The classic postulate of fiscal policy theory regards the government as a "benevolent social planner" that maximizes the utility of its constituency in a finite time horizon. The "tax smoothing" theory predicts that the government always tries to keep a constant tax rate in order

to guarantee that the present value of spending is equal to the present value of taxes (Barro 1979). Accordingly, with constant tax rates, a balanced fiscal policy can result from a policy in which the deficit in a current period is compensated by a surplus in future periods. Therefore, fiscal deficits and surpluses are used to minimize the distortionary effects of taxation (Alesina and Perotti 1995). For this reason, deficits should be common during recessions and surpluses during expansionary times - the fiscal balance adjusts cyclically rather than annually.

Although empirical evidence for developing countries supports this model, there are always some periods in which fiscal policy is not consistent with cyclical fluctuations, and most importantly, this model does not explain why some countries are more prone to deficits than others.[1]

Several economists have explained such differences as a result of institutional variation (Buchanan and Wagner 1973; Cukierman and Meltzer 1989; Roubini and Sachs 1989; Alesina and Tabellini 1990; J. E. Alt and Lowry 1994; Alesina and Perotti 1995; Alesina et al. 1999). The most common approach is to assume that voters do not understand the government inter-temporal budget constraints, so they overestimate benefits of current expenditures and underestimate future tax burdens. Therefore, opportunistic politicians take advantage of this "fiscal illusion" and get elected by increasing expenditures more than taxes (Buchanan and Wagner 1973). In fact, this theory also predicts that politicians are always willing to run deficits during recessions but never willing to run surpluses when recessions are over.

The general argument has been challenged for theoretical and empirical reasons. The "fiscal illusion" assumption is right in assuming that voters are imperfectly informed and make mistakes, but it is not correct in assuming that their mistakes are biased in the direction that the

[1] Some recent works on the effects of fiscal policy and credit constraints on long-run growth have shown that, for example, Latin American fiscal policy follows the inverse logic: deficits are common during expansionary times and surpluses during recessions.

theory predicts. On the other hand, the "fiscal illusion" theory does not explain either cross-country differences (are politicians opportunistic only in some countries?) or why fiscal deficits occur at specific periods of time. That is, this theory does not establish a strong linkage between institutions and fiscal illusion over time and across countries (Alesina and Perotti 1995). Indeed, some empirical evidence shows that voters not always reward over-spenders (Peltzman 1992).

Based on the concept of "Ricardian equivalence",[2] other scholars have studied the impact of intergenerational distribution over fiscal performance. This theory contends that selfish generations could vote for policies that shift the burden of taxation to the future generations and run government deficits (Cukierman and Meltzer 1989; Alesina and Tabellini 1990; Grilli et al. 1991). However, this theory does not explain why some generations are less altruistic in some countries than others and why future generations effectively would pay public debts.

Some scholars also introduced fiscal institutions more explicitly by arguing that fiscal deficits could result from situations in which ideological parties in office spend on their most preferred policies and issue debt so future governments must deal with deficits and will not be able to spend in their most preferred policies. In this case, fiscal management is used as a political tool for binding public policies to particular ideological agendas (Alesina and Tabellini 1990). That is, policymakers strategically use the government debt to push their policy preferences and influence the future choices of their successors. If policymakers disagree about the desired composition of the government spending between two public goods, the economy exhibits a deficit bias; that is, debt accumulation is higher than it would be with a social planner. The larger the equilibrium level of debt, the larger is the degree of polarization between

[2] The *Ricardian equivalence theorem* states that government bonds and lump-sum taxes are equivalent means to finance the government spending. Thus, a lump-sum tax cut financed by the issuance of government bonds would not affect consumption. Consumers could hold the newly issued bonds, and use them to pay the higher taxes when the government increases taxes to repay the principal and interest on the bonds. Intergenerational altruism implies that Ricardian equivalence holds even if the recipients of a tax cut die before future taxes are increased to fully repay the bonds (Abel 2008).

alternating governments and the less likely it is that the current government will be re-elected (Alesina and Tabellini 1990). Thus, party polarization could explain the size of fiscal deficit and the government's ability to reduce it.[3]

Other scholars have built theoretical models to evaluate the impact of political struggles on fiscal policy and study how political conflict makes more difficult to reach fiscal balance. The so-called "war of attrition model" is perhaps the most popular of these models (Alesina and Tabellini 1990). It focuses on the inter-temporal costs of stabilization and contends that any fiscal adjustment is always postponed if there are economic and political mechanisms to reduce the costs of macroeconomic instability (Alesina and Drazen 1991; Drazen and Grilli 1993; Spolaore 1993).

Political economy literature provides plenty of evidence demonstrating that institutional design explains most of the variance in macroeconomic conditions (Drazen 2000; Persson and Tabellini 2002). In the particular case of the fiscal policymaking, two conflicts of interest have been particularly studied: the *principal-agent* relationship - conflict between voters, and politicians - and the *common-pool problem* - conflict among politicians about distribution (Von Hagen 2008). According to these scholars, constitutional rules, electoral rules, and procedural rules are direct consequences and results of such conflicts.

This general overview of the literature on fiscal policy allows us to observe some very specific attributes of fiscal policy-making process. First, institutions do matter. Second, the influence of political institutions is conditioned by the impact of exogenous shocks affecting the economy. Third, the endogenous nature of political institutions creates serious problems for the

[3] Some other models have shown that the intensity in the use of this strategy could depend on party's ideology and incentives to get reelected. Indeed, we can observe that the whole model relies on the Mayhewian assumption that politicians want to get reelected, which could be adequate for model-building but it has serious problems when empirical evidence is analyzed (Alesina and Perotti 1995).

generalization of formal models and empirical results. In fact, endogeneity problems are critical for the understanding of causality and direction of the effect of institutions over economic policies. Fourth, the literature has identified some empirical regularities such as presidential regimes leading to smaller governments, proportional representation leading to higher and less-targeted government spending and larger budget deficits, and district size (and ballot structure) influencing levels of corruption (Spiller and Tommasi 2007, 18).

In the specific case of Latin America, comparative politics literature shows these regularities in cross-country comparisons (Carey and Shugart 1995; Mainwaring and Scully 1995; Haggard and McCubbins 2000; Morgenstern and Nacif 2002; Stein and Tomassi 2008; Hallerberg, Scartascini, and Stein 2009; Scartascini, Stein, and Tommasi 2010; Ames 1987). Some others have researched the specific effects of institutions on public policies in Brazil (Pereira and Mueller 2004; A. C. Figueiredo and Limongi 2000; Samuels 2000), Mexico (Diaz-Cayeros 2006), Colombia (Crisp and Ingall 2002; Alesina 2005), Costa Rica (Lehoucq 2010), and Argentina (Spiller and Tommasi 2007).

Spiller and Tommasi (2007) present one of the first attempts to build a systematic and parsimonious theory of the effect of institutions on fiscal governance in Latin America. They explore the institutional and inter-temporal conditions under which the policy-making process tends to facilitate or hinder cooperative economic policy outcomes. They focus on the effect of political institutions on policy stability, policy adaptability, policy coordination, quality of implementation, and efficiency. Their main argument is that "the extent to which some desirable policy characteristics are attained depends on the behavior of political and socioeconomic actors in the policymaking process in general, and in particular on their capacity to cooperate, that is, to reach and enforce inter-temporal agreements" (Ardanaz, Scartascini, and Tommasi 2010, 8).

However, Spiller and Tommasi's theory –like political economy literature, in general- is too focused on the rules of the game and its political expressions (the legislature, executive-legislative relations, the political party system, the judiciary, and the civil service, etc.), it does not explain the role of other crucial actors in the policy-making process (e.g. business interest groups or unions, among others), and it lacks of a theory of how inherent attributes of these actors shape their strategies for political influence. Spiller and Tommasi make an excellent theoretical and empirical case for Argentinian fiscal politics and the recent attempts to generalize their theory are excellent frameworks to understand the economic policymaking process in Latin America (Stein and Tomassi 2008; Hallerberg, Scartascini, and Stein 2009). However, they do not constitute a systematic and parsimonious theory of comparative fiscal politics.

Two issues are especially problematic. First, there are no parsimonious models of timing and contexts under which countries would run fiscal deficits. We know that some institutions are important for explaining those policy outcomes, but we do not know how those institutions interact with each other to provide different incentives for individuals and groups involved in the fiscal policy-making process.

Second, and most importantly, the role of crucial players such as business interest groups is still understudied. Indeed, there is little literature on the role of interest groups on public finance. Some scholars have studied the role that interest groups play in Latin American politics, their historical evolution, and the business elites' strategies to exert influence across the region (Schneider 2004; Schneider 2010a; Kingstone 1999; Durand and Silva 1998). Others have found a great deal of variation among business organizations and the different ways in which they have tried to influence public policy decisions (Schneider 2004; Schamis 1999).

However, research on the role of business interest groups in financing campaigns and lobbying elected officials in order to influence fiscal policy outcomes is still very limited. According to Thomas (2009), the lack of scholarship on interest groups in Latin America is mainly due to the assumption that, under presidential regimes, interest groups are insignificant or at best of minor importance in influencing policymaking process. In presidential (and semi-authoritarian) regimes interest groups seem to be overshadowed by strong presidents. Yet, a close observation of the fiscal politics in the region provides enough evidence to reject this hypothesis and look for alternative explanations.

In summary, literature on comparative political economics provides some clues about the correlation between political institutions and fiscal policy outcomes, but causal relations have not been elucidated yet. Literature does not provide a causal theory on the effect of institutions on policy outcomes because it does not account adequately for all the actors involved in the decision-making process and their strategic behavior. Indeed, common wisdom overrates the effect of institutions and does not carefully consider how actors interact with institutions.

In order to puzzle out these misconceptions, it is necessary to focus on the fiscal policymaking process and understand how actors' strategic behavior shapes fiscal policy outcomes. Once we understand such dynamics, predictions about policy outcomes will be more easy and precise.

1.2. THE ARGUMENT IN BRIEF

This dissertation accounts for fiscal politics rather than institutions. That is, I focus on the policy-making process rather than on the institutional constraints. I contend that the effect of the

agenda-setter's preferences over tax policy is always conditional on the capacity of business interest groups to influence the policy-making process. In presidential regimes, the president (and the finance minister) has an unquestionable advantage in fiscal politics because he is always the first mover in the policymaking process (Mainwaring and Shugart 1997). Presidents usually prefer to spend more money (they usually prefer to have larger budgets), however, when they face fiscal stress situations, one can classify them according to their preferences over fiscal policy instruments. One could denominate *taxers* to those who strongly prefer increasing taxes to reducing expenditures; and *non-taxers* to those who strongly prefer reducing spending to increasing taxes. As I will discuss in Chapter 2, these preferences over policy instruments depend on the presidents' ideology and the electoral and post-electoral alliances they make to build their government coalitions.[4]

Assessing the effect of the agenda setters' fiscal policy preferences on tax policy also requires us to assess their capacity to transform such preferences into policies. That is, one would need to assess agenda-setters' capacity to pass legislation in congress (the so-called *partisan powers*) and the business interest groups' ability to counteract (or advocate for) agenda-setters' preferences.

Comparative politics scholars have extensively explored the relationship between the executive and the legislative branches of government and the measures of the president's partisan powers (Jones 2013). On the contrary, scholarship on the role of business interest groups in fiscal policy-making is still very limited (Coen, Grant, and Wilson 2010; Ames, Carreras, and Schwartz 2012). Some scholars have theorized that two types of power enable business interest groups to influence the policy-making process: structural and instrumental power (Miliband 1969; Vogel 1989; Akard 1992; Smith 2000; Fairfield 2010; Culpepper 2011).

[4] Mejía Acosta (2009) provides some good examples.

Structural power refers to the level of dependence of the economy on a relatively small number of business sectors (as opposed to a diversified economy). Business interest groups will be more influential as the country depends more on their performance and their investments. Thus, business influence on policies would depend on the credibility of disinvestment threats for short-term stability (Lindblom 1977; Przeworski and Wallerstein 1988; Mahon 1996; Fuchs 2007). In other words, this theory predicts that business sectors will be more powerful and influential if the domestic economy is less diversified. And consequently, central governments would care more about predominant business sectors because they provide benefits (jobs for citizens, bribes for officials, family ties, etc.) that leaders value in high degree. In highly concentrated industrial environments, even small but strong industries would also have big influence.

The concept of *instrumental power* refers to the set of attributes of the business interest groups that enable them to influence policy decisions. These attributes mainly include resources available for lobbying, social relationships with policymakers, partisan linkages, networks, etc. Theory predicts that the more the sources of instrumental power, the more likely that businesses will be able to influence policy (Fairfield 2010a, 40; Fairfield 2010b).

Building on this literature, I identify three patterns of business organization. In some countries, business interests groups are centrally coordinated around encompassing business associations (also known as peak business associations, or cross-sectorial employers' associations) that are well integrated to the policy-making process. Some scholars denominate this pattern of business organization as *macro-corporatism* (Martin 1991; Martin and Swank 2004; Martin and Swank 2012). I will refer to it as a *centrally coordinated* pattern of business organization.

In other countries, business interests are not centrally coordinated, sector-oriented associations are predominant, and only few of them are well integrated to the policy-making process. In these cases, business interest groups are not always structurally powerful, but some sector-oriented associations and firms can be both structurally and instrumentally powerful. Some scholars denominate this pattern of business organization as *pluralism* (Martin 1991; Martin and Swank 2004; Martin and Swank 2012; Schmitter and Streeck 1999). However, pluralism includes everything but centrally coordinated patterns of business organization. This does take into account the difference between models of business organization completely dominated by sectorial associations and those dominated by firms. For this reason, I divide what scholars understand as *pluralism* into two patterns of business organization: *sector coordination* and *decentralized coordination*.

Based on this classification, I argue that revenue-raising tax reforms will be unsuccessful in the presence of well-coordinated encompassing business associations (*centralized coordination and policy integration*). Only encompassing business associations (or big business conglomerates) are able to coordinate all the lobbying and networking activities required to hinder government's tax-raising initiatives. In a centrally coordinated pattern of business organization, lobbyists and top-executives from encompassing business associations are able to discuss tax policy issues directly with top executive officers (president, finance minister, or technocrats) and rank-and-file members of the economic committees in congress. They are also able to participate in legislative committee hearings and join common networks with high-ranked members of congress. Centrally coordinated business interest groups are also more able (than sectorial association and individual firms) to deliver financial contribution for electoral campaigns funding or even direct bribes to politicians.

In countries where business organizations are not centrally coordinated (e.g. encompassing business associations are not well organized and sectorial business organizations – or even firms -are predominant), business interests groups are not able to hinder revenue-raising tax reforms, and should focus their limited resources to obtain particularistic or sector-oriented policy benefits. The degree of success of this strategy would strictly depend on the amount of resources they are able allocate for lobbying individual legislators, because they are simply more responsive to tangible benefits than to disinvestment threats. In fact, in these countries, policy bargaining occurs mainly in congress.

In summary, a revenue-raising tax reform will be approved only if the following conditions are fulfilled: i) the agenda-setters strongly prefer increasing taxes over cutting expenditures (they are *taxers*), and ii) disinvestment threats are not credible (business interest groups have no market leverage) or iii) business interest groups are neither centrally coordinated nor well integrated to the policy-making process. In other words, the agenda-setter's first-mover advantage is always conditional on the domestic pattern of business organization.

1.3. PLAN OF THE DISSERTATION

This dissertation is organized as follows. Chapter 2 presents a middle-range theory of tax policy change. As mentioned above, this theory focuses on the conditional effect that different patterns of business organization have on the agenda-setters' ability to shape tax policy. Chapter 3 tests this theoretical framework for 18 democracies in Latin America between 1990 and 2010. It evaluates the role of business interest groups on tax policymaking and provides empirical

evidence about the political determinants of taxation in the region. It also presents a novel dataset of business organizations in the region and present clear and simple indicators to measure how much business interests influence tax policy-making. In fact, I compare different measures of business interests groups' patterns of organization and integration to policy-making forums. The results presented in chapter 3 demonstrate that tax revenues and rates increase only if the agenda-setter strictly prefers increasing taxes over cutting expenditures and business interest groups are weak actors in the policy making arena.

The statistical analysis presented in chapter 3 relies on cross-sectional time-series analysis and dynamic panel data modeling. This analysis relies on original data I collected directly from interviews with top executives of the main business organizations at every country in the region, interviews with lobbyists and country-experts, and intensive archive research. I also use data gathered by other scholars on agenda-setters' policy preferences and partisan powers. For this reason, I spend considerable time describing several variables and indicators I used to appraise the dependent and independent variables.

Chapter 4 to 6 presents detailed case studies on tax policy-making in two of the largest economies in Latin America. The case studies presented chapter 5 and 6 not only provide strong support to the empirical evidence presented in chapter 3, but they also explain the causal mechanisms that link patterns of business organization with different policy outcomes. Chapter 4 explains the process of case selection. Chapters 5 and 6 illustrate how different patterns of business organization and policy integration in Colombia and Chile have shaped taxation in both countries. In these chapters, I describe the evolution of tax policy and the role that agenda-setters and business interest groups have played for the definition of domestic tax structures.

In the last chapter, I examine some of the empirical and theoretical implications derived from the quantitative and qualitative evidence presented in this dissertation. I reflect on the hypothesized causal mechanisms and their presence (or absence) in the case studies. I discuss how my argument can be presented as a formal theory of special interest groups in comparative perspective. I discuss the advantages (and disadvantages) of formal modeling for the study of comparative fiscal politics. Finally, I discuss future avenues of research.

PART I. THEORY AND EMPIRICAL IMPLICATIONS

2. A THEORY OF TAX POLITICS

In this chapter, I present a theory of tax policy change. I present the general framework, illustrate the main concepts, explain the theoretical mechanism, and evaluate its main empirical implications. In particular, I outline two main ideas of this dissertation. First, I argue that revenue-raising tax reforms are only possible if the agenda-setters (presidents or finance ministers) have strong preferences that preclude them from cutting expenditures. Second, I discuss the role of the business interest groups in the definition of the tax policy. I argue that the agenda setters' first-mover advantage is always conditional to the domestic patterns of business organization. In particular, I contend that, even if the agenda-setter strongly prefers to increase taxes, revenue-raising tax reforms are not feasible possible if the business interest groups have high market leverage, they are centrally coordinated (around encompassing business associations), and they are well integrated to the policy-making process.

The first section of this chapter presents a bounded definition of fiscal policy and defines its main components. This is necessary step to completely understand our subject of study. In the second section, I describe the main actors involved in the tax policy-making process. I also depict their agenda and policy interests regarding tax policy. The third section constitutes the

core of this chapter and offers a theory of tax policy change. In this section, I describe how different patterns of business organization shape the conditions for successful (or unsuccessful) tax reforms. The fourth section presents a summary of the conditions under which revenue-raising tax reforms will be possible. Such conditions are the main empirical hypotheses of this study and the prelude for the large-N statistical analysis I will present in chapter 3.

2.1. FISCAL POLICY CHOICE

This dissertation presents a theory of fiscal governance to understand under which conditions revenue-raising tax reforms can be implemented. The accomplishment of such objective requires us to define some important concepts.

First, we need to define the concept of responsible fiscal governance. A *responsible fiscal policy* will keep control over the primary fiscal deficit so public finance does not have any significant effect on national saving and interest rates. The best avenue for achieving such goal is to reach the equilibrium between expenditures and tax revenues. Consequently, the final goal of this dissertation is to model the conditions under which political and economic actors will favor changes in taxation in order to reach this balance.

Second, we need to have a functional definition of central government's expenditures and revenues. *Government expenditures* consist of all goods, services, and transfer payments allocated through the annual budget. Goods and services may be produced under public or private management and include purchases of intermediate goods, wages, and depreciations. The International Monetary Fund's Government Finance Statistics defines government expenditures

as the "decrease in net worth resulting from the supplying of non-market goods and services to the community" (International Monetary Fund 2010, 62). This methodology identifies several types of expense incurred for these activities: "compensation of employees, use of goods and services, and consumption of fixed capital all relate to the costs of production undertaken by government itself; subsidies, grants, social benefits, and miscellaneous other expense relate to transfers in cash or in kind and purchases from third parties of goods and services for delivery to other units" (International Monetary Fund 2010, 62). These transfers include a broad range of contributions by the central government to specific activities by several other subjects as direct transfers to subnational units of government, subsidies, or contributions to international institutions.[5]

The *government revenues* are the means utilized to finance public expenditure. Revenues can be also defined as any increase in net worth resulting from a transaction. The main sources of public revenue are taxation and public debt issuing (including money issuing). Other sources of revenue also include obligatory social contributions[6], fees for the public services, privatizations, fines, pecuniary penalties, and transfers from foreign states (Forte 2010). However, taxes constitute the main source of revenue for central governments.

In general terms, taxation refers to any "obligatory monetary levies collected by the fiscal power in favor of the public budgets as means of financing public expenditure and/or secondarily for purposes of economic and social regulation" (Forte 2010, 314). That is, the tax structure is defined as the scheme of monetary charges imposed by the government on individuals, business,

[5] Public expenditure can be also classified by several other categories as function of government (i.e. expenses for justice, military expenses, expenses for interior defense, etc.), production expenses (i.e. technical assistance, research, infrastructure of public utilities, financing of enterprises, etc.), consumption expenditure, and/or social expenditure (Forte 2010).

[6] Social contributions "are actual or imputed receipts from either employers on behalf of their employees or from employees, self-employed, or non-employed persons on their own behalf that secure entitlement to social benefits for the contributors, their dependents, or their survivors. The contributions may be compulsory or voluntary" (International Monetary Fund 2010)

or property for public purposes. Such scheme generally includes different combination of income, consumption, and wealth taxes. According to the International Monetary Fund, a general classification of tax revenues should rely on which the tax is levied. Therefore, taxes can be grouped into six major categories: (i) taxes on income, profits, and capital gains; (ii) taxes on pay-roll and workforce; (iii) taxes on property; (iv) taxes on goods and services; (v) taxes on international trade and transactions; and (vi) other taxes (International Monetary Fund 2010, 49).

Fiscal policy-making is usually focused on the management of the primary fiscal balance (the difference between tax revenues and expenditures), rather than on exogenously determined policy instruments such as debt[7] or money issuing.[8] This is especially true in the case of Latin America. The recent implementation of radical economic reforms and the transformation of the international financial market have constrained Latin American governments' ability to use monetary policy and external debt as their main source of revenues.

On one hand, the discretion over monetary policy has been steadily transferred from central governments (i.e. the finance minister) to independent central banks (Carstens and Jacome 2005).[9] After the economic liberalization, monetary policy has been relatively isolated

[7] Government debt is defined as any "legal obligation on the part of a government to make interest and/or amortization payments to holders of designated claims in accordance with a defined temporal schedule. Borrowing is part of a bilateral exchange process in which lenders transfer funds to government and government, in turn, transfers to lenders designated instruments that represent claims on government revenues over a series of periods subsequent to that in which the borrowing occurs" (Buchanan 2008). According to the principle of Ricardian equivalence, taxation and debt issuing are logically equivalent because both extract revenues from private citizens and transfer these to government for spending on public programs (Ricardo 1820; Barro 1979). However, "taxation and debt are not treated as identical by voting constituents" (Buchanan 2008) because politicians responsive to constituents are not indifferent as to the mix between these instruments, and debt issuing arouses less political opposition than tax increases.

[8] Money issuing is also considered as another type of government debt. It consists of any event in which central government print money in order to finance public expenditures. In general, one can consider it as another form of debt because "most government-issued money consists of currency, which represents the liability of a partly or wholly government-owned central bank" (Friedman 2008).

[9] However, there is a great deal of variation in the level of independence of the central banks. For good indicators please see Carstens and Jacome (2005).

from fiscal policy.[10] On the other hand, after the debt crisis in 1982, most Latin American economies faced increasingly limited access to the global capital market. The mismanagement of the external debt and the subsequent delay to repay financial obligations generated the reputation of the Latin American countries as unreliable debtors. This general trend was reinforced after the global crisis in 1998, the Argentinian crash in 2001, and the most recent implementation of fiscal responsibility laws (please see the appendix to this chapter). Consequently, the debt of the Latin American countries over the past two decades is relatively low in comparison with other regions in the world (Borensztein, Levy Yeyati, and Panizza 2006, 6).

In sum, money and debt issuing are less common and less popular instruments for fiscal policy, and consequently, they can be considered as exogenous factors for fiscal policy-making. Obviously, this general pattern changes in the country-by-country comparison, especially after the surge of leftist governments in the region (Weyland, Madrid, and Hunter 2010). However, ceteris paribus, presidents are usually constrained by their ability to collect taxes.

2.2. ACTORS IN TAX POLICYMAKING

In the previous section, I described the main components of fiscal policy. I contended that our understanding of fiscal governance should be focused on main policy tools for the reduction of the primary fiscal deficit: increasing tax revenues or reducing public expenditures. The next

[10] There is a great deal of variation in the level of independence of the central banks in Latin America. After several years in which Latin American governments use control interest rates and money issuing, most of the countries moved towards independent central banks. However, such independence is not actually effective in many other countries and there is a recent trend to reverse such policy innovation. For example, the independence of the Central Bank in Argentina was increased during the years of the economic liberalization (especially under Menem's administration), but Kirchner and Fernandez de Kirchner have adopted several policies that clearly undermined such independence.

logical step in our theory building process is to identify the main actors involved in the design and implementation of these policy instruments and the consequences of their attributes and preferences for tax policy-making. That is, we need to understand how political and economic actors shape the course of action adopted and pursued by the government.

Tax policy-making process is a complex process and several actors are directly or indirectly involved: the president, the ministers (finance minister and spending ministers), upper-level bureaucrats, subnational governments, individual legislators (making up both parties and coalitions), economic interest groups, and lobbyists.[11] Let me describe in detail their characteristics, their preferences, and their strategies to shape tax policy outcomes.

2.2.1. The Agenda Setters

In presidential regimes, the executive branch of government has an unquestionable advantage in fiscal politics. Presidential regimes are institutionally designed to provide the president and some of the ministers of the cabinet with substantial powers to initiate, influence, and control the lawmaking process. In general, the executive branch of government is always the first-mover and agenda-setter in the policy-making process (Shugart and Carey 1992; Mainwaring and Shugart 1997).

As I explain in the section above, countries start the policymaking process from different points and have different fiscal needs (especially, if they have alternative sources of revenue). However, when facing the same type of fiscal constraints, presidents and finance ministers can

[11] Other important actors as the judiciary branch, the international financial institutions, or mid-level bureaucracy play a secondary role in the fiscal policymaking process. For this reason, I do not include them in the theoretical framework. However, they will appear sometimes in the case studies to illustrate exceptional behaviors and strategies.

be classified as *taxers* if they strongly prefer increasing taxes over spending cuts, and *non-taxers* if they strongly prefer spending cuts over increasing taxes.

This classification provides a simple but parsimonious way to discriminate between the agenda-setters' most preferred policy tools. In general, presidents have strong incentives to spend more fiscal resources because expansionary fiscal policies usually pay out better political benefits. However, when policymakers are facing situations of fiscal stress, expansionary fiscal policies can be harmful for macroeconomic stability and political stability. In those scenarios, fiscal deficit reduction is an imperative duty for central governments – given that debt and money issuing also have negative effects on macroeconomic stability. In other words, under fiscal stress situations, policymakers will choose between two simple policy tools: increasing taxes or reducing expenditures.

Consequently, some policymakers will prefer to increase the tax burden on economic activities and individuals rather than reduce their expenditures (*taxers*). Others will prefer to reduce public expenditures and reduce the size of the central government rather than increase the tax burden on economic activity (*non-taxers*).

Such decisions depend on the nature of the policymakers' political coalition and/or their views on the role of government in economic activity. For example, "Keynesian" governments would prefer to increase taxes rather to reduce public expenditures, because they would argue that public expenditures have substantial multiplier effects on the aggregate demand, and consequently, positive effects on the economic growth. On the contrary, "orthodox" governments would assert that fiscal expansionary policies have inflationary effects and create negative externalities for market competition. "Orthodox" governments would also oppose increasing tax

burdens on economic activity. Consequently, they will generally prefer to cut public expenditures rather than increase taxes.

Observe that agenda-setters' policy preferences are not completely exogenous to the political system or the economic context. For example, those preferences could be completely different when the central bank is not independent, because the government would have unusual access to domestic and external debt. Similarly, agenda-setters' preferences would be different if there is extraordinary availability of natural resources. In Venezuela, for example, money issuing and oil royalties have been important fiscal policy tools for the *Chavista* political project, and consequently, the government is less dependent on tax revenues (DiJohn 2010).[12]

However, these policy alternatives could be considered exogenous distortions rather than deciding factors in the fiscal policy game. In general, when facing fiscal stress, agenda-setters are constrained to choose between more taxes or less expenditures as the main policy tools to attain fiscal balance.

Since the start of the debt crisis in 1982, Latin American politicians and policymakers have implemented different strategies to reduce fiscal deficits within a context of reduced access to external debt and trade liberalization. In the 1990s, the neoliberal technocracy privileged an *orthodox* agenda (Weyland 2002). Income and corporate taxes were increased, new value-added taxes were created, and tax-collection government agencies were consolidated. At the same time, technocrats and politicians preached for significant reductions in the size of the government and its role in economic activities. Public companies and utilities were privatized and the structure of oil and gas companies was changed to privilege the access of private capitals.

[12] Observe that royalties are not technically taxes. Royalties are payments firms make in return for the permission to use and exploit government's property. In the case of oil or gas production, when any firm starts a project, it must lease the government's property (subsoil) and then pay a royalty fee on the value produced by the subsoil, since the government still technically owns it. Meanwhile, traditional taxes are payments that must be made on revenue that is generated from normal business activities. They do not depend on particular leases or activities.

In terms of government revenues, the neoliberal strategy was straightforward: replace taxes on external trade with new personal income taxes, indirect taxation, and new resources from privatizations and royalties. In terms of government expenditures, the orthodox formula consisted of the elimination of government agencies, reduction of social spending, reduction of government bureaucracy, and pension reform. The most important consequences of these policies were a significant reduction in the size of the government and the amount of public employees. In the external front, the implementation of orthodox policies sought the independence of the central bank and the implementation of stringent controls over the government's ability to contract external debt. In both cases, neoliberal technocrats pretended to isolate monetary policy from president's discretion, making monetary policies less political and more technical.

Although economic liberalization can be considered as the policy baseline in the region at the beginning of the 1990s,[13] cross-country variation increased substantially as a consequence of persistent fiscal crises at the end of the twentieth century. In fact, there were three different policy responses to the fiscal crises: i) consistent orthodoxy; ii) a return to protectionism; and iii) a resource-curse exit.

In the first case, governments were consistent with neoliberal policies or simply boosted them. This is the case of Chile or Colombia, where governments responded to recurrent fiscal crises with the implementation of more orthodox policies as the increase of indirect taxation, the expansion of the privatization process, and the shortening of public pension and health systems (Ffrench-Davis 2005; Weyland, Madrid, and Hunter 2010; Aninat et al. 2006; Olivera, Pachon, and Perry 2010). In both countries, tax revenues increased mainly because indirect taxes were

[13] Obviously, the implementation of neoliberal reforms was not identical across the region, and many of them were not even attained. Some countries achieved greater levels of economic reform than others (Lora 2007).

systematically raised. For example, value-added tax rates increased from 8% to 16% in Colombia between 1990 and 2012, and its tax base was also extended to cover a larger amount of goods and services, in some cases including basic goods as food and clothes (Price Waterhouse Coopers 1980).

A second group of countries confronted economic and fiscal crises by switching towards more protectionist policies. This policy response has been slow but extremely consistent. The best example of the return to protectionism is Argentina in the Kirchner era (Malamud and De Luca 2011; Bonvecchi 2010). The first reaction to the economic crisis in South East Asia and the massive capital flight from emerging markets was the implementation of orthodox policies as drastic spending cuts, strict controls to currency exchange (dollarization), and the establishment of the financial *"corralito."* The implementation of these policies was extremely negative in economic and political terms (Malamud and De Luca 2011). Argentinian economy got trapped in a downward spiral of instability and none of these policies were successful in avoiding debt default and the collapse of domestic financial system. In political terms, the implementation of Domingo Cavallo's agenda (former Argentinian finance minister) had catastrophic consequences for the stability of Argentinian democracy.[14] Since 2003, Argentinian governments (Kirchner 2003-2007 and Fernandez de Kirchner 2007-2015) implemented a series of reforms aimed at dismantling neoliberal policies, repaying external debt, and protecting strategic sectors of the economy (Malamud and De Luca 2011). Kirchner's political project privileged generous public spending, nationalization of strategic national resources (e.g. gas) and pension system, and repeated attempts to increase direct taxation on corporations (especially those in the agricultural

[14] Some scholars argue that "leadership does not appear to have played a decisive role in Argentina's post-1983 regime outcomes […] democracy survive despite being governed by both ineffective (Alfonsin, De la Rua) and irresponsible (Menem) leaders" (Levitsky 2005, 87). However, the political crisis in 2001-2003 is not possible to explain without referring to this ineffective and irresponsible leadership.

sector). Like in old protectionist times, central government is running a large primary fiscal deficit that has increased inflationary pressures and created negative consequences for the access to external sources of credit (Bonvecchi 2010).[15]

Finally, a third group of countries has taken the resource-curse exit. Rather than adjust their policies to the challenges of the external financial market, their economic policies relied on the abundance of natural resources and/or advantageous international prices of minerals and fuels (Corrales 2002; DiJohn 2010; Weyland, Madrid, and Hunter 2010). This is the case of Venezuela where the government responded to global economic crisis by nationalizing oil production and by increasing the president's control over PDVSA's (national oil company) financial operations. By doing so, Hugo Chavez completely avoided the implementation of unpopular austerity policies. In fact, in the past 15 years government expenditures in Venezuela have increased significantly and tax revenues have dramatically decreased - as % of the GDP (ECLAC 2012).

Therefore, the fiscal policy preferences of the agenda-setters in the region are shaped by their ideological preferences, their political alliances, and the policy toolbox available to them. Table 2.1 provides an example of my classification of the agenda-setters in Latin America. For example, one can observe that, independently of their partisan/ideological affiliation, agenda-setters in Argentina and Colombia could be classified as taxers. That is, when facing fiscal stress junctures, Argentinian and Colombian agenda-setters have privileged policies that increase tax revenue collection and rates rather than policies that reduce public expenditures. In both cases, the agenda-setters pushed for tax reforms aimed to increase indirect tax burden, create taxes on financial transactions, and extend the tax base for secondary taxes.

[15] However, some authors argue that, in comparison with "old times," public finance management has actually improved in the Kirchner era (Cetrángolo 2012)

Table 2-1. Agenda Setters and their Fiscal Policy Preferences in Latin America

Country	*President*	**Political Party**	**Agenda-Setter Type**	**Ideology**
Argentina	Menem 1989-1999	Justicialista	Taxer	Center Right
	De la Rúa 1999-2001	Unión Cívica Radical	Taxer	Center
	Duhalde 2001-2003	Justicialista	Non-taxer	Center Left
	Kirchner 2003-2007	Frente para la Victoria	Taxer	Center Left
	Fernández 2007-	Frente para la Victoria	Taxer	Center Left
Brazil	Collor 1990-1992	Reconstrução Nacional	Non-taxer	Center Right
	Franco 1992-1995	Reconstrução Nacional	Non-taxer	Center Right
	Cardoso 1995-2003	Social Democracia Brasileira	Non-taxer	Center
	Lula 2003-2011	Partido dos Trabalhadores	Taxer	Center Left
	Rousseff 2011-	Partido dos Trabalhadores	Taxer	Center Left
Chile	Aylwin 1990-1994	Democracia Cristiana	Non-taxer	Center
	Frei 1994-2000	Democracia Cristiana	Non-taxer	Center
	Lagos 2000-2006	Socialista	Taxer	Center Left
	Bachelet 2006-2010	Socialista	Taxer	Center Left
	Pinera 2010-2014	Renovación Nacional	Non-taxer	Center Right
Colombia	Gaviria 1990-1994	Liberal	Taxer	Center Right
	Samper 1994-1998	Liberal	Taxer	Center
	Pastrana 1998-2002	Conservador	Taxer	Center Right
	Uribe 2002-2010	Primero Colombia	Taxer	Right
	Santos 2010-	Unidad Nacional	Taxer	Center Right

Source: Coppedge 1997, Murillo et al. 2010, Huber et al. 2012

The strong federalism in Argentina and the increasingly importance of decentralized governments in Colombia have made very difficult to reduce public expenditures in both countries (at the national and local level) without breaking delicate political agreements within electoral and legislative coalitions. Consequently, raising tax-collection seems to be the most common policy to deal with macroeconomic crises.

This also seems to be the case in Brazil after Lula's tenure. The implementation of fiscal responsibility laws (banning state governments to issue external debt) and the extension of national social spending programs as *Bolsa Família* increased the level of fiscal dependence of state-level governments to central government. Such dependence made political coalitions more responsive to the relationship between Brasilia and the subnational governments, and consequently, it created strong incentives to not reduce federal expenditures (Borges 2011; Soares and Neiva 2012; Power 2010).

These intergovernmental tensions are minimal in Chile, where political and policy-making decisions are quite centralized around the executive branch of government. Fiscal policy-making is less susceptible to political negotiations outside the government coalition and decision-making process is quite hierarchical. In fact, the Chilean agenda-setters have real capacity to control public expenditures without touching sensible nerves within their coalition. For this reason, they seem to be more prone to confront fiscal crises by reducing expenditures (Aninat et al. 2006; Marcel 2013).

As I mentioned before, the *taxer vs. non-taxer* classification of agenda-setters does not necessarily match with the traditional right-left ideological scale. In general, *non-taxer* agenda-setters are usually located at the right of the ideological spectrum and *taxer* agenda-setters are usually located at the left of the ideological spectrum. However, not all *non-taxers* are rightist

and not all *taxers* are leftists. For example, leftist or center-leftist governments in Chile (Lagos 2000-2006; Bachelet 2006-2010) were definitively more prone to reduce expenditures rather than increase taxes.

Similarly, rightist or center-rightist governments in Colombia (Gaviria 1990-1994; Pastrana 1998-2002; Uribe 2002-2010; Santos 2010-2014) have been always reluctant to significantly reduce public expenditures. Their most used strategy to fight fiscal deficits is to increase indirect taxation, expand tax bases, and even create new taxes. In fact, there have been more than 15 tax reforms in Colombia between 1990 and 2012. All of them were promoted and implemented by rightist or center-rightist presidents.

This is not a minor issue. Any political economy analysis of tax policy outcomes in presidential regimes should take distance from traditional assumptions about the role of ideological agendas on economic policy-making. It rather focuses on the agenda-setters' actual policy preferences, and the coalitional dynamics under which they transform such preferences into policies. The agenda-setter's policy preferences are not exogenous to the political game; they actually depend on the coalition building process.

For example, the president will prefer to allocate more fiscal resources to non-targeted, nationally oriented programs when his government coalition is large and nationalized. On the contrary, he will prefer to increase the amount of targeted transfers from central to subnational governments if his government coalition is smaller and heterogeneously dispersed across the country (Castaneda-Angarita 2013).

2.2.2. Business Interest Groups

Interest groups can be defined as identifiable groups of individuals or firms with similar policy preferences and organized on behalf of their members. They can be organized around similar business, occupational, or non-economic interest. Their power and influence on fiscal policy depends on their policy preferences and their organizational capacity.

Business interest groups' policy positions on taxation are well known. In general, they prefer tax policies that encourage investment and competitiveness while minimizing double taxation -low corporate income taxation and/or tax cuts for strategic sectors-. That is, their main goal is to minimize the tax burden for their members and the sectors of the economy that they represent. However, business interest groups usually do not prefer fair and simple tax codes. For example, some business interest groups prefer complex tax codes with significant loopholes and credits, because the cost of lobbying for itemized deductions is low and it is easier to transfer tax burdens to non-organized citizens or small businesses with no capacity for professional lobbying. Accordingly, small and medium-size businesses also try to minimize their tax burden but they usually prefer simpler tax codes because, in general, lobbying has prohibitive costs for them. Additionally, in some cases business associations also oppose tax reform plans that would eliminate or cut tax provisions providing preferential treatment to particular economic sectors (Slemrod 2008; J. Alt, Preston, and Sibieta 2010).

Business associations, power groups, firms, and other business interest groups represent narrow interests, such benefits for some specific group. Consequently they do not generally have strong policy preferences toward fiscal balance. They are only interested in protecting programs that they have supported and that benefit them. Interest groups would strictly prefer the inclusion

of items that improve their market position or guarantee tax benefits to their affiliates. They also prefer budget bills that include more appropriations for which they can be potential suppliers.

Business interest groups' ability to influence final policy outcomes depends on structural and organizational factors. On one hand, business interest groups and firms can make coordinated investment (or disinvestment) decisions in order to make public policies more beneficial for their interests. This is what one could define as *market leverage*.

On the other hand, business interests can use non-market mechanisms to influence public policy. That is, they can undertake deliberate political actions as the use of partisan linkages, networks, campaign contributions, or lobbying to persuade policymakers and make public policies more beneficial to their interests. Such capacity depends on their organizational attributes (*centralized vs. decentralized coordination*).

Hirschman argues that business interest groups usually have two types of policy response: they choose to disinvest –*Exit*, or they choose to politically influence public policies –*Voice*- (Hirschman 1970). The "exit" response is obviously less flexible because it depends entirely on the structure of domestic economy and the existence of institutional constraints on capital mobility. The "voice" response is more flexible because it depends on the business interest groups' ability to keep strong linkages with political parties (or individual politicians) and their capability to invest in campaigning, lobbying, or bribing. However, the deliberate use of political power requires high levels of coordination, especially when business interest groups want to respond to comprehensive tax reforms. For this reason, one can argue that business interest groups are more able to use their "voice" as they are more organized and coordinated around encompassing business organizations.

2.2.2.1. Market Leverage

Market leverage is strongly associated with the level of diversification of the domestic economy. In particular, one can expect that business interest groups are more influential in countries where economic activity is highly concentrated around some few industrial sectors. The rationale is straightforward. The country's macroeconomic stability would heavily depend on the performance of these sectors. For this reason, economic policy-making should prioritize their needs and more public resources should be allocated to guarantee them better productive conditions. In economically concentrated environments, any increases in the corporate tax burden have critical consequences for the aggregate demand and the labor market. As domestic economies become more diversified, market mechanisms and private investment decisions become less crucial and the government can replace partners in the business sector with no difficulty.

Let me illustrate with some examples. Since early 1990s, almost all countries in Latin America experienced a significant diversification of their economic structures. The end of protectionism and the radical liberalization of capital markets had a great effect on domestic economic structures. Industrial sectors that were usually subsidized by central governments confronted significant losses once they had to compete with external competitors. Such losses were substantial for sectors producing durable goods as cars, home appliances, consumer electronics, or industrial equipment. That is, industrial sectors with no comparative advantages in the international markets. Long periods of protectionist economic policies made these sectors reluctant to adapt their productive structure to the free-market competition and create

inefficiencies that could not be corrected at the pace required by the market liberalization (Stallings and Peres 2000).

The most significant outcome of this process was the collapse of many industrial sectors. For example, several motor vehicle manufacturing and assembling companies were shut down in the region in the early 1990s (e.g. Renault assembling factory in Colombia or the Volkswagen assembling factory in Mexico) or their activities transformed rapidly from assembling cars to selling imported cars. Similarly, firms and economic conglomerates relocated their investments from secondary (manufacturing) sectors to the primary sectors with comparative advantage (agriculture and mining), and the provision of services as telecommunications, mass media, health care, financial, services, or construction (Stallings and Peres 2000). This process of industrial transformation was reinforced in the 2000s by the significant expansion in the Chinese demand for commodities and raw material from Latin America (Devlin et al. 2006).

The decline of industrial concentration in the region was the main consequence of this process of rapid industrial transformation. Table 2.2 provides some empirical evidence for the main four economies in South America. Using an index of industrial concentration, we can observe that the average concentration index decreased from 50.7% to 45.1% (as a percentage of the GDP).

Table 2-2 Industrial Concentration Index 1990 and 2010, South America

	3-main index 1990	**3-main index 2010**	**Difference**
Argentina	51.56	48.69	-2.87
Brazil	48.85	41.65	-7.20
Chile	53.31	45.85	-7.46
Colombia	48.94	44.25	-4.69
AVERAGE	50.67	45.11	-5.56

Source: UN- Economic Commission for Latin America and the Caribbean

The difference in the concentration index between 1990 and 2010 is higher for Brazil (7.2%) and Chile (7.5%), meaning that both economies are significantly more diversified now than twenty years ago. The pattern is similar for Colombia and Argentina.

Table 2-2 also suggests that disinvestment threats could be less credible now after decades of structural economic reform. For example, the fate of democracy and economic governance in Colombia is less dependent on the performance of coffee producers and exporters after the 1990s. In fact, coffee producers in Colombia (represented by the *Federación Nacional de Cafeteros*) lost their political influence to new dominant business sectors as telecommunications, mass media, and banking (Rettberg 2005). Similarly, Brazilian coffee exporting and manufacturing sectors have became less influential, while telecommunications (e.g. *Organizações Globo, TIM*, or *Vivo*), or retail (e.g. *BR Distribuidora* or *Ipiranga)* conglomerates have increased their presence in the domestic market (Kingstone 1999; Mancuso 2007).

2.2.2.2. Business Coordination

Industrial diversification does not directly translate into weaker business interest groups. Increasing economic diversification tells us about the emergence of new actors and the transformation of the economic elites in the region. But it does not take into account their degree of organization as interest group. As mentioned above, the political influence of business interest groups increases as they are more coordinated, they are better organized around encompassing business associations, and they are better integrated to the policy-making process.

Let me illustrate with some examples. The patterns of business organization vary dramatically across Latin America. While encompassing business associations are strong in

Chile (*Confederación de la Producción y el Comercio*) and Mexico (*Consejo Mexicano de Hombres de Negocios* and *Consejo Coordinador Empresarial)*, they are relatively weaker in Brazil (*Ação Empresarial*) and Colombia (*Consejo Gremial Nacional*), and they are almost inexistent in Argentina or Uruguay.

The historical causes for the emergence of these patterns of business organization in Latin America are understudied. Some scholars argue that these patterns of business organization are the result of the conflict between business and government over the implementation of economic policies during the industrialization era (Schneider 2004). That is, different models of business organization emerged in Latin America because governments provided different incentives for business collective action. Such incentives included political support, regular meetings with business actors, policy bargaining, or semi-autonomous sectorial governance (Schneider 2004, 27). According to this theory, different patterns of business organization are the expression of a top-down process of inclusion of business elites in the policy-making process.

Other scholars contend that the emergence of economy-wide encompassing business associations was actually a private response to institutional threats of exclusion from the policy-making process during hard economic times in the authoritarian and populist regimes (Conaghan and Malloy 1995; Bartell and Payne 1995; Durand and Silva 1998). According to this line of argumentation, the emergence of common enemies (leftist governments, highly centralized labor unions) forced business collective action and required centralization of business organization. Thus, threats from below (mass popular movements, national rebellions, or spread guerillas movements), threats from the state (widespread expropriation, radical redistribution programs, or increasing government regulation), economic threats (crises, hyperinflation, or recessions), and

the threat of exclusion from the policy-making process explained the consolidation and unraveling of encompassing business associations in the region.

After the emergence of encompassing business associations, their subsequent consolidation (or breakup) has been explained as the result of different factors: internal organization, relations government-business, or leadership (Durand and Silva 1998). For example, encompassing business associations failed to emerge in Argentina or the Dominican Republic because the government-business relation provided strong incentives for individual firms or sectorial-level coordination, and the threats of nationalization or expropriation were minimal in those countries (Acuna 1998). Geographical factors also played a significant role in some countries. For example, business interest groups in Brazil are geographically concentrated in Southern Brazil and it prevented the consolidation of an economy-wide encompassing business association (Durand and Silva 1998). In Argentina, Peron's corporatist project encouraged disagreements between capitalists and landowners, and consequently hindered any efforts for business coordination (Basualdo 2006; Azpiazu, Basualdo, and Khavisse 2004; Azpiazu and Basualdo 1989; Basualdo et al. 2000).

Yet, scholarship on encompassing business associations provides some clues to understand the process of emergence and consolidation of business coordination in Latin America, but it does not provide a good account about the role of different patterns of business coordination on the policy-making process. The literature mainly focuses on the effects of the government-business relation, the threats created by different models of economic development, and the conflict among different social classes (Schneider 2010a; Durand and Silva 1998). However, it does not pay attention to business interests groups as political actors that are regularly involved in the political game.

For example, the literature lacks a good explanation about how different party systems facilitate or hinder business unity. Are there any electoral connections? The study of the process of inclusion of labor and capital into the political system overlooks the strong effect that simple differences in the electoral system have had on the incentives for business collective action. Common wisdom assumes that central government is a unitary actor and that business interests groups only bargain with the executive branch of government (Schneider 2010b). However, variations in the electoral system provide different incentives to politicians in the executive and the legislative branches. Consequently, the possibilities of business interest groups to influence the policy-making process are distinct from one electoral system to another (Mahoney 2007). Yet, the politics of policy-making process shapes business power across countries independently of the general attributes of the models of economic development or democratic organization. Such political interactions need to be studied in the future in order to have a better understanding of business politics in Latin America.

In any case, there is a great deal of variation in the models of business organization in the region. For example, Table 2-3 shows that business interests groups in are centrally coordinated. The *Confederación de la Producción y el Comercio –CPC-* (created in 1934) includes the main sector-oriented associations, it has strong institutional capacity, and it plays a central role in aggregating business interests and negotiating public policies with the central government. There are several and powerful sectorial-oriented business associations in Chile - for example SOFOFA (Chilean Industrialists Association) or the SNA (Agricultural Trade Union), but they are usually subordinated to the leadership of the CPC. These high levels of coordination and delegation have guaranteed that business interests groups generally have a strong bargaining position for policymaking purposes in Chile.

Table 2-3 Models of Business Coordination in Latin America 1990-2010

Centralized Coordination	Weakly-centralized Coordination	Decentralized/No Coordination
CHILE: Confederación de la Producción y el Comercio MEXICO: Consejo Coordinador Empresarial Consejo Mexicano de Hombres de Empresa COSTA RICA: Unión Costarricense de Cámaras y Asociaciones de la Empresa Privada	COLOMBIA: Consejo Gremial Nacional – dominated by the Asociación Nacional de Industriales (ANDI) BRAZIL: Ação Empresarial dominated by the Confederação Nacional da Indústria	ARGENTINA: Sociedad Rural Argentina Unión Industrial Argentina URUGUAY: Asociación de Bancos del Uruguay Cámara de Industrias de Uruguay PARAGUAY: Unión Industrial Paraguaya Asociación Rural de Paraguay

The pattern of business organization is more decentralized in Brazil and Colombia. Colombian business associations are frequently considered as good examples of strong sectorial business organizations, especially in the case of the coffee-exporters association (FEDERACAFE) and the industrialists' association (ANDI). *Federacafé – Federación Nacional de Cafeteros* - was created in the 1930s to represent the interests of coffee growers, and rapidly transform itself into a "state within the state." During the boom of coffee in the international markets, *Federacafé* became the most important business association in Colombia, and its presence as a pro-coffee lobbyist was also really important in the United States and the World Trade Organization (WTO). Along with Brazilian coffee-growers, they managed to create a system of production quotas that fixed international prices of coffee at very beneficial levels for coffee-producers in South America (Bates 1998). The power and presence of *Federacafé* has significantly decreased in the past two decades as a consequence of the diversification of the economy and the entry of new competitors to the international markets.

The history of the industrialists' association is quite similar. The ANDI (National Association of Industrialists) was created in the 1930s and turned itself into an important political actor as the industrialization process was consolidated in Colombia. After *Federacafé*, the ANDI was a crucial interlocutor for the government. From 1940s to 1970s, no economic policy decision was taken without direct consultation to the ANDI. Similar to *Federacafé*, the influence of the ANDI corroded after the implementation of economic liberalization programs in the 1990s.

The strength of *Federacafé* and ANDI constituted a serious obstacle for the consolidation of an economy-wide encompassing association in Colombia.[16] Unlike the Chilean case, the process of formation of an umbrella, national-peak association in Colombia has been quite slow. Only after economic liberalization and the subsequent diversification of the economy, the ANDI and *Federacafé* opened the door for an economy-wide association. Led by the president of the ANDI, a number of sector-oriented associations created the *Consejo Gremial Nacional (CGN)* in 1993. It included high-rank executives from the ANDI (industry), *Federacafé* (coffee-growers), SAC (agriculture), FENALCO (retailers), CAMACOL (construction), and ASOBANCARIA (banking), among others. The creation of the CGN was a direct response to the changes provoked by the economic liberalization and the increasing influence of economic conglomerates on policy-making issues.[17]

However, the Colombian economy-wide encompassing association is not as powerful its Chilean counterpart. The CGN is institutionally weak, industrialists' interests dominate it, its internal coordination is fragile, and their members are not very disciplined. Its presence is sometimes more decorative than functional. Domestic economic conglomerates, sectorial-

[16] Interview with Miguel Urrutia, Professor, Economics Department, Universidad de los Andes. Phone interview with Eduardo Saenz-Rovner, Professor, Economics Department, Universidad Nacional de Colombia.
[17] Interview with top-executive from the ANDI (National Industrialists Association).

oriented associations, and even firms seem to be very effective in getting the attention they required from politicians without the support or participation of the CGN.

The circumstances are very similar in Brazil, where high levels of industrial diversification, a large-sized domestic market, and geographical disparities in economic development made business unity very difficult. Given the size and complexity of the Brazilian economy, there are numerous business associations with relatively large amounts of resources to be used for policy influence activities. Almost every economic activity has a business organization dedicated to represent a large variety of business interests.[18] The *Confederação Nacional da Indústria* (CNI) and the *Federação de Industrias do Estado de São Paulo* (FIESP) were created to represent the industrialists' interests during the Getúlio Vargas' regime. According to Schneider (2004), they started as independent organizations but rapidly were coopted by populist regimes and receive significant access to major policy forums, government agencies, and decision-making instances like the *Conselho Federal de Comercio Exterior* or the Department of Industry and Commerce (Schneider 2004, 97–105). Under the military rule, the relation between business and government eroded substantially, business interest groups were systematically excluded from decision-making boards, and the business interests became increasingly fragmented in Brazil. Military governments generally preferred to avoid large corporatist councils. They negotiated economic policies with sectorial organizations or even single firms (Malloy 1977). Consequently, the political game did not provide incentives for coordinated business action.

The re-emergence of political and economic competition provided strong, new incentives for organization and political mobilization among business community. The creation of the *União Brasileira de Empresários* (UBE) was the first attempt of organizing an economy-wide

[18] Interview with top-executive from Ação Empresarial.

encompassing association. It was a failed attempt, but it represented a change in the business sector's mood about the advantages of a peak-national association and the definition of coordinated policy agendas in the context of the implementation of structural economic reforms. In fact, the UBE was the inspiration for the creation of *Ação Empresarial* (AE) in 1993 and the design of a clear policy agenda (Industrial Legislative Agenda) that has been successfully promoted in congress in the past two decades (Mancuso 2007; Mancuso 2008; Mancuso 2004).

Ação Empresarial (AE) includes most of the sectorial business associations, it provides logistic and informational support to Brazilian business community, and it pushes business interests. However, it is still institutionally weak, has no effective control over its associates' actions, and its resources for direct political action are minimal (Mancuso 2007). Like in the Colombian case, the industrialists' association (CNI) still keeps control over the economic-wide encompassing association (*Ação Empresarial*). In fact, the CNI plays an important role of political leadership in the mobilization and coordination of business interests in Brazil. For example, under the CNI leadership, the business community in Brazil has regularly published an economy-wide agenda to promote in Congress since 1995 (CNI 2013).

In both, Colombia and Brazil, there has been considerable progress towards the building of economic-wide, national-peak business associations. Recent changes in the domestic economic structure, the emergence of new competitors and economic actors, and the transformation of the political arena after democratization have provided strong incentives for business unity in both countries. However, economy-wide encompassing associations in Brazil and Colombia are still institutionally weak and their political action is still constrained by their lack of autonomy regarding sectorial-oriented business associations as the ANDI (Colombia) and the CNI (Brazil). *Ação Empresarial* (Brazil) and the *Consejo Gremial Nacional* (Colombia) are

much less autonomous, complex, and organized than its Chilean counterpart – the CPC. For this reason, one could classify Brazilian and Colombian encompassing associations as cases of weakly centralized coordination (see table 2.3).

The pattern of business organization in Argentina constitutes a good example of decentralized business coordination. There are no encompassing business associations in Argentina. The relation between government and business community is largely based on sector-by-sector agreements, and it is generally conditioned by the relationship between sectorial associations and political parties. In fact, there is a clear alignment between some political parties and specific sectorial business associations. For example, the *Unión Industrial Argentina – UIA* - (industrialists' association) has been historically co-opted by the Peronist party, while agricultural business interests, represented by the *Sociedad Rural Argentina*, are usually very close to the Radical party (Basualdo 2006).

The UIA was created in the middle of the industrialization process in Argentina (late 1890s) and developed itself as the main encompassing business association until the late 1940s. In the 1940s, Peron intervened the UIA, transformed it into an official business association, and finally he replaced it to create its own encompassing business association (the *Confederación General Económica*). The UIA resurrected after the decline of the Peronist regime, but it was rapidly undermined again by the military regimes in the 1960s and 1970s. Consequently, UIA's institutional and organizational capacity was sterilized and their presence became increasingly marginal (Schneider 2004).

The transition to democracy in the 1980s did not involve a resurrection of the UIA as a strong business association because new democratic governments preferred to use alternative channels of coordination and interest aggregation with the business community. In fact, they

were more focused on the firm level of coordination. Both Raúl Alfonsín (1983-1989) and Carlos Menem (1989-1999) largely ignored business associations or simply used them as mechanism of political mobilization at critical political junctures. They usually negotiated policies with specific firms or economic conglomerates, and avoided the use of cross-sectorial consultative boards or councils. Such strategy weakened the UIA as a player in the policymaking process, because industrial firms and conglomerates maintained direct relationships with the president and the members of his cabinet. This explains the dominance of small, sectorial-oriented groups as more effective mechanisms to influence public policies. After the collapse of the Argentinian economy in 2001, the role of the UIA as a crucial interlocutor in the policy-making process is still very limited, especially because Kirchner's political project was quite effective in influencing UIA's internal politics and transforming it into one of many groups dedicated to mobilize resources and support for the government policies (Malamud and De Luca 2011).

The case of the *Sociedad Rural Argentina* (SRA) is not very different but it has some peculiarities because the SRA is a unique case of successful institutional-capacity building among the business community in Argentina. The SRA was created in 1886 to represent the landowning elite's economic interests and it was quite successful influencing domestic politics until the emergence of the Peronist project (Floria and Garcia 1992; Romero 2001). In fact, many of its members were presidents, ministers of agriculture, members of the presidential cabinet, or congressmen during the golden years of the Radical Party (1910-1940). The prevalence of the Radical Party was cracked down by the emergence of the populist experiment in Argentina and the consequences for the SRA were meaningful. Juan Perón (1946-1955) intervened the SRA and confiscated its assets. However, the SRA remained functional to their members, which

guaranteed some degree of institutional stability. During the military rule, some of its assets were restituted and some members of the SRA were appointed as members of the cabinet or held important positions in the policy-making process. By the transition to democracy, the linkages between political parties and business associations were completely clear: the Peronist Party partially assimilated the UIA into its political project and isolated landowning interests; meanwhile, conservative factions and Radicalism integrated the SRA as a crucial part of their base of support (Schneider 2004). In both cases, business interest groups were subordinated or amalgamated to the political conflict. They were embedded into the climate of polarization and fragmentation that characterizes the Argentinian political system.

The most recent evolution of the political conflict in Argentina has deepened such polarization and fragmentation within the business community. Tensions between Peronism and anti-Peronism still shape the relationship between government and business associations (Basualdo 2006; Azpiazu and Basualdo 1989; Azpiazu, Basualdo, and Khavisse 2004). Consequently, the most recent attempts of creating peak encompassing associations have dramatically failed in contemporary Argentina (Acuna 1998; Basualdo 2006).

In summary, the discussion above allows us to identify at least three different patterns of business coordination in Latin America: centralized coordination, weakly centralized coordination, and decentralized coordination. As I will show in the section below, the interaction between these different patterns of business organization and the agenda-setters' policy preferences determine tax policy outcomes in the region.

2.3. THE POLITICS OF REVENUE-RAISING TAX REFORMS

A quick survey of the most recent tax reforms in Latin America shows a great deal of variation in their nature, motivation, and scope. Some initiatives seek changes in major taxes (income, corporate, and/or value-added taxes), others only seek modifications of minor taxes, the tax base, or changes in rates, while others only seek to increase the efficiency of tax administration.

For example, tax reforms are frequent in Colombia (more than 15 tax reforms have been implemented since 1991), but most of them are rather partial or modest. Generally, the most recent reforms have slightly increased VAT rates, hardly increased corporate taxes, or simply added minor taxes as the gasoline tax or the financial transaction tax (Olivera, Pachon, and Perry 2010). Similarly, recent governments in Argentina implemented around 83 tax reforms (via laws or *decrees of necessity and urgency*) between 1988 and 2008, and only 25 of them made significant changes to the Argentinian tax structure (Bonvecchi 2010). On the contrary, tax reforms are completely unusual in Chile or Mexico.

The main claim of this dissertation is that the variation in the scope and frequency of tax reforms and their impact on tax revenue collection mainly depends on two factors: the agenda-setters' tax policy preferences and the ability of business interest groups to influence policy-making process and outcomes.

If the tax policy preferences of agenda-setters and business interest groups are similar, no tax reform are proposed and tax burden does not increase drastically. However, when there is no ideological convergence between agenda-setters and business interest groups, the latter will display its power of influence in order to avoid any increases in corporate or income taxes. That

is, encompassing business associations, economic conglomerates (*grupos*), or even individual firms will trigger their political power only when their policy preferences do not match those of the agenda-setters. In those instances, business interest groups seem to prefer status quo tax policies, or tax policies that benefit them by reducing corporate taxes or reducing the general tax burden. If any change, they usually prefer tax cuts.

Observe that the strategy of the business interest groups consists of a wide range of activities. In this particular stage of the tax policymaking, they focus mainly on networking, presenting technical studies, and discussing policy issues with different members of the economic cabinet. One of the most common strategies is to establish coordination committees where national-peak business associations and government discuss the scope of the tax reform. This was quite common in Latin America because during the years of the state-led industrialization (the so-called, *Import-Substituting Industrialization -ISI*), when several governments established advisory committees or policy forums with strong presence of business interest groups. Most of these channels of communication still remain active (Schneider 2004, 31–36). In most of the cases, these advisory bodies are effective mechanisms to negotiate public policies (Thorp and Durand 1997). For example, government and main business interest groups in Colombia created in 1991 the *Consejo Gremial Nacional* as an advisory committee to discuss the implementation of new macroeconomic policies (Schneider 2004; Angelika Rettberg 2005). The *Consejo Gremial* is still a point of reference for any policy discussion between government and business interest groups in Colombia.

Encompassing business organizations and business-friendly think-tanks also release technical reports and disseminate their policy positions among the policymakers and the public opinion. For example, the *Confederação Nacional da Industria* in Brazil publishes and divulges

its own *Agenda Legislativa da Industria* (Industrial Legislative Agenda) and discusses it with members of the economic cabinet and top-ranked legislators (Mancuso 2007). In Chile, policy discussions about taxation are usually supported by technical reports provided by the *Centro de Estudios Públicos* or the *Corporación de Estudios para Latinoamérica (CIEPLAN).*

However, personal contact with executive officials is the most common tactic of advocacy. In fact, in early stages of the policy-making process, executives from encompassing business associations and economic conglomerates make use of their own personal networks to discuss details of the bill proposals with key members of the economic cabinet.[19] They also start preliminary conversations with top-ranked members of the economic committees in congress. As their peers in more developed countries, lobbyists defending business interests seem to prefer the personal contact tactic as the most effective way to influence policymakers (Baumgartner et al. 2009).

The success of all these policy influence strategies (i.e. avoiding any significant increases in corporate tax burden) depends on business interest groups' organizational capacity, their bargaining power, and the amount of resources available for lobbying activity. That is, business interest groups will be able to block or soften any revenue-raising tax reform only if they are well organized, well connected, and have sufficient resources for policy influencing activities.

[19] Interviews with executives form different business interest groups in Brazil, Chile, and Colombia confirmed the importance of this lobbying activity. In many cases, the interviewees confirmed that they usually share the same social networks with policymakers or politicians because they attended the same high schools or colleges, or simply belong to the same social clubs.

2.3.1. The causal mechanism: modeling tax policy change

Scholars on special interest groups have long noted that the distribution of the tax burden reflects the distribution of power among different societal groups and the variation in their policy preferences (Musgrave 1992; Salamon and Siegfried 1977; Bartlett 1973). A quick survey of the scholarship on special interest groups also suggests that variation in the patterns of business organization has a significant effect on public policy outcomes. For example, Martin (1991, 2004) shows that the variation in the patterns of organization among business interests had substantial effects on the implementation of welfare and social policies in western democracies. Scholarship on varieties of capitalism has also shown that different patterns in the organization of capital and its relationship with labor shape public policy outcomes (Rueda and Pontusson 2000; Hall and Soskice 2001; Martin and Swank 2004). Empirical research on lobbying also sheds lights on how business interest groups buy political influence and shape public policies (Austen-Smith 1993; Hojnacki and Kimball 1998; Hojnacki and Kimball 1999; Di Gioacchino, Ginebri, and Sabani 2004; Baumgartner et al. 2009; J. M. de Figueiredo and Ritcher 2013).

While the influence of business interest groups in policy-making process is incontrovertible, its consequences for policy outcomes are ambiguous, and its mechanisms are understudied. We know that money buys influence, but we know very little about the causal mechanisms that transform such influence into specific policy outcomes. In fact, we know very little about the internal organizational attributes that make business interest groups more or less influential in the policymaking process.

My model of policy change proceeds from patterns of business organization to policy outcomes. In particular, I argue that the influence of business interest groups in fiscal policymaking as a “reactive” strategy that is triggered only when their policy preferences are not

similar to those of the agenda setters. Thus, fiscal policy outcomes are conditional to the interaction between agenda setters and business interest groups.

This model of tax policy change is thus focused on the sequence that goes from agenda setters' tax reform proposals to the final bills approved by congress. As first movers in the policy-making process, agenda setters maintain a powerful advantage in fiscal politics. Their preferences over tax policy may be organized according to two types: agenda-setters are *taxers* if their most preferred fiscal policy is to increase tax burdens (rather than reduce expenditures), while agenda-setters are *non-taxers* if their most preferred fiscal policy is to reduce expenditures (rather than increase tax burdens). These preferences over fiscal policy instruments depend on agenda-setters' partisan linkages and the alliances they make during and after electoral campaigns.

Evaluating the role of the agenda-setters' fiscal policy preferences would also require an assessment of their real capacity to transform such preferences into policies - their capacity to pass legislation in congress, their partisan powers. The concept of *partisan powers* refers to the fact than the agenda-setters (or presidents) "have control over their own party [coalition] and for that party [coalition] to be in control of a majority of seats" (Mainwaring and Shugart 1997, 40). This concept provides a standard measure of the agenda-setter's real capacity to get a legislative agenda enacted. Any focus on constitutional powers – veto, partial veto, or decree power – would be disadvantageous because the real effect of such constitutional instruments cannot be measured from a comparative perspective. Thus, one might contend that if agenda-setters' legislative party or coalition is too small or highly fragmented, they will have trouble transforming their tax policy preferences into actual policies.

As I mentioned above, scholars have conceptualized two types of power that enable business groups to influence the policymaking process: structural and instrumental power. Structural power refers to the level of dependence on a relatively small number of business sectors (as opposed to a diversified economy). From this perspective, business interests will be more influential as political stability depends more on their performance and the fluidity of their investments. Therefore, theory predicts that business sectors will be more powerful and influential if the domestic economy is less diversified. I refer to this as *market leverage.*

Instrumental or *political leverage* refers to the set of organizational attributes that enable business interest groups to influence policy decisions. Accordingly, one might identify at least three patterns of business organization with distinctive consequences for political influence: centralized coordination, sector coordination, and pluralism. *Centralized coordination* refers to the organization of business interests into encompassing associations - centralized, national, and multi-sectorial associations. *Weakly centralized coordination* refers to patterns of business organization where encompassing business associations are dominated by sector-oriented business associations. Finally, in some countries, business interests are quite fragmented, which results in intense intra-business competition and leaves no room for business coordination. This pattern of business organization can be defined as *decentralized/no-coordination* or *pluralism.*

In centrally coordinated business environments, business interests are usually more focused on broad and collective goals, and encompassing business associations concentrate substantial representational power. Consequently, these peak associations and their lobbyists are generally integrated in policy-making forums and have direct access to pivotal actors in the policy-making process. In countries where *weakly centralized or decentralized coordination* are predominant, business interests groups are focused on particularistic interests and the amount of

resources available for lobbying activities is less predictable. Thus, the integration of business groups in policy-making forums and their access to policymakers is actually limited. Then, business associations and lobbyists focus their lobbying efforts on particularistic or sector-oriented tax issues. In this case, lobbying activities will focus on the legislative stage of policy-making because legislators do not care much about macroeconomic stability (disinvestment threats may not affect their direct constituencies). They are more responsive to tangible benefits, but especially because lobbying in congress is relatively inexpensive for individual firms and sector-oriented business associations.

In summary, tax policy-making process involves different types of agenda-setters and different types of business interest groups. If agenda-setters and business interest groups have similar tax policy preferences (e.g. agenda-setter is not a taxer), tax reform proposals will be limited because neither of them is interested in altering the tax structure. However, if there is no policy convergence between agenda-setters and business interest groups (e.g. agenda-setter is a taxer), the agenda-setter will propose a tax reform and business interests groups will impede the process or avoid increases in corporate or income taxes (direct taxation). If business interest groups are highly coordinated (*centralized coordination*) or their market leverage is high (the economy is not very diversified), they will have significant leverage and organizational resources available to block tax reform bills in congress or even before when technocrats draft them. Even if the agenda setter strongly prefers to increase taxes, the presence of economically powerful or highly coordinated, encompassing business associations substantially attenuates the effect of agenda-setter's preferences on policy outcomes. The most feasible policy outcome is no increase in the direct tax burden (especially corporate taxation) and an increase in the indirect tax burden to fund government activities.

If business interest groups are not economically powerful or centrally coordinated (*weakly coordination or decentralized/non-coordination*), they will not be integrated to policy-making forums and organizational/financial resources will be relatively low (they will vary across different industries). Consequently, business interest groups will be less able to block tax reform initiatives. They can only soften their impact on specific economic sectors (those sectors with most resources available for lobbying). Therefore, if the agenda setter strongly prefers to increase taxes, then sector-oriented associations, economic conglomerates, and firms will lobby individual legislators in order to get particularistic benefits as tax credits, tax deductions, or loopholes. In this case, the most likely policy outcome is an increase in the direct tax burden and a resulting tax structure that will include several loopholes aimed to protect those industrial sectors that were able to afford successful lobbying strategies in congress.

Therefore, this theory of policy change suggests that agenda-setters' policy preferences are not the main factor shaping tax policy outcomes. Variation in tax policy outcomes is a function of the domestic patterns of business organization (centralized coordination vs. decentralized/non-coordination). In other words, the power of the agenda-setter is always conditional on the power of *de-facto* veto players (business interest groups).

In summary, I hypothesize that revenue-raising tax reforms will be implemented only if the following conditions are fulfilled:

i) Agenda-setters prefer increasing taxes over cutting spending and they have strong partisan powers to promote policy change; and

ii) Business interest groups' market leverage is low (disinvestment threats are not credible); and,

iii) Business interest groups are not centrally coordinated around encompassing business associations.

Table 2-4 presents some possible outcomes in tax policy. As mentioned above, direct tax burden will increase (especially corporate taxes) and structural tax reforms will be feasible only if the agenda-setter is a *taxer*, has strong partisan powers, and business interests groups are not economically powerful or centrally coordinated (panel VIII). If agenda-setters are taxers and business interest groups are economically powerful or centrally coordinated, tax reform will be only partial and indirect tax burden will rise (panels V and VI). In this scenario, business interest groups would fight any corporate tax rate increases or tax base extensions, and the agenda-setter will be compelled to finance government expenditures with indirect taxes as the value-added tax. Business interest groups might support changes for personal income taxation if they suspect that it might reduce the chances of an increasing corporate taxation (panel VI).

Table 2-4 Types of Tax Reform

		Non-taxer President		**Taxer President**	
		President's Partisan Powers		President's Partisan Powers	
		Weak	*Strong*	*Weak*	*Strong*
Business Interest Groups' Power of Influence (based on market leverage and patterns of coordination)	*High*	(I) No tax policy change, or tax cuts	(II) No tax policy change, or tax cuts	(V) Partial tax policy change (increasing indirect taxes, loopholes)	(VI) Partial tax policy change (increasing indirect taxes)
	Low	(III) No tax policy change	(IV) No tax policy change	(VII) Partial tax policy change (Loopholes)	(VIII) Structural tax reform

Observe that when a *taxer* agenda-setter has weak partisan powers, tax reform will be always partial because business interest groups will have leverage to request lower rates for

specific taxes or tax credits for specific economic sectors (panels V and VII). Table 2.4 also shows that no tax reform is feasible if agenda-setters and business interest groups have the same policy preferences (agenda-setters are taxers), no matter how economically powerful business interest groups are or their pattern of business coordination (panels I, II and IV). In fact, if the *non-taxer* agenda-setter has weak partisan powers and business interest groups economically powerful and centrally coordinated, tax burden could actually decline because encompassing business associations will find a friendly environment to include more tax loopholes or even reduce some tax rates (panels I and II).

2.3.2. Brief Illustrations of the Causal Mechanism

The theory presented in the previous section explains quite well cross-country variation in Latin America. For example, the growth of corporate and general taxes was much greater in Argentina (they increased about 160%) than Chile (taxes only increased 29%) between 1990 and 2010. According to my theory, such differences should be explained by the variation in type of agenda-setter and the patterns of business coordination across countries.

In Argentina, business interest groups are not crucial players in the policy-making process. They are extremely fragmented, historically dependent on the state, and structurally powerless (Acuna 1998; Schneider 2004; Fairfield 2010a; Fairfield 2011). As I show in section 2.2., there are no encompassing business associations in Argentina. Business interests are organized around sectorial associations as the *Unión Industrial Argentina* (manufacturing), the *Sociedad Rural Argentina* (agriculture), and the most recent attempts to promote cross-sectorial organizations (i.e *Asociación Empresaria Argentina*) have substantially failed. Consequently, business interests have not been able to obstruct the increasing number of tax reforms implemented by different governments.

Only the *Sociedad Rural Argentina* (the largest agricultural business interest group) has effectively challenged several attempts to increase taxes on agricultural activities and it has been able to coordinate political actions with other minor associations in the agricultural sector. Given the characteristics of the economy (high degree of dependence on soy production and raw material exports) the *Sociedad Rural Argentina* is politically powerful and its disinvestment threats are quite credible. In fact, the *Sociedad Rural* played a crucial role in the repeal of Cristina Kirchner's tax policy in 2008 (the so-called *conflicto del campo*).[20]

On the contrary, Chilean business interest groups are economically powerful, centrally coordinated, and well integrated to policy forums. In fact, the outstanding performance of the Chilean economy in the past two decades has strengthened business unity. Business interest groups have strong linkages with traditional political parties, their staff is well qualified, and their resources for lobbying are quite large. Also, Chilean business interests groups actively participate in meaningful policy-making advisory boards. This explains why they have been very successful influencing economic policymaking and hindering structural tax reforms (Schneider 2004; Fairfield 2010a).[21]

These patterns of business policy influence in Argentina and Chile have been reinforced by the ideological preferences of the agenda-setters. In Argentina, revenue-raising tax reforms were easily implemented not only because business interest groups are poorly coordinated, but also because recent Peronist governments strongly prefered tax increases over spending cuts. On the contrary, Christian Democratic governments, Socialist governments, and business interest

[20] The SRA was supported by a broad coalition including organizations of medium and small producers (CRA, Coninagro) who organized roadblocks and demonstrations.
[21] The interviews I did with business associations' executives in Chile confirm this argument.

groups in Chile have similar tax policy preferences and they agree on the importance of defending the neoliberal model as the only guarantee for stability.[22]

However, the agenda-setters' policy preferences and the patterns of business organization are not the only factors explaining the success of revenue-raising tax reforms. As I mentioned before, the size of the president's coalition in congress also shapes the ability of both, agenda-setters and business interest groups, to influence legislators' decision. If, for example, the president's coalition is too fragmented or small, the president will have trouble imposing her preferences and lobbying activities will be less costly. In fact, under these circumstances, business interest groups would find cheaper making deals with individual legislators, or small groups of them, than making agreements with the president or any party leadership. The smaller the government coalition is, the more capable of policy influence business interest groups are, even when they are not particularly powerful.

Let me illustrate this with an example. Ernesto Samper (1994-1998) was one of the weakest presidents in recent Colombian political history. His legislative coalition was extremely fragmented and unstable since the early days of his administration. On one hand, the Colombian electoral system had created strong incentives for personal vote and small electoral machines at the local level. On the other hand, the president was involved in serious corruption scandals that made him unable to build stable political alliances. In this context, the finance minister introduced a tax reform bill aimed at increasing corporate taxes and completing the economic liberalization program. The response of business interest groups to his tax reform proposal was blistering. Business leadership itself built and coordinated the opposition coalition in congress. In fact, the CEO of the country's biggest brewery lead the process and made sure that, one-by-one,

[22] Every single person I interviewed during my fieldwork in Chile confirmed this policy rationale.

every legislator voted against the president's bill[23]. Despite the finance minister's effort to change the tax structure, such tax reform only marginally changed some VAT rates (Rettberg 2003; 2005).

2.4. CONCLUDING REMARKS

In this chapter, I presented a theory of tax policy change in presidential regimes. The analysis focuses on the political interaction among political and economic actors rather than on institutional constraints. This theory privileges the role of the actors' preferences and strategies in the making of tax policy. This theory allows us to bring (back?) crucial actors to traditional political economy analysis and understand why and how they participate in the policy-making process. But it also allows us to discover more specific conditions under which tax reforms are feasible policy options.

Specifically, this theory shows that both formal and informal veto players are key players for tax policy-making. Thus, our understanding of tax policymaking should assess not only the interaction between the executive and the legislative branches of government, but also the role of other key veto players like business interest groups. I also that distinctive characteristics of the informal veto players (i.e. business interest groups) accurately explain cross-country differences in tax policy.

[23] Semana. 1992. "Augusto: El Otro Cesar" *Semana*, October 26.

3. BUSINESS ORGANIZATION AND TAX POLITCS IN LATIN AMERICA

This chapter evaluates the empirical implications of the theory of tax policy change presented in chapter 2. Using time series cross-sectional analysis, dynamic panel data (Arellano-Bond) models, and two-stage residual inclusion (2SRI) models, it shows under which conditions central governments in Latin America have been able to increase tax revenues and rates.

The statistical analysis presented in this chapter indicates that the agenda-setters' policy preferences and domestic patterns of business organization are highly consequential for explaining cross-country differences in tax policy. Controlling for several country-level factors and using different estimation techniques, I show that centralized and highly coordinated patterns of business organization neutralize any institutional advantages granted to agenda-setters in the fiscal policy-making process.

In particular, this chapter provides strong empirical evidence that revenue-raising tax reforms are most common in countries where agenda-setters strictly prefer to increase taxes as the main strategy for fiscal consolidation and business interest groups are not centrally coordinated (sector-oriented coordination or decentralized coordination). Indeed, this empirical

analysis demonstrates that the internal attributes of political actors and business interest groups are highly consequential for the success/failure of revenue-raising tax policies.

3.1. DEPENDENT VARIABLE: TAX POLICY IN LATIN AMERICA

Since the mid-1970s, government in Latin America implemented gradual but systematic tax reforms. These reforms involved, among other things: simplification of tax structures, removal of exemptions and privileges, replacement of traditional trade taxes by value-added taxes, and modernization of tax administration systems (Figari and Gandullia 2008; Shome 1999). The main goal of these reforms was to adapt the tax structure to the new model of economic development. Trade and capital liberalization not only diminished taxes on international trade but also transformed the region's economic structure. Consequently, most of the tax reforms seek to adapt government revenues to the new structural conditions.

Recent tax reforms in Latin America included a number of common elements: implementation of broad-based and uniform VAT systems (to replace foreign trade taxes), reduction of high statutory tax rates, simplification of personal income tax system, elimination of preferential treatment for specific economic sectors, and modernization of tax administration (Figari and Gandullia 2008, 43). In fact, some of these tax reforms constituted interesting experiments in tax policy-making and many of them are currently models for the design of modern tax structures in the developing world (Tanzi 2003).

3.1.1. Tax revenues

Table 3-1 shows the evolution of tax revenues (as percentage of the GDP) for 19 countries in Latin America and the Caribbean. In average, tax revenues in Latin America increased 4.6 percentage points of the GDP during the period 1990-2010. This increase in the tax burden was driven by different factors: faster economic growth, increasing international price of commodities, favorable macroeconomic conditions, introduction of new taxes, abolition of several tax exemptions, and improvement in tax administration (ECLAC 2013, 13–14).

However, there is a great deal of variation across countries. For some countries (i.e. Argentina or Brazil), the tax-to-GDP ratio is getting closer to the average in OECD countries, meanwhile in countries like Guatemala or Mexico, tax revenues are much lower and did not increase over the last two decades (Cetrángolo and Gomez 2006; ECLAC 2013).

This variation is often associated with different levels of economic development. In general, tax collection will increase as the countries reach higher levels of economic development. In fact, "the governments of all industrialized democracies extract a great deal of tax revenues from their citizens" (Peters 1991, 23). For example, in 2010 the total tax revenues made up on average approximately 33% of GDP in the OECD countries. Denmark and Sweden, the countries with highest levels of taxation, collected tax revenues for about 48% of GDP. These countries are not only richer, but also their governments have implemented more efficient tax systems, and their tax administration is usually more effective. In the meantime, Chile, Mexico, and Turkey (the poorest OECD countries) only collected tax revenues up to 20% of GDP (OECD 2011).

In the case of Latin America, Table 3.1 also shows that in 1990 the total tax revenues were higher in Chile, Uruguay, or Venezuela (the richest countries of the region at that time).

Meanwhile, tax collection was very low in the poorest countries of the region (Bolivia, Ecuador, or Nicaragua). Unlike the OECD countries, this trend is not stationary in Latin America. The advances and setbacks of the economic liberalization in the last two decades provoked important changes in the level of tax collection. Tax collection has steadily increased in some of the more developed countries of the region (i.e. Argentina or Uruguay), but the fiscal pressure has also substantially increased in some of the poorest countries in the region. In fact, the level of tax collection increased almost three times in Bolivia, Ecuador and Nicaragua between 1990 and 2010. Surprisingly, tax revenues hardly increased or simply dropped dramatically in some of the most dynamic economies of the region over the last two decades (i.e. Mexico and Venezuela).

Following the criteria proposed by the Economic Commission for Latin America and the Caribbean (ECLAC), one can classify Latin American countries "according to their average tax burdens into three groups: i) those with tax burdens that are more than 20% above the regional average; ii) those that are within +/- 20% of that average; and iii) countries that have burdens of at least 20% below the regional average" (ECLAC 2013, 12).

In the group 1, tax revenues were higher than 18% of the GDP in 2010. In Argentina and Bolivia, tax revenues increased more than 10 percentage points of GDP between 1990 and 2010. In the second group of countries, tax revenues oscillate between 12% and 17% of the GDP. Tax revenues increased considerably in two countries: Ecuador (8.5 percentage points) and Nicaragua (7.1 percentage points). Countries with very low levels of tax collection are classified within group 3. For example, tax revenues in Guatemala and Mexico are only 10% of the GDP in Mexico and Guatemala. In fact, tax revenues increased only 0.1 percentage points of the GDP in Mexico between 1990 and 2010. In Venezuela, tax revenues decreased about 7 percentage points of the GDP in the same period.

Table 3-1 Tax Revenues (excluding social security)
Latin America 1990-2010 - as % of GDP

Country	1990	2000	2010	Difference 1990-2010
Group 1				
Argentina	11.9	18.1	26.4	14.5
Brazil	20.0	23.0	24.6	4.6
Uruguay	13.4	14.6	19.3	5.9
Bolivia	8.1	16.3	18.5	10.4
Group 2				
Chile	13.4	16.9	17.2	3.8
Nicaragua	8.1	11.2	15.2	7.1
Colombia	8.3	11.6	15.0	6.7
Peru	10.8	12.4	14.7	3.9
Honduras	12.3	13.8	14.6	2.3
Ecuador	5.9	8.9	14.4	8.5
Costa Rica	11.1	12.6	14.0	2.9
Salvador	8.6	10.1	13.4	4.8
Dom. Rep.	7.1	11.2	12.7	5.6
Group 3				
Paraguay	7.9	9.4	12.0	4.1
Haiti	7.3	7.9	11.8	4.5
Panama	10.3	9.6	11.5	1.2
Venezuela	17.7	12.9	10.9	-6.8
Guatemala	7.6	10.5	10.4	2.8
Mexico	10.2	10.1	10.3	0.1
Latin America	**10.5**	**12.7**	**15.1**	**4.6**

SOURCE: UN-Economic Commission for Latin America and the Caribbean, 2014; Fiscal Panorama of Latin America and the Caribbean, 2013.

Some of the countries in the group 3, for example Paraguay or Guatemala, are simply underachievers. However, other countries like Panama or Venezuela have low levels of tax collection because they have alternative sources of revenue to fund their governments (the Panama Channel and oil revenues, respectively). In fact, several countries in the region supplement their tax revenues with large amounts of non-tax income obtained from the exploitation of natural resources (minerals or oil) and this income increased significantly in the 2000s with the boom of international demand for commodities. Table 3-2 shows estimates of the fiscal obtained by some countries from the exploitation of natural resources. We can observe that the weight of non-tax income has substantially increased in the region as a result of the commodity boom in the 2000s. However, non-tax income obtained from exploitation of natural resources is still relatively modest (as percentage of total income) in Argentina (13.9%), Chile (17.3%), Colombia (16.2%), and Peru (9.3%). Meanwhile, other governments rely heavily on non-tax income obtained from oil and gas production – Bolivia (29.9%), Ecuador (34.5%), Mexico (32.5%), and Venezuela (39.2%).

Table 3-2 Non-Tax Income Obtained from Exploitation of Natural Resources. Latin America, 1999-2001 and 2009-2011

	Non-Tax Income from Exploitation of Natural Resources (% of GDP)		*Non-Tax Income from Exploitation of Natural Resources (% total income)*	
Country	**1999-2001**	**2009-2011**	**1999-2001**	**2009-2011**
Argentina	0.0	3.0	0.1	13.6
Bolivia	5.1	9.6	20.5	29.9
Chile	0.8	3.7	3.8	17.3
Colombia	1.2	2.4	10.2	16.2
Ecuador	6.3	13.5	30.8	34.5
Mexico	6.1	7.5	31.2	32.5
Peru	0.2	1.6	1.2	9.3
Venezuela	8.7	8.3	44.0	39.2

SOURCE: Economic Commission for Latin America and the Caribbean (ECLAC 2013, 15)

The high level of accessibility to non-tax income coming from the exploitation of natural resources not only shapes politicians' fiscal preferences but also the urgency of the tax reforms. Indeed, some governments in the region have been able to replace traditional taxes with state appropriation mechanisms (e.g. royalties) and transfer fiscal resources to subnational governments. For example, the Bolivian government implemented a royalty system to transfer 11% of the value of extracted hydrocarbons to subnational governments (*departamentos*). Similarly, the central government in Venezuela transfers 30% of the value of extracted oil to local and regional governments. In the case of Mexico, there is not a royalty system but the state-owned oil company –PEMEX- and other private companies pay an oil revenue tax of 30% of its profits (ECLAC 2013, 17). The accessibility to these resources makes governments and politicians less prone to implement revenue-raising tax reforms.

These additional fiscal resources are not available for countries where natural resources are limited (e.g. Costa Rica or Uruguay), in countries where the state does not have control/discretion over the production of commodities, or simply the private sector plays a crucial role in the exploitation of natural resources (e.g. Colombia or Chile). In these countries, fiscal stress is generally higher and tax reforms seem to be the only suitable alternative to increase government revenues. Consequently, tax politics is more dynamic and complex in those countries.

3.1.2. Direct vs. Indirect Taxes

Tax revenue collection provides the first entry to the understanding of the politics of taxation in the region. However, it only provides a partial view of the fiscal situation. The next necessary step is to describe the main features of the tax system and how it has changed over the past two decades.

In general, governments have discretion over a wide variety of taxes and they choose particular 'tax handles' in order to catch individuals and firms in the tax net. As I will discuss later in this chapter, this choice is usually determined by the dynamics of the political conflict and the relative power of institutional and non-institutional actors involved in the tax policy-making process.

Traditionally, direct taxes are defined as those levied directly on individuals or firms such as income tax, profits tax, and capital gains tax. One can also distinguish between corporate taxes and other types of direct taxes (basically, income and property taxes). The label of "corporate taxes" generally includes profits tax and capital gain tax. Indirect taxes are defined as taxes levied on goods and services and thus payment is only indirect. The most common indirect tax is the value-added tax (VAT), but we can also include in this category other taxes as excise or custom taxes.[24] Classifying taxes as direct, corporate, and indirect allows us to evaluate the distribution of taxation among individuals, firms, and goods (and services). Figure 3-1 shows the evolution of direct and indirect taxation across the region between 1990 and 2010. In this case, I rely on data provided by the UN-Economic Commission for Latin America and the Caribbean (ECLAC).[25]

First of all, we can observe that indirect taxes are the most important source of revenue for the governments in the region. In the 1990s, the general trend in the region was to substitute taxes on external trade (tariffs) with value-added taxes (VAT). The elimination of tariffs and external trade taxes is perhaps one of the most important consequences of the economic liberalization in the region. During the period of Import-Substitution Industrialization (1930-1970), tax systems in the region relied heavily on tariffs and taxes on international trade. Trade

[24] Observe that I do not include any types of revenue different from taxes. I think the politics of interests, dividends, or royalties respond to a completely different political process.
[25] CEPALSTAT: http://estadisticas.cepal.org

and capital liberalization reforms opened huge tax revenue gaps and the most common policy alternative was to fill such fiscal gaps with indirect taxes on goods and services (VATs).

Figure 3-1 Tax Revenues by Type (as % total tax revenues), Latin America 1990-2010

On one hand, indirect taxes could be conveniently collected and the cost of collecting them was relatively low and constant overtime. Indirect taxes are easier to administer than direct taxes. On the other hand, the political bargaining for the implementation of VATs is relatively easy because such taxes do not affect the interests of organized groups and the additional burden can be transferred to consumers, who are generally too disorganized to fight back.

The consolidation of VAT as one of the main sources of government revenues was gradual but consistent over the last two decades. In fact, indirect taxation "accounts for about two thirds of total revenue is social contributions are excluded" (ECLAC 2013, 19). In the early 1990s, the VAT was usually charged on physical goods. By the end of the 2000s, the VAT base was extended to intermediate and final goods, and the amount of excluded goods and services is quite limited (ECLAC 2013, 19).

Table 3-3 General VAT rate, Latin America and the OECD 1992, 2000, and 2011

Country	Initial Year	Initial Rate	1992	2000	2011
Argentina	1975	16.0	18.0	21.0	21.0
Bolivia	1973	10.0	14.9	14.9	14.9
Brazil	1967	15.0	20.5	20.5	20.5
Chile	1975	20.0	18.0	18.0	19.0
Colombia	1975	10.0	12.0	15.0	16.0
Costa Rica	1975	10.0	8.0	13.0	13.0
Dom. Rep.	1983	6.0	6.0	8.0	16.0
Ecuador	1970	10.0	10.0	12.0	12.0
El Salvador	1992	10.0	10.0	13.0	13.0
Guatemala	1983	7.0	7.0	10.0	12.0
Honduras	1976	3.0	7.0	12.0	12.0
Mexico	1980	10.0	10.0	15.0	16.0
Nicaragua	1975	6.0	10.0	15.0	15.0
Panama	1977	5.0	5.0	5.0	7.0
Paraguay	1993	10.0	-	10.0	10.0
Peru	1976	20.0	18.0	18.0	18.0
Uruguay	1987	21.0	22.0	23.0	22.0
Venezuela	1993	10.0	-	15.5	12.0
LATIN AMERICA			12.3	14.4	15.0
OECD			16.3	17.8	18.5

SOURCE: Economic Commission for Latin America and the Caribbean (ECLAC 2013, 20)

The general rate also increased to reach an average general rate of 18.5%, which is quite similar to the VAT rate in the OECD countries. Argentina (21%), Brazil (20.5%), Chile (19%), and Uruguay (22%) have the highest VAT rates in the region. Meanwhile, Paraguay (10%) and Panama (7%0) have the lowest VAT rates in the region (see Table 3-3).

The evolution of direct taxation in the region is more complex. The category "direct taxation" includes several types of taxes: personal income taxes, corporate income taxes, and property taxes, among others. Table 3-4 shows the evolution of the tax revenues obtained from several types of direct taxation. As I mentioned before, tax revenues coming from taxes on income and capital are generally much lower than tax revenues obtained from general VAT (as percentage of the GDP). Like in the case of indirect taxation, direct tax revenues have increased over the past two decades. However, their growth, in most of the cases, was quite modest. In twenty years, direct tax revenues did not increase more than three percentage points of the GDP. The only two exceptions were Peru and Uruguay.

Table 3-4 shows that tax revenues coming from personal income and property taxes barely increase in the region over the last two decades. Personal income tax revenues are only higher than 2% of GDP in Mexico (2.4%) and Uruguay (2.5%). According to the Economic Commission for Latin America and the Caribbean, unlike the general VAT rate, "the average maximum rate of personal income tax fell from 49.5% in 1980 to 29.1% in 2000, with a further slight decline to 28.1% in 2011" (ECLAC 2013, 24).

Table 3-4 Tax Revenues by type of taxes (% GDP), Latin America 1990, 2000, and 2010

	Taxes on income, profits, and capital			*Personal income taxes*			*Corporate income taxes*			*Property taxes*			*General VAT*		
	1992	2000	2010	1992	2000	2010	1992	2000	2010	1992	2000	2010	1992	2000	2010
ARG	...	2.5	2.8	0.3	1.4	1.7	1.2	2.3	3.5	...	0.2	1.7	...	3.4	4.0
BOL	1.0	2.6	4.5	0.5	0.5	0.2	0.5	2.1	4.4	0.0	0.0	0.3	6.7	7.6	9.0
BRA	4.1	5.8	6.9	0.1	0.3	0.4	1.9	2.2	3.4	0.6	1.5	0.7	4.0	5.6	5.2
CHL	3.6	4.1	6.4	...	1.4	1.3	...	1.9	2.9	...	0.6	0.2	7.2	7.7	7.6
COL	3.7	3.4	4.8	0.2	0.1	0.1	1.3	0.6	1.4	0.0	0.5	1.0	2.7	4.1	5.3
CRI	1.6	2.7	3.9	...	...	1.1	...	0.0	2.4	0.3	0.4	0.6	4.4	4.5	4.8
ECU	1.0	1.6	3.5	...	...	0.0	...	...	...	0.0	0.1	0.2	2.1	4.6	5.7
SLV	2.1	3.3	4.6	...	...	...	...	...	...	0.0	0.0	0.0	3.9	5.4	6.7
GTM	2.1	2.5	3.1	0.3	0.1	0.4	1.8	2.4	2.7	0.1	0.0	0.0	3.0	4.7	5.1
HND	3.8	2.7	4.3	0.9	0.9	0.9	1.4	0.5	0.8	0.1	0.3	0.2	2.4	4.8	5.3
MEX	4.7	4.3	5.2	...	...	2.4	...	...	2.2	0.2	0.1	0.2	2.5	3.1	3.9
NIC	1.6	1.8	4.6	...	...	...	...	...	...	0.0	0.0	0.1	1.1	2.2	5.6
PAN	4.2	4.2	5.1	0.2	0.2	0.3	1.6	1.3	2.2	0.7	0.4	0.6	1.6	1.4	2.8
PRY	1.2	1.7	2.2	0.0	0.0	0.0	1.2	1.7	2.2	0.3	0.0	0.0	1.2	4.0	6.2
PER	1.7	3.4	6.4	0.4	1.8	1.6	1.1	1.6	4.7	0.4	0.0	0.2	3.6	5.0	6.2
DOM	2.1	2.8	2.8	...	...	0.9	...	...	1.1	0.1	0.2	0.7	1.7	2.6	4.3
URY	1.3	2.2	5.7	0.0	0.0	2.5	1.3	2.2	3.0	1.1	1.4	1.4	6.5	7.1	9.0
VEN	10.0	5.9	3.6	...	...	...	8.5	4.2	0.9	0.1	0.5	0.0	0.0	4.1	5.5

SOURCE: Economic Commission for Latin America and the Caribbean – CEPALSTAT

This systematic decline in personal income tax rates is a result of several factors. First, "most countries have maintained a legal regime for collecting income tax that is clearly biased towards legal entities compared with private individuals" (ECLAC 2013, 25; Corbacho, Fretes, and Lora 2013). Second, several countries have maintained a long list of exceptions (ECLAC 2013, 25). Third, minimum exempt income allowances are higher in Latin America than elsewhere in the world (ECLAC 2013, 25). And finally, "a large proportion of income taxes falls on the incomes of wage earners, with little revenue impact" (ECLAC 2013, 25).

Formally, personal income taxation in Latin America is quite progressive, however, the tax base is limited (Corbacho, Fretes, and Lora 2013, 181–183). While in the OECD countries almost half of the population is subject to personal income taxes, in Latin American countries this proportion is never greater than 14% (Uruguay) and the effective tax rates are not greater than 10% (Chile). Consequently, we can consider personal income taxes like minor taxes in comparison with other taxes like VAT or corporate taxes.

In most of the countries, property tax revenues do not represent more than 1% of GDP – except in Argentina (1.7%) and Colombia (1.0%). This source of tax revenues has been historically weak in Latin America because it is usually under the control of the local governments and they have low capacity to collect and administrate taxes. The main problem for property tax collection is that cadastral registers are usually outdated and most of the properties are undervalued. The local tax administration systems are also underdeveloped (except for those in the capital cities) making very difficult to collect taxes or enforce sanctions to tax evaders (ECLAC 2013, 32).

Following this line of argumentation, governments in the region mainly rely on VAT and corporate income taxes (see table 3-4) to fund their expenditures. I have already described the

most recent evolution of the VAT in the region. Let us now describe how corporate income tax revenues have evolved in the past two decades.

Interestingly, corporate tax revenues are very important in Latin America. Between 2006 and 2010, average tax revenues obtained from corporate taxation were about 3.7% of GDP in the region – these revenues were about 3.4% of the GDP in the Euro zone (Corbacho, Fretes, and Lora 2013, 204). In fact, table 3-4 shows that corporate income tax revenues increased in the region over the past two decades (they increase about 85% between 1990 and 2010). Corporate income tax revenues increased profoundly in Argentina (2.3 percentage points of the GDP), Bolivia (3.9 percentage points of the GDP), and Peru (3.6 percentage points of the GDP). They increased only moderately in Brazil, Chile, or Colombia (no more than 1.5 percentage points of the GDP). Meanwhile, revenues obtained from corporate income taxes decreased drastically only in Honduras and Venezuela.

Paradoxically, this increase in corporate tax collection is the result of the reduction of nominal tax rates. Trade and capital liberalization required that governments in the region made a particular effort to favor private investments through the creation of different tax incentives and exemptions. Such incentives included reduced tax rates for strategic economic sectors (or regions), the creation of free-duty zones (*zonas francas*), or simply tax credits. Thus, not only effective tax collection increased over the past two decades but also the provision of tax expenditures. For example, tax revenues obtained from corporate income taxes in Mexico were 2.38% of GDP in 2010, but tax expenditures were about 1.45% of GDP.

3.1.3. Tax Rates

A complete analysis of taxation in Latin America requires us to examine not only the historical patterns of tax collection, but also to examine the evolution of tax rates. Tax collection

is only one side of the equation. The other side of the equation corresponds to tax rates. Both tax collection and rates determine the effective level of fiscal pressure on individuals and firms. The analysis above shows that, in general, indirect tax collection is the most important source of revenue for central governments in Latin America. That is, fiscal pressure on individuals increased more than fiscal pressure on firms over the past two decades. Can we observe the same trend for tax rates? Did indirect tax rates increase more than corporate tax rates?

Unlike data on tax revenue collection, data on tax rates in Latin America are scattered, unorganized, and non-reliable. First, there is nothing as a centralized database with adequate information to make comparisons between countries. Second, some countries provide detailed information about the evolution of their tax rates over time, but the technical information they provide is generally not compatible for international comparison.

In order to fill this information gap, I have built a new dataset based on some available and reliable alternatives. The international auditing firm *Price Waterhouse Coopers (PwC)* annually publishes the *Worldwide Tax Summaries* (WTS),[26] a compilation of useful information about the tax structure of the countries where the company offers its services (Price Waterhouse Coopers 1980). The WTS is a reference tool to help investors to manage taxes around the world. It offers information about tax systems in 146 countries worldwide. The great advantage of the WTS is that they are written by local PwC tax specialists at each country, and they cover the latest changes in legislation, residency, gross income, deductions, tax credits and incentives, tax administration, other taxes and tax rates.

I have collected all the information that PwC offers on corporate and value-added taxes for Latin American countries since 1990. The data set includes information on corporate tax

[26] Up-to-date information is available online at: http://www.pwc.com/gx/en/worldwide-tax-summaries/index.jhtml.

rates, corporate residence, VAT rates, branch income taxes, group taxation, tax credits, tax incentives, and tax administration.

Figure 3-2 shows the evolution of corporate and value-added taxes in Latin America for the period under study. The red line in the figure illustrates the corporate income tax (CIT) rate at which firms' profits are taxed, regardless of whether profits are retained or distributed. The green line in the figure illustrates the value-added tax (VAT) rate at which goods and services are taxed. For illustrative purposes, the lines only represent general flat rates. In the subsequent chapters, we will analyze the evolution of special tax regimes and differential tax rates for several case studies.

One can observe three different trends in corporate tax rates in Latin America between 1990 and 2010. First, some countries only slightly changed –positively and negatively- their rate over the past two decades, and the adjustment was usually gradual, with no substantial shocks. In Colombia, for example, the corporate tax rate slowly increased from 30% to 34% of profits over the last two decades. Similarly, corporate tax rates steadily decreased in Mexico from 36% to 30% of the profits. Corporate tax rates in Panama also decreased gradually from 34% to 25% of the profits.

In the second group of countries, the adjustment seems to be more drastic. For example, the corporate tax rate in Argentina increased from 20% to 30% in 1993 and then more gradually to 35%. In Venezuela, the corporate tax rates decreased from about 50% to 30% of the profits in 1995. The most radical change occurred in Bolivia, where the government increased the corporate tax rate from 3% to 25% in 1994.

Finally, in some countries corporate tax rates barely changed over time. This is the case in Chile (35%), Costa Rica (30%), Ecuador (25%),[27] Salvador, Guatemala, Honduras, Nicaragua, Peru, and Uruguay.

In the meantime, the VAT rates range steadily between 10% and 20% over the period under study. In almost all countries, the VAT rates increased slightly every year. VAT rates only decreased in Venezuela. The observation is intriguing: while tax pressure on consumers (common citizens) has never declined –in fact, it has increased steadily over the last two decades; tax pressure on business is substantially more volatile and unstable.

I also coded tax reform events since 1990. As mentioned above, the TWS include brief summaries of changes in legislation that are extremely useful to track small and significant modifications in the national tax structures. Based on this information, I coded tax reforms as partial reforms (partial tax rates modification, partial tax base broadening, creation of small taxes) and tax system overhauls. This variable provides a valuable source of information about tax policymaking: there were only some few structural tax reforms in the region (around 15 events) between 1990 and 2010; however, partial reforms are extremely common (around 136 events). Table 1 in Appendix C presents a detailed description of all the changes introduced to the tax systems in Latin America between 1990 and 2010.

[27] In 1999 the government suspended every type of income tax and implemented a financial transaction tax (1%).

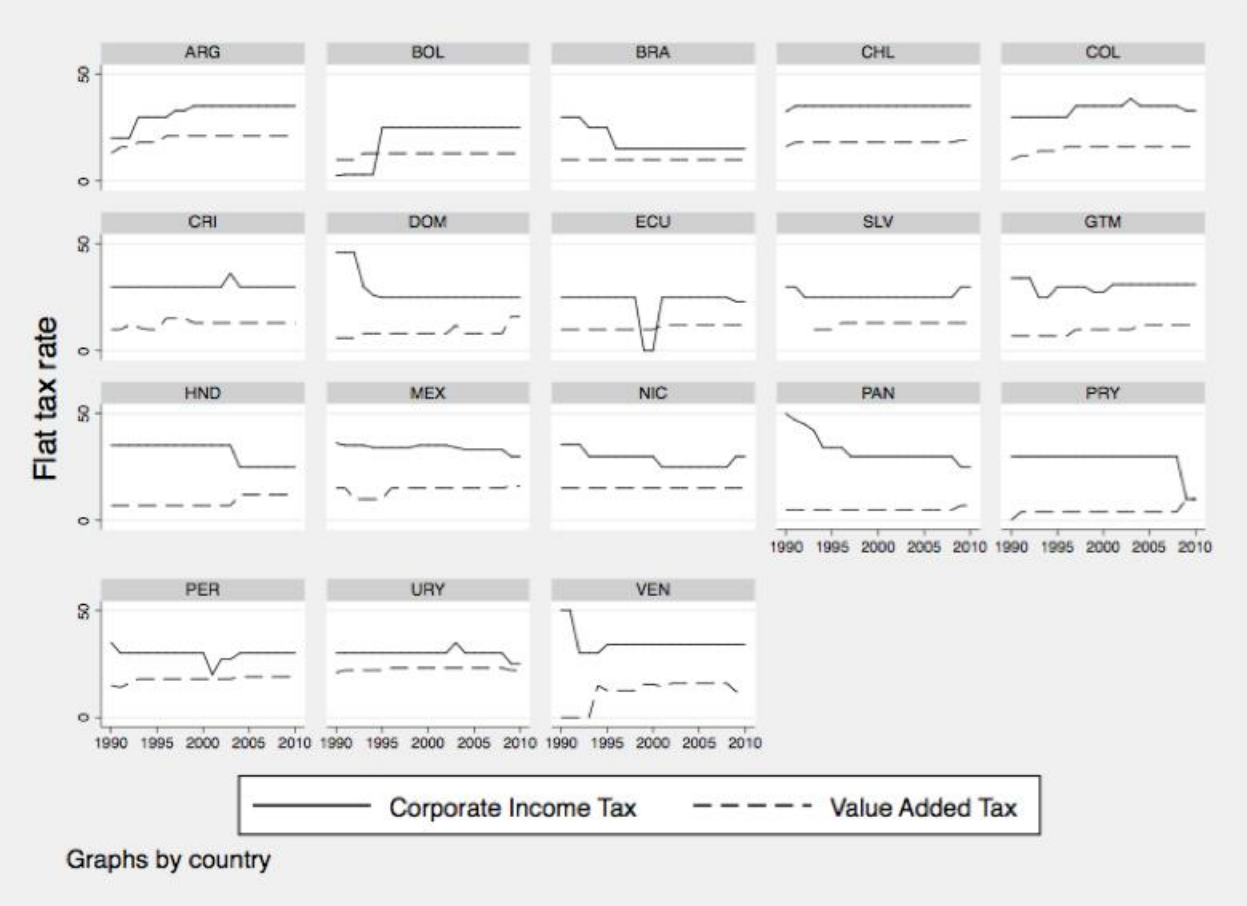


Figure 3-2 Corporate Income and Value-Added Tax Rates, Latin America 1990-2010

3.2. INDEPENDENT VARIABLES

3.2.1. Fiscal Policy Preferences

The agenda-setters' tax policy preferences constitute the first independent variable for the empirical analysis. As argued in the theory chapter, the agenda-setters' tax policy preferences have significant effects on tax policy outcomes. The most common measure for these preferences

is the location of the presidents in the left-right ideological scale. According to this classical measure, rightist presidents are generally more fiscally conservative than leftist presidents.

However, the commonly used data on presidents' ideology badly estimate their economic policy preferences. In fact, it is not uncommon that leftist presidents are far more fiscally conservative than rightist presidents. For example, Social Democratic Party (leftist party) in Chile is a regional model for responsible fiscal governance in Latin America because, after more than two decades in office, they turned fiscal policy into a useful tool for economic development. Contrary to the most of the policy experiences in the region, fiscal policy in Chile is actually counter-cyclical and promotes economic growth. On the contrary, conservative governments in Mexico (i.e. Calderon 2006-2012) and Colombia (i.e. Pastrana 1998-2002) have been very harmful for fiscal governance. In the case of Colombia, center-right and right governments are responsible for the recurrent and large fiscal deficit.

Consequently, in order to operationalize this variable, it is necessary to distinguish between the agenda-setter's ideological preferences (in the classic ideological spectrum) and his fiscal policy preferences. The former expresses political views about several dimensions of the public policy (i.e. abortion, gay marriage, the role of the military, etc.), while the latter expresses preferences for particular policy instruments. As mentioned before, they do not necessarily match. For the purpose of this study, the focus is on the agenda setter's fiscal policy preferences.

In order to distinguish between the agenda-setter's ideological preferences and his fiscal policy preferences, I have built an index of fiscal policy preferences. This index is based on three sources: data from Murillo, Oliveros, and Vaishnav (2010) on actual economic policies presidents implemented in office; Coppedge’s database on partisan ideology in Latin America (Coppedge 1997); and Huber, Stephens, Mustillo, and Pribble’s (Huber et al. 2012) database on

partisan ideology in Latin America. I contrasted these datasets, collected missing data, and coded agenda-setters as *taxers* and *non-taxers* according to their partisan affiliation, economic policy positions, and actual performance when they were in office. This coding relied heavily on press review and third-person assessments.

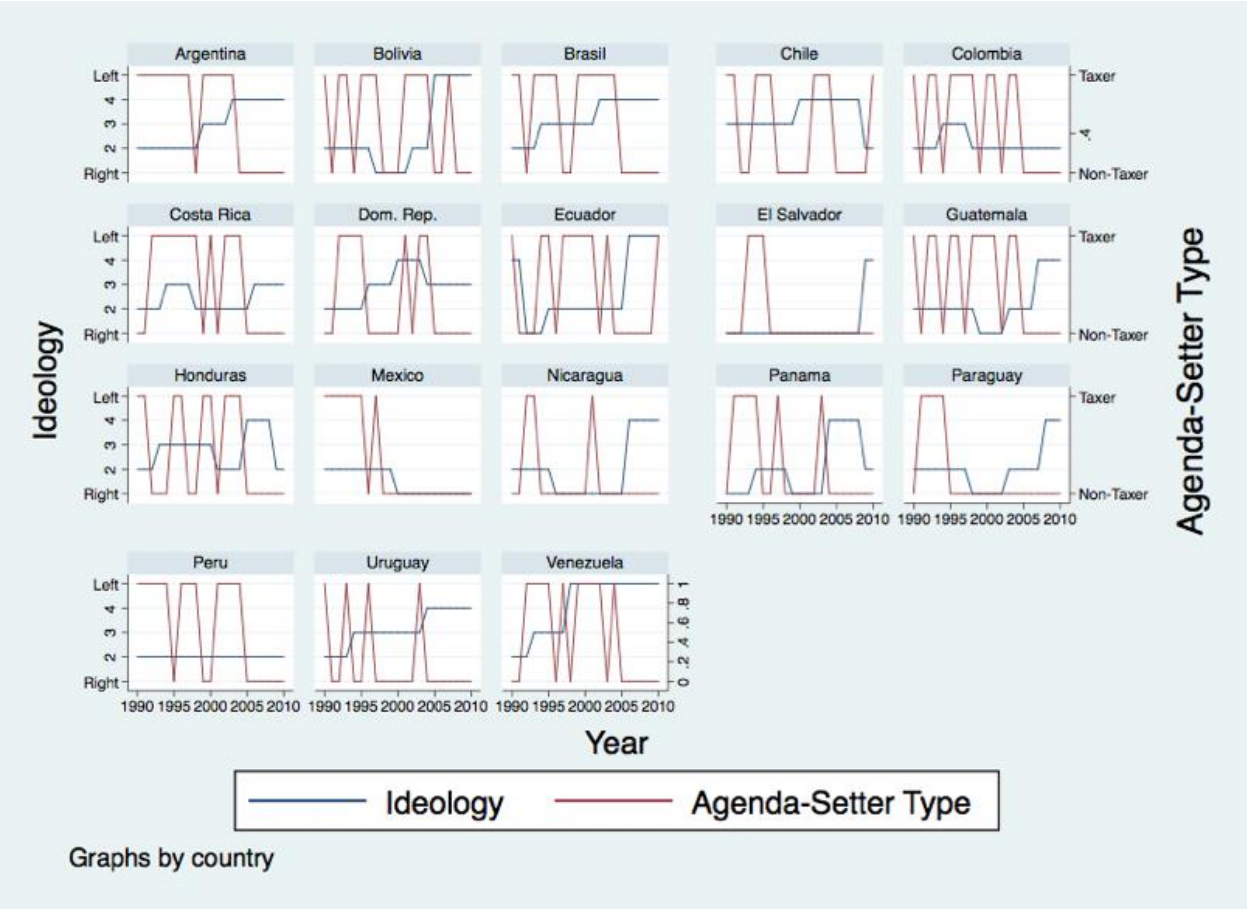


Figure 3-3 Ideology and Type of Agenda-Setters, Latin America 1990-2010

The recent evolution of Latin American agenda-setters' tax policy preferences shows two clear patterns: first, the predominance of *non-taxer* presidents in the 1990s; and second, the substantial turn to more expansive fiscal policies in the 2000s. That is, fiscal policy preferences switched from non-taxer-type presidents to taxer-type presidents. This policy cycle is quite

evident for Argentina, Bolivia, Brazil, Dominican Republic, Ecuador, Guatemala, Nicaragua, Paraguay, Uruguay, and Venezuela. The only exceptions to this policy realignment are Chile, Colombia, Costa Rica, Mexico, Panama, and Peru, where presidents in office have been always *taxer* presidents or there has been a switch from taxer to non-taxer presidents (the case of Panama).

As I showed in Figure 3-2, the *taxer vs. non-taxer* classification of agenda-setters does not necessarily match with the traditional right-left ideological scale. In general, *non-taxer* agenda-setters are usually located at the right of the ideological spectrum and *taxer* agenda-setters are usually located at the left of the ideological spectrum. However, not all *non-taxers* are rightist and not all *taxers* are leftists.

For example, leftist or center-leftist governments in Chile (Lagos 2000-2006; Bachelet 2006-2010) were definitively more prone to reduce expenditures rather than increase taxes. Similarly, rightist or center-rightist governments in Colombia (Gaviria 1990-1994; Pastrana 1998-2002; Uribe 2002-2010; Santos 2010-2014) have been always reluctant to significantly reduce public expenditures. Their most used strategy to fight fiscal deficits is to increase indirect taxation, expand tax bases, and even create new taxes. In fact, there have been more than 15 tax reforms in Colombia between 1990 and 2012. All of them were promoted and implemented by rightist or center-rightist presidents.

This divergence between ideology and agenda-setter type is explained by the fact that the presidents might become taxers due to ideology (they really want bigger governments) or due to necessity (they have no other way to fund the state).

3.2.2. Patterns of business organization

The second independent variable of this study deals with the ability of business interest groups to influence policymaking process and outcomes. As I discussed in the theory section, there are three factors that enable business interest groups to influence tax policy: market leverage, business centralization, and policy integration.

The market leverage concerns to the level of dependence of the economy on the business sector. Business centralization refers to the patterns of business organization. Policy integration refers to the degree to which business interest groups are integrated to meaningful policy-making forums. As I showed in Table 2.4, our empirical expectation is that market powerful, centrally coordinated, and well integrated business interest groups will be more influential in the tax policy-making process, and consequently, more capable to obstruct the agenda-setters' attempts to increase the general level of taxation or the general level of direct taxation.

3.2.2.1. Business Interest Groups' Market Leverage

Measuring business interest groups' effective market leverage is not an easy task. Some scholars have focused on the impact of capital mobility (especially, capital flight) on economic policy outcomes. From this perspective, politicians and policymakers try to anticipate policies that are likely to keep or attract capital or stimulate the growth of strategic economic sectors (Mahon 1996).

However, the threat of capital mobility "is not a deliberate or organized form of business participation in policymaking" (Schneider 2010a, 310). Unlike the capital mobility theory, the theoretical framework presented in this dissertation focuses on the organized business interests, their collective action, and their bargaining power. This theoretical framework predicts that

business groups will be more influential as the country's political stability is more dependent on their performance and their investments. That is, business influence over policies does depend on the threat that disinvestment would generate political instability (Lindblom 1977; Mahon 1996; Fuchs 2007). Indeed, one could expect that business interest groups will be more influential in less diversified economies because the country's stability depends on the performance of two or three industries.

To evaluate this claim, I calculated an index of economic diversification for every country in the sample. The index measures the total share in the production of the three largest economic sectors of each country (as percentage of the GDP in the national accounts). Data was collected directly from the national accounts provided by national statistical agencies and supplemented with data extracted from the UN-Economic Commission for Latin America and the Caribbean (UN-ECLAC).

The index ranges from zero to 100 percent. A value closer to zero percent means that the economic activity is not concentrated around any particular economic sector. A value closer to 100 percent means that the economic activity is highly concentrated and economic performance highly depends on a small number of economic sectors. As argued above, business interest groups are generally more influential when the structure of the economy is highly concentrated because macroeconomic and political stability depend on their performance.

Alternatively, I also calculated an index of labor concentration. Based on data directly collected from national statistical agencies and supplemented with data provided by the UN-International Labor Office (UN-ILO), I calculated the total share of jobs concentrated in the three largest economic sectors at each country (as percentage of economically active population). This index also ranges from zero to 100 percent. A value closer to 100 percent means that the

main-three economic activities control almost all productive jobs and the domestic job offer strongly depends on a small number of industries. Again, business interests are generally more influential when they control large shares of the domestic labor demand.

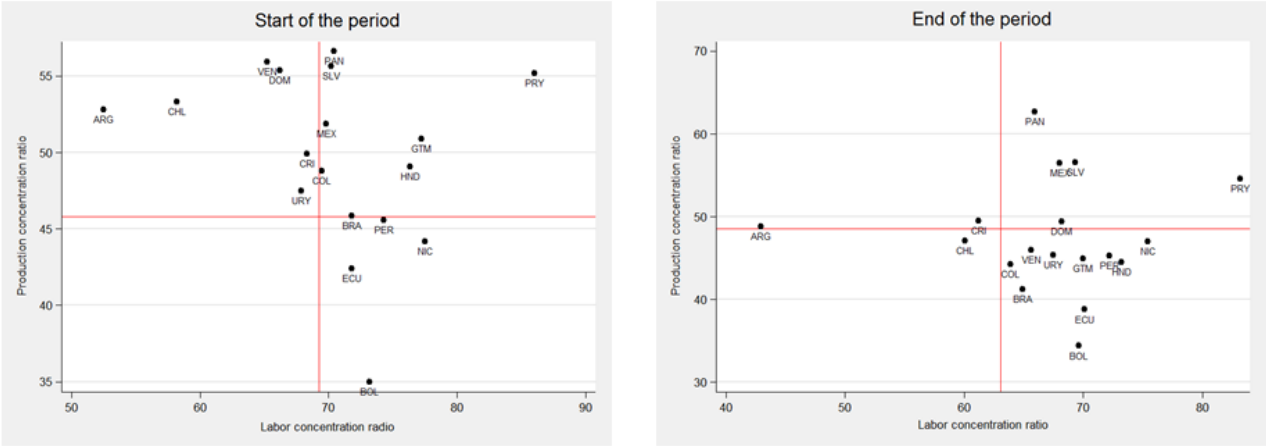


Figure 3-4 Production and Labor Concentration Ratios, Latin America 1990 and 2010

Figure 3-3 shows the evolution of both indicators of market leverage for the period under study. In the early 1990s, labor and production was highly concentrated in the Central American countries (Guatemala, Honduras, Panama, El Salvador), Paraguay, and Mexico. It suggests that business interests had strong market leverage in those countries. On the other hand, economic production was highly concentrated in Argentina, Chile, and Venezuela, but the labor concentration ratio was low (in comparison with other countries in the region). It suggests that business interests had weaker market leverage in these countries. Finally, both indicators are low in Bolivia, which indicates that business interests were really weak in the Andean country (only mining and gas industries have strong market leverage). The rest of the countries report average values for both indicators.

The right panel in the Figure 3-3 also indicates that the productive structure of the Latin American economies is actually more diversified after two decades of economic liberalization. However, labor concentration ratios are higher all over the region. Contrary to the 1990s, the three main productive sectors concentrate more labor force than production share. This pattern is the direct result of the predominance of the services sector that is more labor-intensive, and the deregulation of pension and labor regimes. In fact, one could argue that business' market leverage now relies on labor concentration rather than on industrial predominance.

In fact, the most recent changes in the economic structure of the Latin American economies could have mitigated business interest groups' market leverage. Unlike the protectionism years, the stability of domestic economies does not directly depend on the performance of some few economic sectors. However, there is substantial variation across countries in the region. On one hand, in some countries (i.e. Brazil or Colombia) labor market liberalization made labor demand even more dependent on the performance of some critical economic sectors and it provided more political leverage to emergent industries as tourism, telecommunications, commerce, and services in general. On the other hand, the end of the state-led industrialization policy created strong incentives for specialization in countries with strong comparative advantages for the production of minerals, raw materials, and primary goods. This is the case of Bolivia (natural gas), Ecuador (oil), or Venezuela (oil). In these countries, industries associated with strategic resources gained significant amounts of leverage in the policymaking process.

Figure 3-3 shows more details of this historical evolution. As a result of the economic diversification, business interests' market leverage has decreased (at different levels) in Argentina, Brazil, and Colombia. In Venezuela, business interests' market leverage also

decreased as a consequence of the recent policies of nationalization. Business interests' market leverage remains the same (or at least similar) in Chile, Costa Rica, El Salvador, Mexico, Panama, and Paraguay. Business interests' market leverage has increased only in Peru.

3.2.2.2. Business Coordination

The so-called business interest groups' "instrumental" power consists of a set of attributes and resources that enable business associations, economic conglomerates, and firms to actually participate in the policy-making process and influence policy outcomes. Such attributes include social relationships with policymakers, consultation committees, partisan linkages, organizational capacity, economic resources, and more generally, lobbying resources.

In American politics, the most common measure of the business groups' instrumental ability to influence politics is the amount of money they spend in campaign contributions and lobbying. In fact, the increasing amount of data on federal campaign contributions and lobbying feed the study of business groups' political influence in United States (Akard 1992; Bauer, Dexter, and Pool 1974; Hacker and Pierson 2002; R. L. Hall and Wayman 1990; M. A. Smith 2000; Vogel 1989; Williams and Collins 1997). Private and public organizations strongly advocate for data disclosure about Political Action Committees (PACs), lobbying activities in congress, and campaign funding.[28]

Using this data, it is not difficult to measure how influential different business interest groups are and what kind of preferences they have. For example, the Center for Responsive Politics reports that the finance sector, insurances companies, and real estate firms are the main contributors for political campaigns in the United States.[29] These economic sectors contributed

[28] For more information go to Center for Responsive Politics: http://www.opensecrets.org/index.php
[29] For more information go to Center for Responsive Politics: http://www.opensecrets.org/index.php

about $500 million to the political campaigns in the period 2011-2012 (25% to the Democratic Party and 75% to the Republican Party).

Unfortunately, none of these data are available for Latin American countries. There are only few official or unofficial records of campaign contributions from business community to political parties or individual politicians. In many other cases, the campaigns are funded with public funds (Casas-Zamora 2005) .

Some countries have recently implemented transparency laws that require politicians to disclose their campaign financial information, but the scope of these laws is still very limited. In most of the cases, these laws are still inoperative. For example, in 2003, the Peruvian congress approved the Law 28024 to regulate lobbying activities. A new law regulating lobbying activities in the Colombian congress was approved in 2011. The law 20285/ 2008 regulates information disclosure and adds more restrictions to revolving doors practices in Chile. The presidential decree 1172/2003 regulates the right to participate in the policy-making process in Argentina and establishes new mechanisms for public information disclosure. Many of these attempts follow the structure of the United States' Federal Lobby Disclosure Act, but as mentioned before, their scope and effectiveness is still very limited.

In the absence of reliable data on campaign contributions and lobbying activities, the challenge is to find alternative measures of the strategic capacity of business interests to organize and coordinate lobbying activities, frame public opinion, and ultimately, influence political decision-making.

This is a challenging task for two reasons. First, we need to define power of influence on policymaking as a function of the complexity of the business organizations as interest groups.

And second, we need to create reliable indicators for this definition, establish how they are interconnected, and ultimately, get original and reliable data to measure them.

A reliable alternative is to appraise the business groups' ability to influence policies as a result of their effective capacity for coordinated action. Scholars on organizational theory have clearly contended that organizations are usually more influential as they become more complex and more coordinated. As business interests become more organized and coordinated, they tend to develop political positions that transcend narrow or particularistic demands of individual firms or sectors, focus on broader collective concerns, and have a more crucial role in public policymaking (Martin and Swank 2004; Martin and Swank 2012).

Therefore, the ability of the business interest groups to solve the free-riding problems of collective action and organize themselves around encompassing associations – the so-called, *macro-corporatism* - constitutes a good proxy to measure their power of influence over the policymaking process (Martin and Swank 2004; Martin and Swank 2012; Thelen 2012). As business interest groups become more centrally coordinated, their ability to influence policies will increase considerably. This pattern of interaction between private and public interests has been extensively documented in developed and industrialized economies. For example, Martin and Swank (2012) have shown that business interests are quite influential for public policymaking in countries where business organization is centralized and highly coordinated (e.g. Denmark and Sweden), and they are less influential in countries where business organization is coordinated at the sector-level (e.g. Italy, Germany), or in decentralized models of business organization where there is no coordination (e.g. United Kingdom and the United States).

Therefore, the presence of encompassing business organizations (or national-peak business associations) is crucial for the understanding of the fiscal policymaking process, and more generally, for the understanding of the relationship between business and government. These organizations not only represent the highest level of aggregation of business interest groups, but most importantly, they encourage different types of non-market coordination: between employers and labor, between business and government officials, and among firms.

Encompassing business associations developed across industrialized economies after the consolidation of national economies in the late 19th century, and they were originally created "to promote business interests in policy debates and to help companies work collectively on tasks that could not be done individually" (Martin and Swank 2008, 182). In developing countries, the creation of encompassed business associations followed the path of a late, state-led industrialization (Schmitter and Streeck 1999; Fuchs 2007). In any case, the emergence of peak business associations constituted one of the most important consequences of the capitalist development.

Nevertheless, the evolution of encompassing business associations has been quite different across countries. Some nations saw the emergence of powerful encompassing employers' associations to represent collective business interests –*centralized coordination*-, while other countries witnessed the eruption multiple sector-oriented business groups -*sector coordination*-, or highly fragmented, pluralist associations –*decentralized/no-coordination*- (Hall and Soskice 2001; Martin and Swank 2012)

In order to evaluate the level of coordination among business interest groups, I built an index of business coordination composed by two components: business centralization and business' policy integration. Business centralization refers to the existence of meaningful,

economy-wide, encompassing business associations. Policy integration refers to the level of integration of business interest groups to decisive policy-making forums. In the following paragraphs I explain how I measured and integrated these two components into a comprehensive index of business coordination.

A classic measure of *business centralization* - the existence of encompassing business organizations – is the first component of the index (Wallerstein, Golden, and Lange 1997; Martin and Swank 2008; Martin and Swank 2012). This measure also evaluates whether or not these encompassing associations actually represent major industrial sectors (i.e. three-main sectors of the economy) by including their sectorial associations as part of their organization.[30]

I code this component as a dichotomous variable where 1 means that there is at least one encompassing business association that represents the interests of the three-main sectors of the domestic economy.

In this case, I rely on original data I collected from a series of interviews and short-surveys with policy experts and business organization staff at each country included in the analysis. The interviews were conducted between January and September 2012 and consisted of a simple questionnaire in which qualified staff from the main business associations at each country described organizational features, decision-making structures, and relationship with

[30] Some scholars have proposed some alternative measures as the number of sector-specific organizations affiliated to national-peak associations or the size of their staff (Schneider 2004). However, these indicators tell us very little about the organizational complexity of the encompassing associations and consequently, they fail to measure business groups' capacity to influence policies. For example, very complex business organizations can be very ineffective if they do not represent key market players, or they have no power over constituent members and collective bargaining. Other measures focus on the internal dynamics of the organization and the mechanisms to reconcile individual or firm-level interests with the collective interest as pursued by the national-peak associations. In this case, scholars examine crucial organizational attributes as the level of control over members, the degree of participation for members (sectorial associations or firms), and levels of representation for the members – appointment power of affiliates (Moe 1980; Schmitter and Streeck 1999). This literature also suggests that measuring the degree of internal coordination within organizations will allow us to evaluate the impact of internal cohesion on policy influence (Moe 1980; Ball and Millard 1987; Hojnacki and Kimball 1998; Potters and Sloof 1996; Baumgartner et al. 2009). However, this is an indirect measurement and there is no evidence that better organized associations or more complex associations are effectively more influential in the policymaking process. I have run some statistical analyses with non-conclusive results.

lower-level associations. The appendix A includes a list of the main business organizations in Latin America. The interviews were focused on the peak-national business associations listed in Appendix A. In order to contrast and confirm the information I collected from the staff of peak-business associations, I also interviewed at least two experts at each country. These experts are generally academics who are familiar with economic policymaking issues and well informed about the internal features of business organizations and their role on the political arena.

However, the mere existence of encompassing (national-peak) business associations is not a sufficient condition for policy influence. In fact, the mere existence of encompassing business associations means nothing for policy influence activities if such organizations have limited access to decisive policy-making arenas. That is, business interest groups' ability to influence policies necessarily will also depend on whether or not they are integrated in the policy-making process.

Therefore, we also need to evaluate whether top executives from the encompassing business associations meet regularly with government and labor representatives, and whether or not they are active members of boards, commissions, or policymaking committees. In other words, we need to assess if there are centralized institutional mechanisms for market coordination – the so-called *organized market economies* (Iversen 1999; Hall and Soskice 2001)- and the encompassing business associations are active players at those centralized peak-level bargaining institutions. This is the second component of our index of business coordination.

In coordinated or organized market economies, business groups usually participate in several bargaining instances: competitiveness policy forums, tax policy committees, international trade commissions, labor policy forums, etc. In macro-corporatist systems of business representation, the encompassing associations "cooperate closely with government and labor at

the highest level and firms are more likely to induce policies through the collective bargaining process or in tripartite advisory commissions of administrative governmental agencies" (Martin and Swank 2012, 17). In fact, "highly organized associations offer governments an institutional vehicle through which to build business support and compliance for [social welfare] initiatives" (Martin and Swank 2012, 17). In contrast, in sector coordination and decentralized models of business organization, business interest groups have a less significant role in policy development.

The definition of the minimum wage target is perhaps one of the best examples of cooperative engagement between employers, labor, and government in contemporary democracies. Minimum wage policy not only shapes macroeconomic and social conditions at the national level, but also the costs of production at the firm-level. Unlike sector coordination and decentralized models of business organization, business interest groups play an essential role for the definition of minimum wage targets in centralized-coordination models. In these cases, encompassing business associations are pivotal players for the collective political engagement and guarantee the existence of enduring policy coalitions.

Following this line of argumentation, I use the level of centralization of the wage bargaining system as a measure of the degree to which business are integrated to the national-level policy process. In order to do so, I have collected information about the wage bargaining system in all the countries in the sample. First, I identified whether the minimum wage targets are defined directly defined by the national government (without any consultation with labor or business), or whether minimum wage policy is defined by tripartite advisory committees including representatives from the government, labor unions, and encompassing business associations. Second, I determined whether or not these encompassing business associations are pivotal players in such committees. And finally, I investigated if the minimum wage targets set

by these committees are enforceable or not. I collected this information directly from newspapers and current events magazines for every country in the region for the period 1990-2010.

Based on this information, I created an measure of policy integration with values of 0 if the bargaining authority over minimum wage targets is decentralized (lower-level wage bargaining: encompassing business association have no role) or the agreements set by the encompassing associations and government are non-enforceable; and values of 1 if the bargaining authority over minimum wage targets is centralized (encompassing business associations monopolize wage bargaining) and the agreements between the government and business are enforceable.

Table 3-5 shows the patterns of business centralization and policy integration in Latin America for the period 1990-2010. Based on data provided by table 3-5, I built an index of business coordination. The rationale of the index is quite straightforward: higher levels of business centralization and policy integration indicate that business interest groups will be more centrally coordinated, and consequently, more influential in the policy-making process; lower levels of business centralization and policy integration indicate that business interest groups are not centrally coordinated, and consequently, less influential in the policy-making process.

This is an additive index that sums up two dummy variables: business centralization and policy integration. Therefore, the index of business coordination is a categorical variable with three different values that represents the patterns of business coordination that I explained in the theoretical framework (please see section 2.3 and table 2.3): i) centralized coordination; ii) weakly centralized coordination; and decentralized/no-coordination. Those patterns of business coordination are respectively represented in table 3-5 in panels III, II, and I.

Table 3-5 Patterns of Organized Market Economies in Latin America

		Business Centralization	
		Business Decentralization: *No presence of encompassing business association and/or does not represent dominant economic sectors*	**Business Centralization:** *Presence of encompassing business association and it represents the dominant economic sectors of the market*
Policy Integration *(centralization of wage bargaining system)*	**Decentralized bargaining authority:** *Encompassing associations and government set non-enforceable target for lower-level wage bargaining.*	(I) **DECENTRALIZED/NO-COORDINATION** ARG: Asociación Empresaria Argentina (2002) ECU: Asociación Nacional de Empresarios (1958) PRY: No encompassing business association URY: No encompassing business association	(II) **WEAKLY CENTRALIZED COORDINATION** BOL: Confederación de Empresarios Privados de Bolivia (1974) BRA: Ação Empresarial (1993) COL: Consejo Gremial Nacional (1993) PAN: Consejo Nacional de la Empresa Privada (1964) PER: Confederación Nacional de Instituciones Empresariales Privadas (1984) VEN: Federación Venezolana de Cámaras y Asociaciones de Comercio y Producción (1944)
	Centralized bargaining authority: *Encompassing business association monopolizes wage bargaining and agreements are enforceable.*		(III) **CENTRALIZED COORDINATION** CHL: Confederación de la Producción y del Comercio (1935) CRI: Unión Costarricense de Cámaras y Asociaciones de la Empresa Privada (1975) SLV: Asociación Nacional de Empresa Privada (1966) GTM: Comité Coordinador de Asociaciones Agrícolas, Comerciales, Industriales y Financieras (1957) HND: Consejo Hondureño de la Empresa Privada (1967) MEX: Consejo Coordinador Empresarial (1976)

For statistical analysis purposes, I have coded this variable as follows: values of 0 for low levels of business coordination (decentralized/non-coordination); values of 1 for intermediate levels of business coordination (weakly centralized coordination); and values of 2 for high levels of business coordination (centralized coordination).

3.2.3. President's Partisan Powers

According to the theoretical framework, one last variable shapes tax policy outcomes: the size of the agenda-setter's legislative coalition. As hypothesized in the theory chapter, agenda-setters with higher partisan powers will be able to impose their own tax policy preferences. Otherwise, agenda-setters will depend on individual legislators or small groups of legislators and will be forced to buy legislative support by offering pork and patronage.

There are several ways to measure agenda-setters' partisan powers. For example, Mainwaring and Shugart (1997, 421-434) measured partisan powers as the percentage of congressional seats controlled by the president's party (or coalition) adjusted by party (or coalition) discipline. They also created a partisan powers index based on a cumulative probability distribution function interacting the size or president's coalition with party discipline within the bounds of a floor (determined by the level of polarization) and a ceiling (set by the chance of a fallout between the governing party and the president). Such bounds establish lower and upper limits on the president's legislative success rate (which can be thought as the probability that the governing parties will support a bill times the probability that the opposition parties will support that bill).

However, I think the quality of data on party discipline and president's legislative success rates is still poor for most of the countries in the region. In fact, there is reliable data only for some few cases in the region: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, Uruguay, and Venezuela. Even in these cases, data are still fragmentary and incomplete.

For this reason, I prefer to use a more straightforward proxy for the agenda-setters' partisan powers: the size of the president's party (or coalition) in congress. In particular, I measure the agenda-setters' partisan powers as the percentage of seats held by the president's party (coalition) in the lower chamber of congress. This percentage is calculated by dividing the number of seats held by the president's party (or coalition) by the total seats (government plus opposition plus non-aligned). In this case, I rely on data provide by Aníbal Perez' Project on Coalition and Factions in Latin America that carefully estimates the size of coalitions and factions within the legislative bodies in Latin America since 1945 to 2010.

3.2.4. Control Variables

I have also considered three possible alternative explanations: first, over-time changes in tax revenues and rates could depend on the country-level economic performance at any particular time; second, over-time changes in tax revenues and rates could respond to different size of the central government at the country-level; and third, over-time changes in tax revenues and rates could respond to past trends in fiscal policy as debt management and lagged fiscal performance.

In order to evaluate the impact of these alternative explanations, I added a number of economic and fiscal indicators to the baseline model. First, I included three indicators to measure the impact of economic performance at the country-level: the annual rate (%) of economic

growth, the GDP per capita at 2005 constant prices (Chain series), and the exchange rate of domestic currency to US dollars. These measures allow me to control for economic country-specific effects and the effects of international financial shocks. Second, I included an indicator of the size of the central government: the central government consumption share (%) of PPP converted GDP per capita at current prices. Finally, I added two indicators to assess the impact of past fiscal performance at the country-level: the size of the central government debt as percentage of the GDP and the lagged primary fiscal balance as percentage of the GDP. For these indicators, I relied on data provided by the Penn World Table Version 7.1 (Feenstra, Inklaar, and Timmer 2013) and the UN Economic Commission for Latin America and the Caribbean.

3.3. METHODS

In the dataset I described above, treatment and outcome variables are measured at various points in time (1990-2010) for the same units of analysis (this analysis includes the following countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela). Therefore, we need to use the changes in the variables over time to estimate the effects of business market power and patterns of business organization on tax policy outcomes. Consequently, I estimated two types of models: cross-sectional fixed-effects and dynamic panel estimations.

For the panel analysis, a simple Hausman test suggests that fixed-effects models are more suitable. Fixed-effects models allow us to explore the relationship between the patterns of business organization and tax policy outcomes over time and also evaluate the impact of within-

country characteristics on predictor variables. I also ran Lagrange multiplier and serial correlation tests that indicated the presence of serial autocorrelation. Consequently, fixed-effects models were corrected for serial autocorrelation in the error term.

I did not include lags of the dependent variable in the fixed-effect model specification. The inclusion of lagged dependent variables in time-series cross-sectional models is a subject of intense debate in political science. Scholars generally agree that it produces biased coefficient estimates for independent variables - if there is autocorrelation in the error term - and it suppresses the explanatory power of other variables (Achen 2000; Plumper, Troeger, and Manow 2005; Keele and Kelly 2006; Beck and Katz 2011). For this reason, I used a different approach to model dynamic data generating process and ran Arellano-Bond GMM estimators.

Arellano-Bond dynamic-panel analysis is useful because the lagged dependent variable is specified as a GMM instrument; in other words, all available lags are used as separate instruments. In fact, Arellano-Bond GMM estimators were calculated using two lags of the dependent variable as instrumental variables. This strategy help us to avoid any problems of poor-finite sample approximation to the distribution of the estimator and also instruments the first-differenced lagged dependent variable based on its past values (Arellano and Bond 1991; Wawro 2002). This is a more suitable methodological strategy than including lags of the dependent variable because the Arellano-Bond dynamic-panel specification allows us to account for time dynamics while accounting for unit-level heterogeneity (Wawro 2002).

Statistical models also include a number of interaction terms assessing my hypotheses about the conditional effect of business organization and agenda-setters' partisan powers on tax policy outcomes. I also ran pertinent robustness checks and analyzed the effect of influential cases (countries) in order to know whether certain countries could drive the analysis.

3.4. RESULTS

3.4.1. Tax Burden

Table 3.6 presents three models estimating the effect of our variables of interest on tax revenue collection (as % of GDP). Model 1 is a baseline model that estimates a panel regression including the main variables of interests and both country and period fixed effects. Model 2 estimates a panel regression with fixed-effects and includes control variables within the specification. As explained above, lagged dependent variable was not included in models 1 and 2 in order to avoid over-specification problems. The effect of lagged values of the dependent variable are evaluated in model 3, which estimates Arellano-Bond dynamic-panel estimators for our variables of interest and use two lags of the dependent variable as instrumental variables.

The results presented in table 3.6 confirm the hypothesis that market-powerful and centrally coordinated business interest groups weaken the positive effect that taxer-type agenda-setters have over the general tax burden.

In models 1 to 3, coefficients for the interactive terms measuring the conditional effect of business interests' market leverage and centralized business coordination on agenda-setter's policy preferences remain in the expected direction, statistically significant, and substantially large. As predicted in the theory section, the effect of taxer-type agenda-setters on tax burden decreases as business interests become more economically powerful (economic activity is more concentrated) and their organizations are better coordinated around peak, encompassing business organizations.

Table 3-6 Tax Revenues and Business Organization, Latin America 1990-2010

	(1) Baseline Fixed-Effects *b/(se)*	(2) Fixed-Effects *b/(se)*	(3) Arellano-Bond Dynamic Panel *b/(se)*
Taxer Agenda-Setter	11.254***	9.548***	6.145***
	(1.88)	(1.54)	(1.19)
Agenda-Setter's Partisan Power	-0.017*	0.005	-0.008
	(0.01)	(0.01)	(0.01)
Business Interests' Market Leverage	-0.132*	-0.042	0.107*
	(0.05)	(0.05)	(0.04)
Index of Business Coordination	2.165***	2.997***	2.294***
	(0.60)	(0.70)	(0.57)
Taxer Agenda-Setter*Market Leverage	-0.162***	-0.137***	-0.107***
	(0.04)	(0.03)	(0.02)
Taxer Agenda-Setter*Business Coordination	-0.613*	-0.571***	-0.480***
	(0.27)	(0.22)	(0.18)
Taxer Agenda-Setter*Partisan Power	-0.018	-0.029***	0.004
	(0.01)	(0.01)	(0.01)
Country Size (log)		7.227***	1.761
		(1.22)	(1.12)
GDP per capita (Chain Series 2005)		0.000	0.000
		(0.00)	(0.00)
Annual Economic Growth (%)		0.056***	0.075***
		(0.02)	(0.01)
Government Consumption (% GDP)		0.051	0.113
		(0.07)	(0.07)
L1.Primary Fiscal Balance (% GDP)		0.182***	0.022
		(0.04)	(0.03)
Government Debt (% GDP)		-0.011***	-0.001
		(0.00)	(0.00)
Exchange Rate (domestic to US$)		0.000	0.000
		(0.00)	(0.00)
L1.Tax Revenues (% GDP)			0.618***
			(0.05)
N	369	340	322
Adjusted R-squared	0.782	0.879	

** p<0.05, *** p<0.01*

These models suggest that tax burden always increases if the agenda-setter strongly prefers tax increases over spending cuts, but such "ideological" effect is significantly curtailed as the economic diversification index (business interests' market leverage) rises and business interest groups are more centrally coordinated and better integrated to policy-making forums. In other words, the agenda-setter's first-mover advantage in policy-making is diluted as business interests are organized around encompassing organizations and their bargain authority is more centralized.

This conditional effect is consistently robust across different statistical specifications. I find that the significance of the conditional effects over tax policy outcomes holds whether we include any combination of time- or country-fixed effects or none at all. Results hold up even when certain periods or certain countries (potential outliers) are removed from the statistical analysis (see section 3.4.5) and when estimators are corrected for serially correlated errors in model 3 (the Arellano-Bond model instruments the first-differenced lagged dependent variable based on its past values).

Thus, on average, a one-percent increase in the market leverage index will decrease the effect of the agenda-setter's preferences in about 0.1% when the agenda setter is a taxer-type. Similarly, on average, a one-unit increase in the index of business coordination will decrease the effect of the agenda-setter's preferences between 0.48% and 0.6% when the agenda setter is a taxer-type. In other words, taxers will increase taxes, but they will increase them much less when business interest groups are more economically powerful and better coordinated around encompassing business associations.

Results presented in Table 3.6 also show that macroeconomic factors have small or inconsistent effects on tax revenue collection. Tax burden increases only marginally as a result of

increases in the annual economic growth rate (as %GDP). The effect of GDP per capita and exchange rates is null. That is, these estimations suggest that tax revenues are not significantly driven by the fluctuations of the economic cycle.

Table 3.6 also provides strong empirical evidence that previous fiscal performance and alternative funding tools are somewhat important to explain variation in tax revenue. First, these results suggest that tax revenues increase significantly when central government experience fiscal stress in the previous period. And second, the results suggest that there is a trade-off between issuing debt and raising tax revenues. In other words, central governments seem to reduce the general tax burden as issuing debt becomes more affordable.

3.4.2. Direct vs. Indirect Taxes

Having found that the effect of agenda-setters' preferences over tax policy outcomes is significantly curtailed by business interests' market power and patterns of internal organization, now I analyze how this conditional relationship shapes policy trade-off between direct and indirect taxation.

As discussed in the theoretical framework, building distributional coalitions in favor or against tax reforms is always complex. It constitutes a social bargaining over the optimal level of taxation and also about who will pay the costs of providing public goods. The business community not only has preferences over the general tax burden but also over the type of taxation that government would raise. Usually business interest groups are more concerned about what type of taxes that might be raised than about the general tax burden.

Table 3-7 Tax Revenue and Business Organization by type. Fixed-Effects Models

	(1) Direct Taxes *b/(se)*	(2) Indirect Taxes *b/(se)*
Taxer Agenda-Setter	14.037*** (5.17)	-20.703*** (5.87)
Agenda-Setter's Partisan Power	-0.071*** (0.02)	0.047+ (0.02)
Business Interests' Market Leverage	0.119 (0.16)	-0.241 (0.18)
Business Coordination Index	4.254+ (2.42)	-4.344 (2.74)
Taxer Agenda-Setter*Market Leverage	-0.198* (0.10)	0.327*** (0.12)
Taxer Agenda-Setter*Business Coordination	-1.653* (0.75)	1.533* (0.85)
Taxer Agenda-Setter*Partisan Power	-0.001 (0.03)	0.014 (0.04)
Country size (log)	14.509*** (4.19)	-1.951 (4.76)
GDP Per Capita (Chain-2005)	0.002*** (0.00)	-0.003*** (0.00)
Annual Economic Growth Rate (%)	-0.079 (0.07)	0.093 (0.08)
Government Consumption (%GDP)	-0.049 (0.24)	-0.441 (0.28)
L1.Primary Fiscal Balance (%GDP)	0.320* (0.13)	-0.470*** (0.14)
Government Debt (%GDP)	-0.004 (0.01)	-0.005 (0.01)
Exchange Rate (domestic to US$)	-0.001* (0.00)	0.003*** (0.00)
N	340	340
R^2	0.888	0.859

+ $p < 0.10$, * $p < 0.05$, *** $p < 0.01$

For example, business interest groups usually agree that fiscal balance is important to keep macroeconomic stability, but they generally prefer to fund government activities with taxes that do not affect investment and productivity. In other words, if taxes should be raised, business interest groups would generally prefer to increase indirect taxation.

Cross-sectional fixed-effects models in table 3.7 evaluate whether or not market leverage and the patterns of business coordination shape the trade-off between direct and indirect taxation. Table 3.7 shows that the type of agenda-setter has a substantial effect on tax structure. In fact, there are significant and large "ideological" effects. Direct taxes (as % total tax revenues) increase and indirect taxes decrease (as % total tax revenues) if the agenda setter is a taxer-type (in contrast with non-taxer agenda-setters). However, this effect is curtailed if the economic activity is highly concentrated in few industrial sectors or if the business community is highly coordinated around an encompassing business associations. In other words, if business interest groups are centrally coordinated around encompassing associations, the cost of financing central government's activities is more likely to be transferred to consumers or citizens- who generally are not well organized for collective action, or are not well represented in legislative bodies.

Both interaction effects (between agenda-setter's tax policy preferences and business interest groups, market leverage and pattern of business coordination) are statistically significant and their magnitudes are substantial.

In fact, direct taxes increase about 14% (as % of total tax revenues) if the agenda-setter is a taxer-type, but such effect drops by nearly 0.2% for every additional point in the market leverage index and by 1.6% for every additional point in the index of business coordination. Similarly, indirect taxes decrease about 20% of total tax revenues if the agenda-setter is a taxer-type, but they increase nearly 0.3% for every additional point in the market leverage index and

nearly 1.5% for every additional point in the index of business coordination.

3.4.3. Corporate Tax vs. VAT rates

Previous results are consistent with the hypotheses presented in the theoretical framework contending that tax policy outcomes heavily depend on agenda setters' policy preferences, the level of diversification of the economy, and the domestic patterns of business coordination. In order to test this causal mechanism and probe that, when tax reforms are imminent, business interest groups will lobby for lower corporate income tax rates (and not for lower VAT rates), one should go from the analysis of tax revenue collection to the analysis of tax rates.

To the extent that tax collection also depends on bureaucratic politics, one could think that the crucial negotiation between business interest groups and government is about tax rates rather than tax revenues. In fact, one of the main concerns for business community in developed and developing countries is that tax burden does not diminish their competitiveness regarding foreign competition, does not deteriorate their productivity, and obviously, does not shrink their profit rates.

Using data on tax rates I collected directly from the Worldwide Tax Summaries (WTS), table 3.6 presents cross-sectional fixed-effect models of tax policy choice. These models estimate the effect of the main variables of interest on corporate tax rates and value-added tax (VAT) rates respectively.

The results presented in Table 3.6 support the hypothesis that there is a conditional effect of business' market leverage and coordination on tax policy choice. In fact, the effect of a taxer-type agenda-setter on corporate tax rates - corporate tax rate is about 16% higher - is significantly curtailed as economic activity is more concentrated (business interests are more economically powerful).

Table 3-8 Tax Rates by Type, Latin America 1990-2010. Fixed-Effects Models

	(1) Corporate Tax Rate *b/(se)*	(2) Value-Added Tax Rate *b/(se)*
Taxer Agenda-Setter	16.341***	-1.757
	(5.05)	(1.47)
Agenda-Setter Partisan Power	0.028	0.007
	(0.02)	(0.01)
Business Interests' Market Leverage	0.035	-0.070
	(0.16)	(0.05)
Business Coordination Index	3.239	0.707
	(2.36)	(0.69)
Taxer Agenda-Setter*Market Leverage	-0.304***	0.052*
	(0.10)	(0.03)
Taxer Agenda-Setter*Business Coordination	-0.045	-0.358*
	(0.73)	(0.21)
Taxer Agenda-Setter*Partisan Power	-0.021	-0.005
	(0.03)	(0.01)
Country size (log)	-2.677	10.275***
	(4.09)	(1.19)
GDP per capita (Chain-2005)	-0.000	-0.000
	(0.00)	(0.00)
Annual Economic Growth Rate (%)	0.011	0.026
	(0.06)	(0.02)
Government Consumption (% GDP)	-0.167	0.202***
	(0.24)	(0.07)
L1.Primary Fiscal Balance (% GDP)	-0.004	-0.040
	(0.12)	(0.04)
Government Debt (% GDP)	0.028***	0.005
	(0.01)	(0.00)
Exchange Rate (domestic to US$)	-0.000	-0.000***
	(0.00)	(0.00)
N	341	339
R^2	0.588	0.640

+ $p < 0.10$, * $p < 0.05$, *** $p < 0.01$

The model for VAT rates also provides interesting evidence about the policy trade-off between direct and indirect taxation. In this case, agenda-setters' tax policy preferences are not significant predictors for tax policy choice. However, the conditional effect of business interest groups' market and political power (patterns of business organization and policy integration) is statistically significant, supporting my theoretical claims. Value-added tax rates increase by 0.05% for every additional point in the industrial concentration index, even if the agenda-setter strictly prefers to increase taxes to cut expenditures (taxer-type).

Market power seems to be more relevant than the patterns of business organization when one is explaining particular tax rate choices. The mediating effect of business market power over the agenda-setter's capacity to implement his or her policy preferences is driven by the business interest group's capacity to threat economic stability. This is not a minor result. The results presented above suggest that business interest groups make use of different capabilities and resources when they negotiate general policy goals (more tax revenues vs. spending cuts) than when they negotiate particular policy tools (direct vs. indirect taxation).

3.4.4. Marginal Effects

Based on the results presented in tables 3.4 and 3.5, I calculated marginal effects to better understand the interaction terms included in the regression models. In particular, I compute marginal effects of the agenda-setters' preferences when the moderator variables (market leverage and business coordination) are held constant at different combinations of high and low values. Figure 3-1 illustrates these linear combinations and the interaction effects among agenda-setter type, business market leverage, and business organization (at different levels of business

interests groups' market leverage and internal coordination).[31] The upper panel illustrates the interaction effect for tax revenues (as % GDP); the central panel shows the interaction effect for direct taxes; and the lower panel shows the interaction effect for indirect taxes.

These marginal effects (I am calculating the first derivative of tax outcome with respect to agenda-setters' policy preferences, at some levels of business political influence and partisan powers) allow us to assess if the effect of agenda-setters' tax policy preferences is curtailed or enhanced as we introduce changes in the level of business' market leverage and the patterns of business coordination. The theoretical model predicts that the "ideological" effect of taxer-type agenda-setters would slow down, as business interest groups are more structurally powerful and better organized. It also predicts that the presence of structurally powerful and better organized business interest groups would create strong incentives to privilege indirect taxation as the main source of tax revenue.

The panels in Figure 1 are broadly consistent with expectations. Indeed, the panels in Figure 1 suggest that business' market leverage and coordination condition the effect of taxer-type agenda-setters in the predicted directions.

[31] The effect of any *taxer agenda-setter* is also mediated by partisan powers. For this reason, I fixed this variable at its mean.

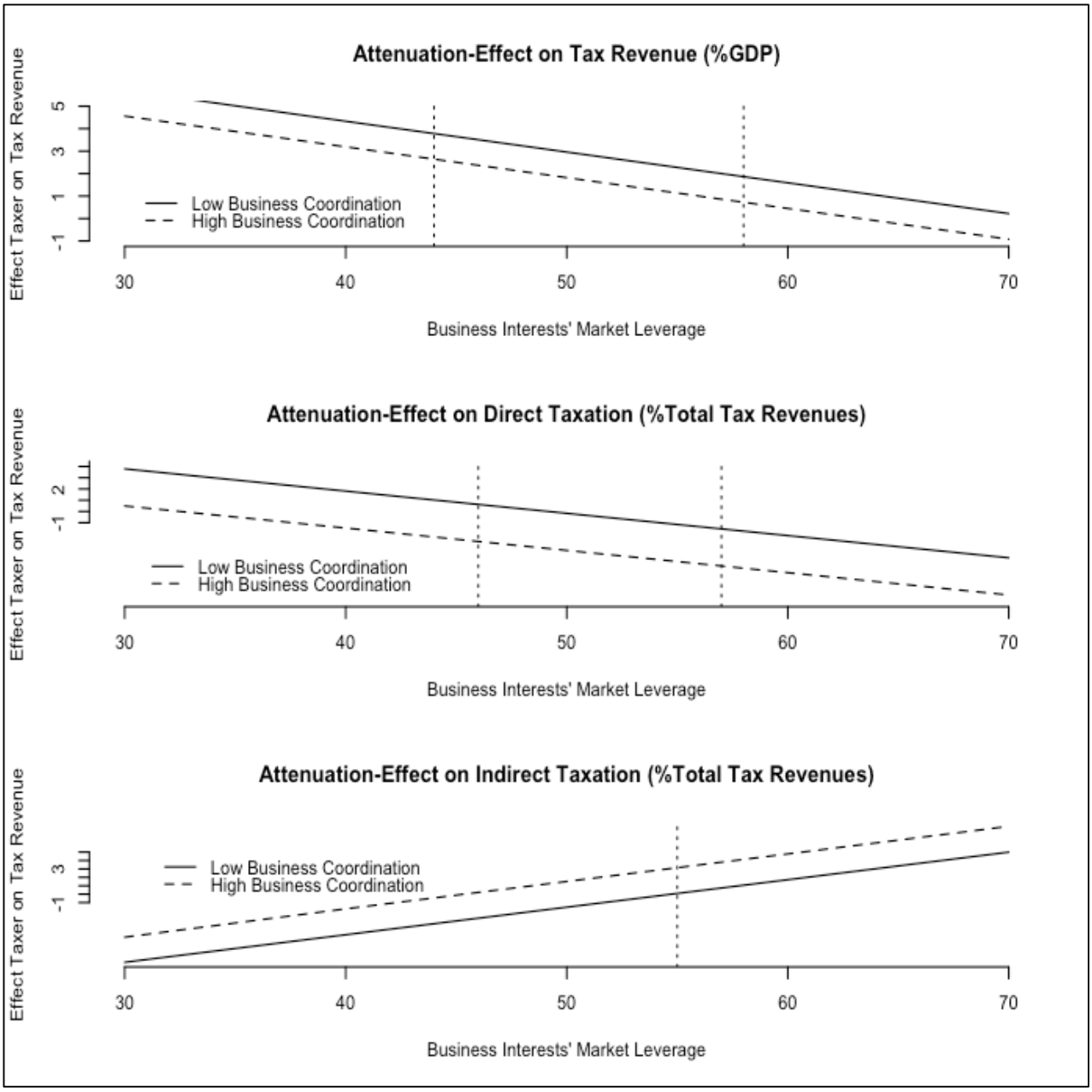


Figure 3-5 Marginal Effect of a Taxer Agenda-Setter at Different Levels of Business Interests' Power

NOTES:
Vertical dotted lines mark the 95% confidence intervals cut-offs
Partisan powers were fixed at 60% for the calculation of linear combinations
Linear calculations were calculated based on Table 3-6, model 2, and Table 3-7 models 1 and 2
In the bottom panel, differences between low and high business coordination are not significant.

As argued above, the effect of a taxer-type president on tax revenues decreases as business interests becomes more economically powerful - few economic sectors concentrate large shares of national production (industrial concentration index increases from 35% to 70%). This “attenuation” effect is even greater if business groups are centrally coordinated and well integrated into policy-making forums. The distance between both lines representing low and high levels of political power in all four panels is large, meaning that that the effect of the business interests' political power on the agenda-setter's ability to impose his policy preferences is quite substantial.

The central and lower panels present strong evidence that business power shapes the policy trade-off between direct and indirect taxation. Business interest groups' policy preferences and their capacity to influence policymaking process seem to be the force driving these particular fiscal policy choices.

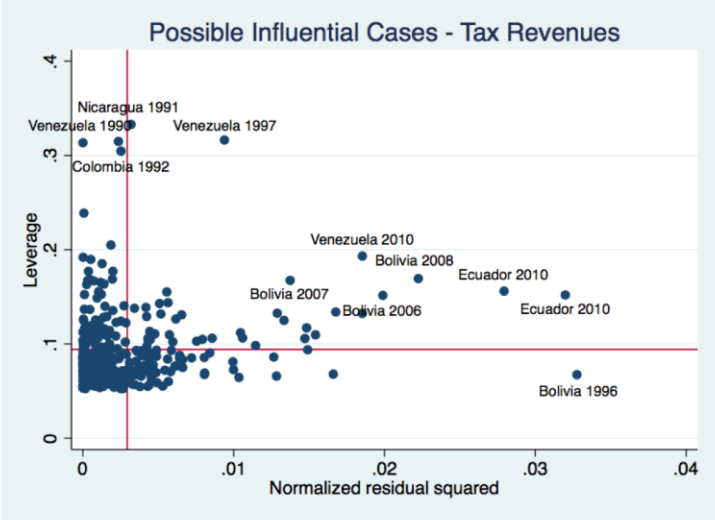
The central panel in Figure 3-1 shows that the effect of a taxer-type agenda-setter is curtailed as business interests' market increase and such effect is even larger if business interest groups are highly coordinated and centralized around encompassing organizations. This interactive effect goes in the opposite direction if one analyses the case of indirect taxation (lower panel in figure 3-1). As observed in tables 3.4 and 3.5, there is a strong relationship between business interests’ market power, their organizational patterns and tax policy outcomes: as business interests groups become more powerful and coordinated (as organizations), indirect taxation prevails over direct taxation (especially corporate taxes). The same patterns can be seen with regard corporate and value-added tax rates.

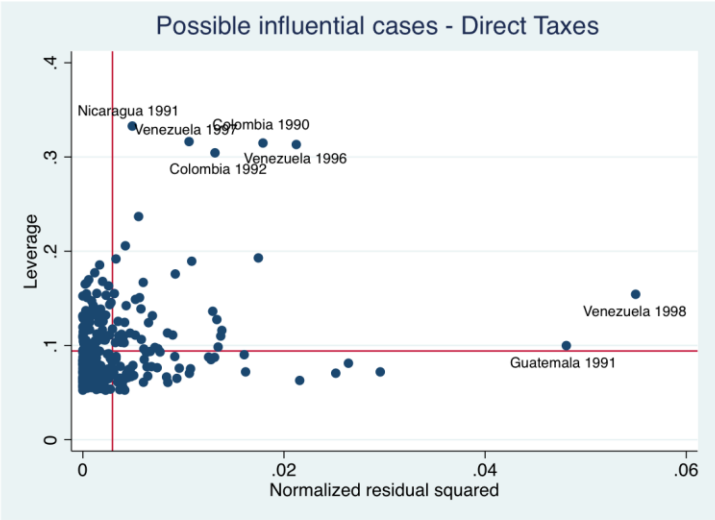
3.4.5. Robustness Checks

In order to check the robustness of the results presented in the sections above, I analysed the results to identify if there are significant outliers or influential observations. In particular, I observed if there are substantial differences between the predicted (based on the fixed-effects regressions) and the observed values. That is, if there are observations with large residuals that indicate any sample peculiarities or data errors. A simple leverage analysis allows us to observe if the values of the coefficients deviate from their mean, and those "high leverage" points have a great amount of effect on the estimate of regression coefficients. A traditional leverage analysis identifies such "high leverage" (or influential) observations, calculates Cook's distances, and removes them from the statistical analysis to check if the estimates change substantially.

Figure 3-4 shows leverage versus the squared residuals for the fixed-effects regression models explaining tax revenues, and the trade-off between direct and indirect taxation. In the upper panel, one can observe that there are several outlier observations in the model for tax revenues. In particular, some observations for Venezuela (1990, 1997, 2010), Bolivia (1996, 2006, 2007, 2008), and Ecuador (2010) have either high leverage or large residuals.

The leverage analysis for the model on direct taxation also identifies some outlier observations (Venezuela 1996-1998; Guatemala 1991; Colombia 1990, 1992). Similarly, one can identify some outlier observations in the model for indirect taxation (Paraguay 1991; Venezuela1991, 1996, 1998). Based on this analysis, I dropped observations with either high leverage or large residuals and ran the fixed-effects models again in order to check if the statistical results hold up. Results are presented in Table 3.8 (first three models).





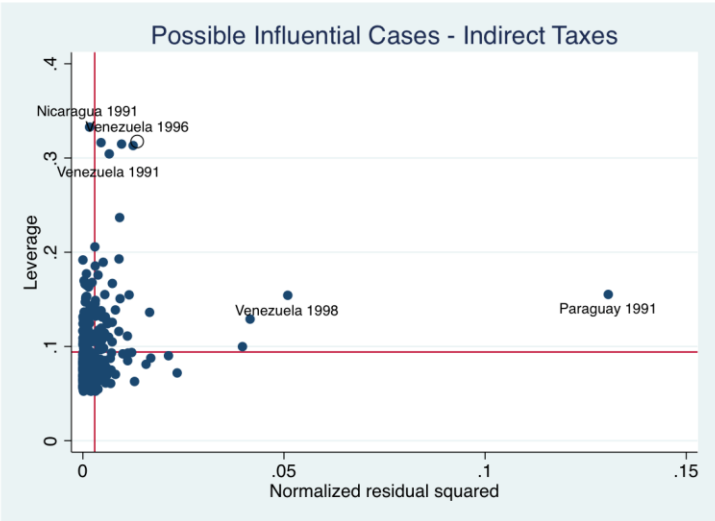


Figure 3-6 Leverage Analyses to Identify Possible Outliers/Influential Cases

The leverage analysis presented in Figure 3-4 also suggests that there are some countries that potentially could distort the statistical analysis. Remarkably, most of the outlier observations correspond to countries with economies that highly depend on the exploitation of natural resources. In fact, Figure 3-4 shows that observations about Venezuela (in different years) have either high leverage or large residuals. I calculated Cook's D values for these observations and found out that they are high but never larger than 1 (the rule of thumb for robust regression techniques is that we should exclude values higher than 1 from the robust regression analysis), which suggests that these values are not very influential.

Nevertheless, I dropped Venezuela from the robust fixed-effects regression models and analyse the residuals again. The results are quite compelling. If we exclude Venezuela, the differences between predicted and observed values are minimal. In order to check if results change substantially after dropping these observations, I ran the fixed-effects regression models again. Results are presented in Table 3-8.

Table 3.8 shows that the exclusion of outliers or Venezuela does not affect the results I presented in the sections above. The effects of the main variables of interest and the interaction terms are still significant and go in the expected direction. Models 1 to 6 in Table 3.8 show that high degree of business market leverage and centralized patterns of business coordination downgrade the effect of taxer-type agenda-setters on tax policy. Consequently, the presence of market powerful and centralized business organizations reduces general tax burden and increases indirect taxation (in comparison with direct taxation) –even if the agenda-setter strictly prefers to increases taxation. Observe that these models are still well fitted even after we dropped a substantial number of observations.

Table 3-8 Robust Fixed-Effects Regression Models

	(1) Tax Revenue (excl. outliers)	(2) Direct Taxes (excl. outliers)	(3) Indirect Taxes (excl. outliers)	(4) Tax Revenue (excl. Ven)	(5) Direct Taxes (excl. Ven)	(6) Indirect Taxes (excl. Ven)
Taxer Agenda-Setter	6.677***	11.610*	-19.533***	9.627***	13.935***	-20.809***
	(1.63)	(4.73)	(4.84)	(1.52)	(4.82)	(5.66)
Partisan Power	0.003	-0.084***	0.074***	0.004	-0.085***	0.059*
	(0.01)	(0.02)	(0.02)	(0.01)	(0.02)	(0.02)
Market Leverage	-0.111*	0.042	-0.240	-0.105*	0.023	-0.210
	(0.05)	(0.15)	(0.15)	(0.05)	(0.16)	(0.19)
Business Coordination	1.997***	(ommited)[A]	8.080*	1.630+	-7.145*	4.949
	(0.72)		(3.13)	(0.94)	(3.08)	(3.61)
Taxer*Market Leverage	-0.082*	-0.157*	0.309***	-0.149***	-0.214*	0.332***
	(0.03)	(0.09)	(0.10)	(0.03)	(0.10)	(0.11)
Taxer*Coordination	-0.482*	-1.808***	1.785*	-0.564***	-1.920***	1.781*
	(0.21)	(0.69)	(0.71)	(0.21)	(0.71)	(0.83)
Taxer*Partisan Power	-0.029***	0.010	-0.005	-0.020*	0.024	0.003
	(0.01)	(0.03)	(0.03)	(0.01)	(0.03)	(0.04)
Country size (log)	6.095***	19.088***	-2.200	7.664***	14.651***	-1.346
	(1.15)	(4.13)	(4.11)	(1.22)	(3.97)	(4.66)
GDP per capita (US$)	0.000*	0.002***	-0.003***	0.000	0.002***	-0.003***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Economic growth (%)	0.051***	-0.100	0.098	0.052*	-0.097	0.120
	(0.02)	(0.06)	(0.06)	(0.02)	(0.07)	(0.08)
Govt. Consumption	0.060	0.066	-0.541*	0.023	0.055	-0.568*
	(0.07)	(0.24)	(0.24)	(0.07)	(0.23)	(0.27)
L1.Primary Balance	0.183***	0.454***	-0.405***	0.160***	0.278*	-0.454***
	(0.04)	(0.12)	(0.13)	(0.04)	(0.12)	(0.14)
Government Debt	-0.011***	-0.004	-0.006	-0.011***	-0.005	-0.005
	(0.00)	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)
Exchange Rate	0.000	-0.001*	0.001	0.000	-0.001*	0.003***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
N	330	329	332	325	325	325
R-sq	0.892	0.900	0.888	0.887	0.894	0.850

+ $p < 0.10$, * $p < 0.05$, *** $p < 0.01$
Estimated with country fixed-effects (not shown)
[A] Dropped because there is no time-variance

3.4.6. Endogeneity Issues

The previous analysis finds empirical support for the hypothesis concerning to the role of the domestic models of business organization in shaping tax policy. However, the characteristics and dynamics of the explanatory variables might raise issues of endogeneity for the statistical analysis. In fact, one can reasonably argue that the effect of business coordination on tax policy outcomes could be enhanced by previously implemented tax policies that could benefit or hurt business interest groups by improving or damaging their internal coordination. Similarly, business interest groups' market leverage could significantly increase when other external macroeconomic factors make tax outcomes more favorable to business. In other words, there are reasons to believe that the independent variables could be potentially related to unobserved determinants of the outcome variable.

There are several ways to deal with endogeneity issues, but most of them are focused on the use of instrumental variables "to replace the problematic independent variable with a proxy variable that is uncontaminated by error or unobserved factors that affect the outcome" (Sovey and Green 2011, 188). The rationale is straightforward: if some independent variables are systematically related to unobserved causes of the outcome variables (two-way causation problem), then one needs to estimate those independent variables as a function of instrumental (exogenous) variables, generate predicted values of the independent variables, and estimate the outcomes variables based on those predicted values. These instrumental variables could be random or "plausibly" random factors that are unrelated to the unmeasured causes of the outcome variable (Sovey and Green 2011, 190).

The procedure consists of two-stage estimations. In the first-stage, the results of the regression are used to generate predicted values for the endogenous variables. In the second

stage, the endogenous variables can be replaced by their predicted values – the so-called 2SLS- or the first-stage residuals can be included as additional regressors – the so-called 2SRI (Terza, Basu, and Rathouz 2008). For linear models, the 2SLS and 2SRI estimators are consistent (Terza, Basu, and Rathouz 2008, 5).

It is reasonable to think that the implementation of any tax policy could affect the domestic levels of business coordination. For example, if recent tax policies privileged corporate taxation over indirect taxation, one could expect that business associations see their organizational capacity undermined because firms and sector-centered business associations would redirect their resources to lobbying activities aimed to protect particularistic interest rather than broad, collective interest. These strategic responses would undermine national, peak business associations' ability to coordinate cross-sectorial actions. Consequently, one could reasonably argue that tax policies and business coordination are simultaneously determined.

In order to tackle this methodological problem, I estimated an instrumental-variable regression using the age of encompassing business associations (since their date of creation) as the instrumental variable for business coordination. This choice has several advantages. First, this indicator is correlated with the endogenous independent variable (business coordination), but it is uncorrelated with the endogenous dependent variable (tax policy outcomes).[32] Second, there is a positive correlation between the age of the encompassing business associations and the degree of business coordination, thus it passes one key requirement for being a good instrument (Sovey and Green 2011, 198). Third, the age of encompassing business associations is

[32] Pairwise correlation analysis provides strong evidence for this claim:

	Age	Business Coordination	Tax revenue (%GDP)
Age	1.0000		
Business Coordination	0.4206*	1.0000	
Tax revenue (%GDP)	0.0182	-0.0616*	1.0000

independent of the error term. And finally, the age of encompassing business associations strongly predicts the degree of business coordination after controlling for covariates. Consequently, the age of encompassing business associations is both relevant and exogenous, which are the main conditions for being a good instrumental variable.

The results presented in table 3.9 suggest that the age of encompassing business associations is highly correlated with business coordination. In the first-stage regressions, the age of encompassing business associations has positive and significant effects on business coordination. As explained above, in the second-stage regression the first-stage residuals are included as additional regressors to correct possible endogeneity problems. The findings presented in tables 3.5 to 3.7 remain consistent. That is, the non-conditional effects of market leverage and business coordination are not significant, but the conditional effects remain statistically significant (except for indirect taxes).

Table 3-9 Instrumental Variables Regression Models

FIRST STAGE REGRESSION

	Business Coordination		
Taxer Agenda Setter	-0.04	-0.05	-0.05
Agenda Setter's Partisan Power	0.17	0.16	0.16
Business Interests' Market Leverage	0.02*	0.02*	0.02*
Taxer Agenda-Setter*Market Leverage	-0.03*	-0.03*	-0.03*
Taxer Agenda-Setter*Partisan Power	-0.13	-0.12	-0.12
Country Size (log)	0.09*	0.09*	0.09*
GDP per capita (Chain series 2005)	0.00*	0.00*	0.00*
Economic Growth Rate (%)	0.01	0.02	0.02
Primary Fiscal Balance (% GDP)	-0.08*	-0.08*	-0.08*
Government Debt (% GDP)	0.00*	0.00*	0.00*
Age Encompassing Business Association	0.01*	0.01*	0.01*
Constant	-1.07	-1.12	-1.12
Number of Obs	353	352	352
Prob > F	0.000	0.000	0.000
R-squared	0.537	0.541	0.541

** p < 0.05*

2SRI REGRESSION MODEL

	Tax revenues	*Direct Taxes*	*Indirect Taxes*
Taxer Agenda Setter	10.32***	25.74***	-29.44***
Agenda-Setter's Partisan Power	1.81	-6.45+	-1.28
Business Interests' Market Leverage	-0.15***	0.63***	-0.75***
Business Coordination	-1.05	3.01	0.83
Taxer Agenda-Setter*Market Leverage	-0.17***	-0.54***	0.65***
Taxer Agenda-Setter*Business Coordination	-1.39*	-1.64*	-2.16
Taxer Agenda-Setter*Partisan Power	-0.66	8.37	1.03
Country Size (log)	0.02	5.09***	-5.45***
GDP per capita (Chain series 2005)	0.00*	0.00***	0.00***
Economic Growth Rate (%)	0.11	0.13	-0.08
Primary Fiscal Balance (% GDP)	-0.03	0.18	-0.37
Government Debt (% GDP)	0.01+	0.02+	-0.03
Residuals	-1.50***	-1.30*	-0.81
Number of Obs.	353	352	352
Prob > F	0.000	0.000	0.000
R-squared	0.397	0.530	0.482

Instrumented: Business Coordination
Included instruments: Market Leverage, Partisan Powers, Country Size, GDP per capita, Growth, Primary Fiscal Balance, Government Debt
Excluded Instruments: Age
Under-identification test (Kleibergen-Paap rk LM statistic): 28.961 Chi-sq(1) P-val = 0.0000
Weak identification test (Kleibergen-Paap rk Wald F statistic): 29.969
Hansen J statistic (over-identification test of all instruments): 0.000 (equation exactly identified)

+ $p < 0.10$, * $p < 0.05$, *** $p < 0.01$

3.4. CONCLUDING REMARKS

The aim of this chapter was to present the reader to the main empirical implications of the theoretical framework presented in Chapter 2. In particular, the empirical analysis sought to demonstrate that business interest groups are key actors in the fiscal policymaking process and they shape the ability of presidents to successfully enact raising-revenues tax reforms. In fact, this chapter presents strong empirical evidence that business interest groups have a preponderant role for the definition of the general tax burden and the selection of different tax policy tools in the region. However, their role is reactive rather than active. Encompassed business associations, industry-level association, conglomerates, and firms display their power of influence only when the agenda-setter strongly prefers to increase taxes over cut expenditures (taxer-type) as his optimal strategy for fiscal deficit reduction. Thus, the effect of a taxer-type president on tax policy outcomes is attenuated by the business interests' power of influence.

The empirical evidence shown in this chapter supports the theoretical claim that general and direct tax collection will decrease as business interest groups become more powerful, even when the president strongly prefers to increase taxes. Additionally, this chapter provides good empirical evidence that indirect taxation will substantially increase if the business interest groups are powerful, even if the agenda-setter does not want it.

Therefore, this chapter offers a comprehensive empirical argument to analyze the politics of tax reforms in Latin America. In particular, I present strong empirical evidence that successful tax reforms will not only depend on the institutional features of the bargaining between the executive and the legislative branches of government, but also on the characteristics of non-institutional veto players and their capacity to spend resources for influencing the fiscal

policymaking process. In fact, this chapter also offers an innovative way to analyze and measure the sources of the business interest groups' power of influence. It not only offers a new theoretical approach but also new methodological tools to understand how business interest groups are actually influential for policymaking process.

PART II. CASE STUDIES

The qualitative case studies in this dissertation are aimed to present an intensive study of some of the single units for the purpose of understanding of the causal mechanisms that explain the relationship between tax policy outcomes and the patterns of business organization (Gerring 2007; Gerring 2004, 342). In this particular case, I focus on the study of two countries (Chile and Colombia) and two specific tax reform scenarios in those countries (Chile 2001 and Colombia 2012).

Going down to the country-level of analysis and focusing on particular tax reform scenarios have two main advantages: first, case studies can be treated as ideal types and we can have a better understanding of the causal mechanisms explaining variation in tax policy; and second, country-level observations are ideal for process-tracing analysis.

Seawright and Gerring (2008) suggest that any case selection has two fundamental goals: 1) to select a case that is representative of the population; and 2) include useful variation on the dimensions of theoretical interest. Based on these criteria, they propose a list of methods for case selection: typical examples of cross-case relationships, cases that exemplify diverse values of the dependent and independent variables, extreme cases (unusual values of DVs or IVs), deviant cases, or influential cases (Seawright and Gerring 2008, 297–298 Table 1). They also suggest that we could also choose between most similar and most different research designs. In any case,

such decision depends on the type of analysis we want to develop and our own concerns about representativeness and generalization (Gerring 2007).

For the purposes of this dissertation, the challenge was to select cases that allow us to understand the interaction among the actors (formally and informally) involved in the tax policy-making process and the consequences of these interactions for tax policy outcomes. In particular, I use a most-similar research design in which the two case studies are similar on all the independent variables, except the independent variables of interest (business market leverage and coordination). According to Seawright and Gerring (2008), by using this methodological strategy, we can isolated the effect of the independent variables of interest and explain the variation on the dependent variable as a result of the presence or absence of them. Therefore, the logic of the qualitative analysis of recent tax reforms in Chile and Colombia rests on the fact that both countries are similar on several economic and political factors, but their domestic business interest groups are organized under distinctive models of internal coordination.

Literature on case selection suggests that "matching" is the best way to identify cases for in-depth analysis in a most-similar research design (Gerring 2007; Seawright and Gerring 2008). We should identify a set of (independent and control) variables on which cases are to be matched, and then look at the difference on the dependent variable between the cases in the treatment group and the matching cases in the control group (Seawright and Gerring 2008, 304).

Following this methodology, I selected Chile and Colombia because they are quite similar in terms of economic development, consistency of economic policies, and level of openness to the international markets (Ferreira et al. 2012). Also, their agenda-setters have similar tax policy preferences and generally have strong partisan powers. However, tax revenues and the levels of tax evasion are quite different in both countries, and there is strong evidence

that enacting tax reforms in Colombia is far easier than changing Chilean tax structure. In both countries, politicians and technocrats face similar economic conditions, especially after the implementation of drastic neoliberal reforms in the 1990s. As a result of favorable conditions for raw materials exports in the global markets, both economies have performed quite well in the 2000s (Ferreira et al. 2012). In fact, both countries are currently considered as strong emerging economies (Kose 2011). Their own economic success and the expansion of the middle class have created new social demands and central governments are increasingly exposed to higher fiscal pressures (Ferreira et al. 2012). Consequently, the political incentives to raise tax revenues are increasing in Chile and Colombia (ECLAC 2013).

Despite these similarities, both countries differ on one crucial dimension: their domestic patterns of business organization. As I show in the next two chapters, the business community in Chile is centrally organized around an encompassing business association, while business organization in Colombia is more decentralized and sectorial-dominated. The following case studies effectively show that these organizational attributes explain how successful (or unsuccessful) the business community has been in blocking or diverting the central governments constant push to increase the tax burden in both countries. In other words, the study of the case of Colombia and Chile demonstrates that the presence or absence of centralized patterns of business coordination is what causes the variation in the type and depth of tax reforms in presidential systems.

The research strategy in the following two chapters is organized as follows. First, I describe the dependent variable of these case studies: tax policy outcomes. I analyze the evolution of tax policies in Chile and Colombia between 1990 and 2010. I present detailed statistical information about the evolution of general tax burdens, direct taxes, indirect taxes, and

corporate and value-added tax rates in both countries. I also describe the content of the tax reform bills initiated between 1990 and 2010.

Second, I describe the main attributes of the main actors in the tax policy game: agenda-setters and business community. I provide detailed descriptions of the fiscal policy motivation and preferences of agenda-setters in Chile and Colombia. In particular, I highlight the fact that, independently of partisan alignments, politicians and technocrats have faced strong fiscal pressures in both countries and those pressures are increasing as the neoliberal program has consolidated over the past two decades. For this stage, I rely on personal interviews with politicians and technocrats. I consider their preferences regarding the content and depth of tax reform that have being discussed recently in both countries.

Next, I study the main characteristics of the domestic models of business organization in Chile and Colombia. In particular, I highlight the consequences of the variation in market leverage, business centralization, and policy integration for the capacity of the business community to respond coordinately to the governments' constant attempts to increase tax burdens in both countries. In this case, I rely on interviews with top executives from encompassing and sector-oriented business association and primary sources I collected during my fieldwork trips to Chile and Colombia.

Once I have specified the preferences and qualities of the actors that bargain over tax policy, I study the interaction between them in both countries by focusing on specific tax reforms bills. I provide a detailed process-tracing analysis of a tax reform process at each country to show how business communities responded to the government's initiative to increase taxes and how their internal characteristics (as organized interest groups) made them more or less successful than politicians in changing the domestic tax structure. I assess who are the winners

and losers in each one of the selected tax reforms and analyze the policy effects of their interaction. The qualitative analysis presented in the following two chapters shows that the level of coordination of business community as interest groups explain the governments' ability to implement revenue-raising tax reforms in Latin America.

This process-tracing analysis aims to uncover the causal mechanism that connects tax policy outcomes with different patterns of business organization. That is, it aims to explain how specific attributes of market leverage, business coordination, and policy integration create specific outcome in context where politicians and technocrats face situations of fiscal stress. In particular, I show that organizational attributes and market leverage make business more or less able to counteract the president's advantages in the policy-making process.

The methodological approach described above emphasizes the importance of context-specific policy-making processes and the causal mechanisms that link preferences, incentives, and outcomes. Long-term institutional legacies are taken into account as contextual factors, but they do not constitute the main factors explaining the outcomes of the policymaking process. In other words, I focused on the calculations and preferences of agenda-setters and business interests groups rather than on the historical (or short-term) processes that explain those preferences (Falleti 2010).

4. CHILE: ELUSIVE TAX REFORM

Tax reforms are not very common in Chile because politicians and technocrats usually confront strong opposition from business interest groups, and these business interest groups have been quite successful in avoiding structural tax reforms because they are centrally coordinated around only one encompassing business association – the *Confederación de la Producción y el Comercio* (CPC) and they are well integrated to the policy-making process. In this chapter, I illustrate this causal mechanism and provide qualitative evidence for the theory of tax policy change I presented in the previous chapters. In particular, I explain that the centralized pattern of business organization has created serious obstacles for tax reform in Chile, even in times when presidents and finance ministers were quite willing to increase taxes. The process-tracing analysis presented in this chapter emphasizes the importance of centralized business coordination and policy integration as the factors that explain tax policy change in Chile.

The main argument of this chapter is that high levels of business coordination and policy integration have transformed Chilean business interest groups into very powerful players in the tax policy-making game. Such predominance of business interests has actually limited left and center-left governments' ability to implement revenue-raising tax reforms.

This chapter is organized as follows. First, I analyze the evolution of taxation in Chile between 1990 and 2010 (my dependent variable). I pay special attention to the evolution of value-added, personal income, and corporate income taxes. I also present briefly every tax reform adopted since 1990. Second, I describe the policy preferences of policymakers (agenda-setters). Third, I present the main business interests groups in Chile between 1990 and 2010. In this section, I focus on three crucial aspects: pattern of business organization (centralized vs. decentralized), degree of policy integration, and market power. This section briefly describes the main business associations, conglomerates, and firms that participate in policy discussions. Fourth, I illustrate the political game of tax reform by describing the policymaking process that resulted in the approval of the tax reform in 2001. This section constitutes a process-tracing exercise aimed to explain the causal mechanisms presented in the theoretical chapter. Finally, I present some concluding remarks.

4.1.TAX REVENUE IN CHILE

Chilean tax policy is one of the most stable in the region. Central government's tax revenues are usually above the regional average, the gap between direct and indirect tax revenues decreased over the past two decades, and tax rates are very competitive in comparison with other emerging markets. Figure 4-1 shows the most recent patterns of tax revenue collection in Chile. Tax revenues increased substantially after the transition to democracy during Patricio Aylwin's term (1990-1994) and decreased at the end of Eduardo Frei's administration (1994-2000) as a consequence of the international financial crisis provoked by the collapse of East Asian emergent economies.

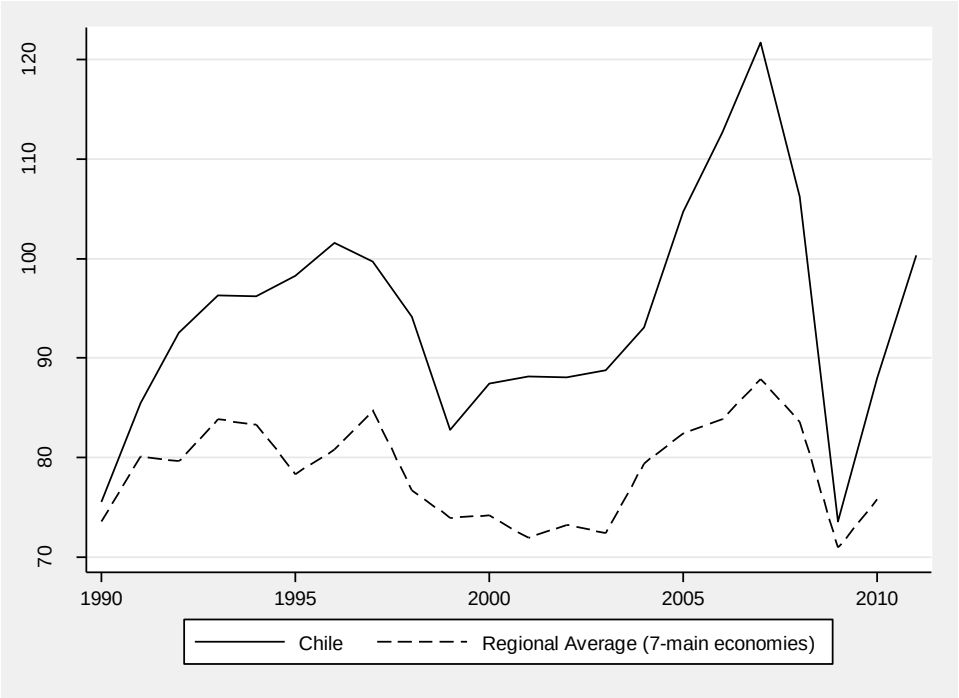


Figure 4-1 Tax Revenues, Chile 1990-2011 (% Total Expenditures)

This trend was reversed by president Ricardo Lagos (2000-2006) and his finance minister Nicolás Eyzaguirre. They implemented a very successful counter-cyclical fiscal policy based on the implementation of 1% surplus fiscal rule. In contrast with traditional pro-cyclical fiscal policies (during expansions, government consumption increases and taxes decrease, while the opposite occurs during recessions), Ricardo Lagos' government implemented a strict fiscal rule aimed to "allow automatic stabilizers in the budget to work freely during the economic cycle and help to keep any surplus in good times out of the reach from the political process in normal discretionary budgetary decisions" (Fiess 2005, 176).

The fiscal rule is a mechanism to adjust government revenues according to the business cycle and the fluctuations of the international prices of copper (Marcel 2013). In simple terms, Chile's fiscal rule works as follows: "the government must set expenditure in a way that tracks

the path of structural revenue […] The relative constancy of structural balances implies that during a boom, the actual surplus is high; during a recession, the actual surplus is low" (Fiess 2005, 189). Thus, the stabilizing mechanism works only if structural revenues are estimated correctly; which means that having a stable tax structure is an important asset for fiscal governance. On the other hand, the implementation of the fiscal rule also implied that tax revenues, rather than central government expenditures, vary according to the business cycle.

In fact, tax revenues have increased substantially during boom times and decreased substantially in 1998-99 and 2008-09 during the global financial crisis. Again, anti-cyclical fiscal adjustment mechanisms depend entirely on the revenue-side (taxes and copper) of the fiscal equation, because once the central government calculates short and long-term revenue flows, public expenditures are adjusted to those expectations. Thus, "fiscal policy-making depends on the degree of predictability of future government revenues" (Interview with Klaus Schmidt-Hebbel, professor of economics, Universidad Católica de Chile, July 2011).

The fiscal rule policy in Chile contrasts with other fiscal rule policies implemented in most of the Latin American countries, where tax collection decreases in good times and increases during bad times (as percentage of the total expenditures).

The Chilean tax system also contrasts with other tax systems in the region regarding the distribution between direct and indirect tax collection (as percentage of total tax revenues). Unlike other Latin American countries, the gap between direct and indirect taxation has diminished over the past twenty years. Figure 4-2 shows that there has been a continuous substitution between both types of taxation. Right after the transition to democracy, direct tax revenue collection was about 20% of total tax revenues, while indirect taxation was about 80%

of total tax revenues. After more than twenty years of democratic rule, indirect taxation corresponds to about 60% of total tax revenues and direct taxation corresponds to about 40%.

One could also observe these policy outcomes were positive consequences of the implementation of the fiscal rule in 2001. As I explained above, tax pressure is supposed to decrease as the country's economic performance shrinks. However, such effect is not equal for direct and indirect taxation. Figure 4-2 shows that, when the economy deteriorated in 2008-09, fiscal pressure decreased for direct taxation, but it actually increases for indirect taxation. In other words, during bad economic times, indirect tax revenue collection (value-added tax) essentially compensates losses in direct taxation (income or corporate taxes). At least, that was the case during the most recent economic contraction in 2008-09.

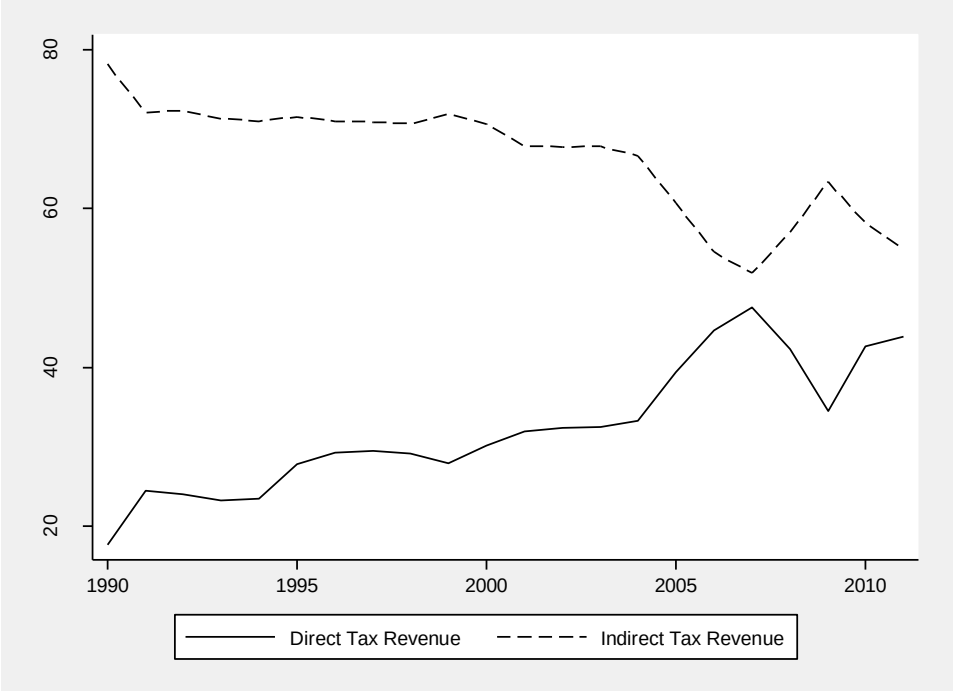


Figure 4-2 Tax Revenue by Type, Chile 1990-2011 (% Total Tax Revenue)

Another essential characteristic of Chilean tax structure is the reduced number of reforms that have been implemented in the past two decades. Table 4-1 lists the all the changes introduced to the tax system since 1990. In comparison with other countries in the region (e.g. Argentina or Colombia), the number of tax reforms in Chile is quite small and the changes introduced are actually minor. Indeed, most of the tax reforms resulted in the expansion of the VAT and personal income tax bases and rates. Changes in the corporate tax income seem to be less common.

Table 4-1 Recent Tax Reforms in Chile

Year	President	Modification
1990	Aylwin	Temporal corporate tax rate increase (from 10% to 15% until 1994); value-added tax rate increase (from 16% to 18%).
1994	Frei	Personal income tax rate decrease (as compensation after temporal increase in 1990)
1996	Frei	Creation of other additional taxes: there were no changes in corporate or personal income taxes
2001	Lagos	Personal income tax rate decrease (from 45% to 35%); Corporate tax income increase (from 15% to 17%)
2003	Lagos	VAT rate increase and tariffs reduction. Investment Platform Law: new exceptions for foreign capital.
2010	Bachelet	Corporate Tax Income temporal increase. Tsunami relief program
2012	Piñera	Corporate tax rate temporal increase from 18.5% to 20%. Personal income tax rate decrease

Source: Author's fieldwork, PWC Corporate Taxes Worldwide Summary

We can observe that the tax system was modified as soon as the country transited to democracy (Boylan 1996; Fairfield 2010a). New democratic governments and business interest groups agreed on a temporal increase for corporate income taxes and a significant extension of the VAT. This temporal increase in corporate taxation was compensated in 1994 with a reduction

of the personal income tax. Increases in the corporate tax rate remained off the agenda for the rest of the 1990s. In 2000, the president Ricardo Lagos tried to implement a more substantial tax reform (the so-called Anti-Evasion Reform) but the results were rather trivial (see section below). In fact, Lagos had to concede a significant reduction of personal income tax rates in order to increase corporate income tax rate to 17% (see section below).

The rest of the decade corporate tax rate remained unchanged until Michelle Bachelet introduced a temporal increase to fund the reconstruction efforts after the devastation provoked by a tsunami in 2010. The last changes in tax policy have been introduced in 2012 by the president Sebastian Piñera as a response to the social movements demonstrating against the education-funding model (Funk 2013).

4.2. AGENDA SETTERS' TAX POLICY PREFERENCES

The first two presidents after the transition to democracy – Patricio Aylwin (1990-1994) and Eduardo Frei (1994-2000) were "moderate" policymakers. They not only extended the neoliberal economic program implemented by Augusto Pinochet (1973-1990), but they also were very cautious in fiscal policy terms. In fact, the first two presidents of the *Concertación* (the center-left political coalition that has ruled Chile since the end of the authoritarian regime in 1990) needed to guarantee that Pinochet's exit would not cause any political or social conflicts and that the transition to democracy would not lead to economic chaos (Navia 2006).

Aylwin and Frei were completely consistent with the most important political consensus in Chilean society after democratization: the catastrophic policy experience seen during the last years of Salvador Allende's administration (1970-1973) could not be repeated again. Politicians,

bureaucrats, and technocrats agree that democratically-elected governments have to demonstrate to the public opinion and the military that they are actually capable of administrating the country, and despite the social problems inherited from Pinochet's regime, they would need to make large investments in social policies but keep responsible fiscal policies. The congressman Ricardo Lagos-Weber, son of the former president Ricardo Lagos, explains

> Cuando se produce el quiebre institucional en Chile (el golpe de estado), entre otros factores, hubo una situación fiscal muy caótica […] si algo tenia que probar la Concertación […] es tenia capacidad de administrar el país. La coalición, en consecuencia, entendió que ese era un valor a proteger. Era complejo, heredamos un país quebrado, […] pero se entendía que no se nos podía desmadrar la economía. Una economía estable es la garantía de un buen gobierno. Una economía desmadrada es la garantía de un mal gobierno. Ese fue un valor que se cuido. […] Hubo un consenso con la derecha, que igual mantenía el control del congreso, pero incluso dentro de la propia concertación. (Interview with Ricardo Lagos-Weber, Julio 2011)

Similarly, the current finance minister recalls that

> La crisis de los ochenta durante el gobierno militar fue dramática […] y el desorden económico muy singular del gobierno de Allende […] si uno puede saludar el gobierno de Allende no es precisamente por su equipo económico […] generaron la idea de que el estado debía comportarse de una manera distinta ha como se había estado comportando. Entonces, la crisis económica del gobierno de Unidad Popular marca a nuestro partido [socialista] y condicionaron a los actores que tomaban las decisiones en Chile […] para ser fiscalmente responsables (Interview with Alberto Arenas de Mesa, Julio 2011).[33]

This policy consensus was total during Aylwin and Frei's administrations. In fact, even the more radical members of the coalition agreed on fiscal conservatism.[34] It was also reinforced by the strong presence of conservative legislators and technocrats in the *Concertación* governments. Also, the electoral system adopted after the transition to democracy (the so-called binomial system) was conceived as an insurance mechanism against an electoral defeat of the

[33] Interviews with Eduardo Frei (former president) and Cristobal Aninat (university professor) were also very illustrative regarding this policy consensus.

[34] "Incluso para los miembros de la propia Concertación había una profunda convicción de que había que hacerlo [manejar la política económica] bien." Interview with Ricardo Lagos-Weber (congressman), Julio 2011. Also Interview with Alberto Arenas (finance minister), Julio 2011.

right and guaranteed that in any circumstances conservative parties had some voice in the policymaking process (Navia 2006; Siavelis 2000).[35]

This policy consensus not only required a responsible management of public spending. It also required that the size of government would not increase substantially, and consequently, there was strong resistance to any tax increases. These anti-taxation positions were especially evident among rightist politicians (most of them were members of the *Unión Demócrata Independiente* – UDI – and *Renovación Nacional*) that embraced the free-market principles and the defense of Pinochet's economic achievements (Fairfield 2010b, 78). For these members of the government coalition the tax system was untouchable and they used their privileged position in the executive and legislative branches to defend such policy preferences. In fact, legislators from the Socialist Party and even some legislators from the Christian Democratic Party promote tax reform bills in the 1990s but they never had qualified majorities in congress (Interview with Ricardo Lagos-Weber and Alberto Arenas, Julio 2011).

According to a former president of the *Sociedad de Fomento Fabril* (the industrialists business association), the consensus on anti-tax positions and macroeconomic stability was "in the genes" of the Chilean society (Interview with Andres Concha, July 2011). Consequently, one could consider the agenda-setters in the 1990s like clear examples of *non-taxer* policy-makers.

In the early 2000s, this policy consensus changed substantially as a result of an intense debate within the *Concertación* between defenders of the neoliberal model *("auto-complacientes"*) and those that defended a social-friendly market economy *("auto-flagelantes"*). The split went public in the early 2000s "when Socialist congressional deputy Sergio Aguiló issued a statement openly challenging what he saw as the barely diluted neoliberalism of the Concertación's development model" (Luna and Mardones 2010) and ended up when Ricardo

[35] Interview with Ricardo Lagos Weber (senator), Julio 2011.

Lagos became president after a significant ideological realignment in Chilean politics (Navia 2006; Aninat et al. 2006). According to the congressman Lagos-Weber:

> A principios de los noventa eran pocas las voces disidentes. Eran pocos los que decían pongámonos a gastar. Había un sentido de responsabilidad, de tenemos que pasarla. Durante el gobierno de Patricio Aylwin hubo un ejercicio de enlace con militares en las calles y después un 'boinazo' […] los milicos salían a la calle con armas, o sea no había una democracia consolidada. Entonces, hubo un sentido de responsabilidad. Después creciente fueron pareciendo algunas visiones mas críticas, lo que se llama la mirada auto-flagelante respecto a que tal vez se requería una política distinta. (Interview with Ricardo Lagos-Weber, Julio 2011)

The impact of this ideological realignment was massive. Chilean politics witnessed the weakening of the political center and the comeback of political polarization between the *Alianza* and the *Concertación* (Navia 2006; Siavelis 2000; Luna and Mardones 2010).

This new policy discourse did not reject neoliberal policies but paid more attention on the implementation of broad social policies. Ricardo Lagos' strategy was straightforward: Chile would need to keep a positive fiscal balance in order to fund increasing social spending:[36]

> Mientras mayor sea la credibilidad de las autoridades económicas y menor sea el riesgo percibido por las instituciones financieras, menor será también el costo de crédito para financiar los proyectos de inversión que permitirán el crecimiento futuro de la actividad productiva y la generación de empleo […] Así se generan las economías necesarias para solventar iniciativas y programas de alto impacto fundadas, adicionalmente, en las capacidades reales de ejecución eficiente por parte de los organismos públicos involucrados y en un uso más eficaz de los recursos disponibles (El Mercurio, Octubre 2, 2000: "Mensaje de Lagos al Congreso Fija Marco Financiero Estatal.")

As I explained in the section above, Lagos implemented this change in fiscal policy priorities by establishing the 1% surplus fiscal rule (Fiess 2005). The objective of the fiscal rule, according to the finance minister Nicolás Eyzaguirre, was to determine annual government

[36] Interviews with Cristobal Aninat (Professor), Alberto Arenas de Mesa (Finance Minister), Ricardo Lagos Weber (senator), and Camilo Escalona (senator), among others.

expenditures based on technical estimates of the GDP growth, non-mining tax revenues, and the long-term international price of copper (Marcel 2013).

Thus, the overall government expenditure was set to cyclically-adjusted revenue flows. The main consequence of the implementation of this fiscal rule Chile is that, on average, fiscal balance has been positive since 2001 and there has been a strong decline in net government debt since 2006. However, it also makes fiscal stability dependent on the international price of copper and cyclical adjustments quite dependent on automatic tax stabilizers. In other words, the complexity in the design and implementation of the fiscal rule boosted the political pressures to raise non-mining tax revenues in order to fund the ambitious social programs pursued by the "auto-flagelantes." Consequently, after 2001, the agenda-setters in Chile have been more interested in increasing tax revenues.

The successful implementation of social and anti-poverty programs during Lagos and Bachelet's administrations has also altered the fiscal policy consensus in Chile. Now, almost every political actor agrees that the political survival of the market-oriented economic policy depends on the provision of broad social programs (Interview with Jorge Rodriguez, CIEPLAN, July 2011). This new political consensus and the restrictions on public expenditures imposed by the 1% surplus fiscal rule have elevated political pressures for tax reform (Interview with Klaus Schmidt-Hebbel, Julio 2011; Interview with Jorge Rodriguez, Julio 2011).

Consequently, the presidents (and finance ministers) in the past three administrations could be classified as taxer-type agenda-setters despite the fact that the three of them come from very different ideological background – Lagos (center), Bachelet (center-left), and Piñera (center-right). All of them have proposed and passed tax reforms – Lagos (2001), Bachelet (2006), and Piñera (2012). It seems counterintuitive to classify presidents as dissimilar as Lagos

and Piñera within the same category, however, they faced similar fiscal pressures shaped by the design of the fiscal rule and its requirement of keeping a permanent structural fiscal balance, but also shaped by the new social demands resulted from the expansion of the middle class. A researcher from the *Corporación de Estudios para Latinoamérica – CIEPLAN*, one of the most influential think-tanks in Chile, describes really well the agenda-setters' policy choice:

> Hay una demanda por mas financiamiento estatal, pero como tenemos esta política de responsabilidad fiscal, la pregunta es cómo lo financiamos. Unos dicen, bueno, con el cobre, porque esta súper alto, pero no, eso es un ciclo. Entonces, finalmente hay que subir los impuestos" (Interview with Jorge Rodriguez, Julio 2011).

4.3. BUSINESS INTEREST GROUPS IN CHILE

The level of openness and liberalization of the Chilean economy have increased substantially after the ultimate consolidation of democratic transition in the past two decades. The economic liberalization has had important consequences for several aspects of the economic and social context in Chile. However, the diversification of the economic structure is the main consequence of the economic liberalization in the 1980s and its subsequent deepening of the process in the 1990s and 2000s. If we use the market power index that I constructed in chapter 3, we can observe that industrial concentration decreased over the past two decades from 55% to about 45%. This reduction in the relative weight of the three-main economic sectors in the national accounts was the result of a prolonged process of industrial transformation in which a number of industrial sectors reduced their participation in the national output while services and banking industries increased their relative weight in the national production.

Figure 4-3 describes the process of industrial transformation in Chile after the democratic transition. The relative weight of the financial sector remained stable (representing around 20%

of the national outcome) over this period of time. However, the relative weight of manufacturing sectors decreased steadily over the past two decades from 18% to 13% of the national output. At the same time, mining and retail trade sectors increased their participation in the total domestic product. In other words, the Chilean economy is not only more diversified and open after more than two decades of democracy and neoliberalism, but it also witnessed the decline of traditional industrial sectors within the national output. Chilean economy is still dominated by the financial and mining sector, but the presence of new actors is undeniable, especially those linked to retail trade sectors. Unsurprisingly, the economic conglomerates (*grupos*) with strong links to retail and services industries are key players among the Chilean business community in the 2010s.

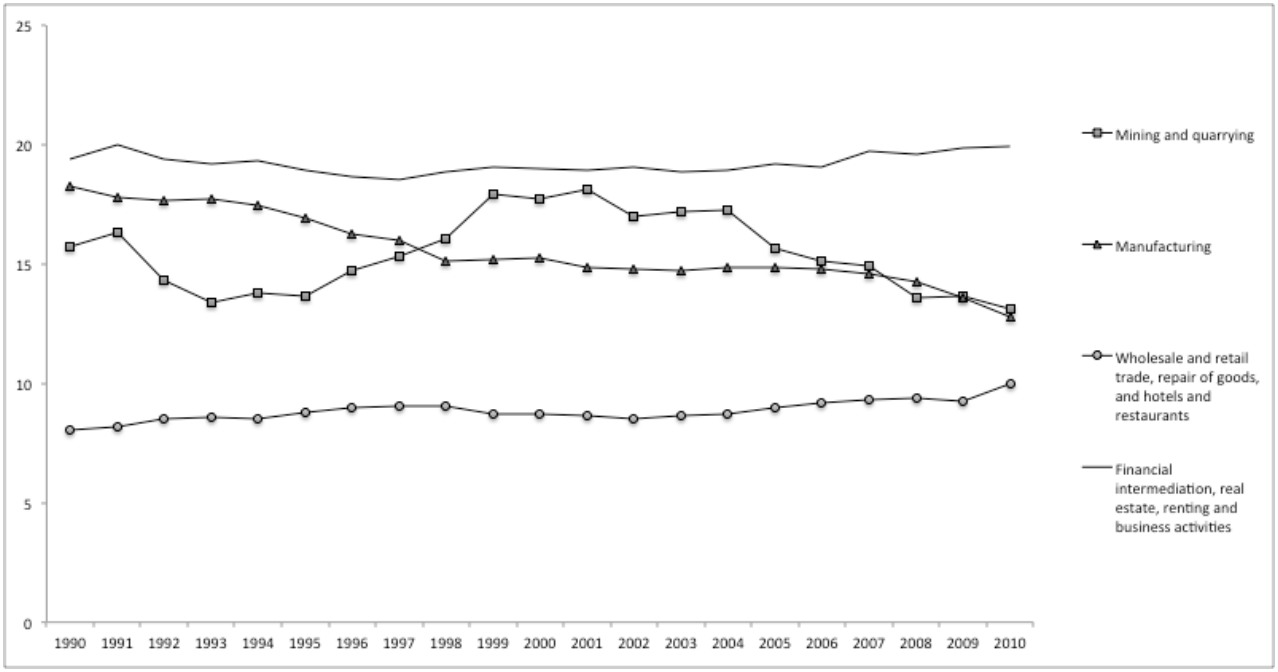


Figure 4-3 Industrial Transformation Chile 1990-2010

This process of industrial transformation actually weakened Chilean business interests' market leverage by making their disinvestment threats less credible. In fact, the last time that

business community seriously threatened with move their capital and investments abroad was during the democratic transition in the early 1990s. In the early years of the *Concertación*, business interest groups reacted powerfully to any minimal changes in taxation, which they considered clear reversals to populist policies implemented by Salvador Allende. In fact, for the main business interest groups, any public policies that could change the tax structure or increase inflation were simply "out of the question", because the tax burden in Chile was "adjusted" to the Chilean economic performance and "implement any structural tax reform was not a priority for the economic development in Chile" (interview Fernando Alvear, CEO, *Confederación de la Producción y el Comercio*, Julio 2011).

It was not a secret that business interests were closely identified with Pinochet's regime because it stopped socialist policies implemented by Allende and after the transition to democracy they were the main defender of the neoliberal economic model (Huneeus 2001; Fairfield 2010b). One of the leaders of the Socialist Party, senator Camilo Escalona, recalls that "business interests groups and military were the worst enemies of democracy in the early 1990s" (Interview Camilo Escalona, Julio 2011).

In the early 1990s, the *Concertación* was always unambiguous in claiming that such populist policies would never be implemented again (Fairfield 2010b). As the democratization process was consolidated, it was clear to business interest groups that the *Concertación* was committed to respecting the neoliberal model. But it was also clear for the government that only few economic sectors could successfully threat domestic economic stability. In fact, Chilean economy is quite dependent on the performance of mining sector, but the government controls copper production and the most important mining company in the country (Codelco) is state owned.

The relative weakness of business community, in terms of market leverage, does not really mean that business interest groups in Chile are weak. It only means that business interests' political power results from a different source: their pattern of business organization. Business interest groups in Chile are well organized, centrally coordinated, hierarchized, and well integrated to the policy-making process. These patterns of business organization and policy integration make Chilean business interest groups very powerful and influential.

Business interests groups in Chile are organized around the *Confederación de la Producción y el Comercio* (CPC). The CPC is one the biggest and better organized encompassing business associations in Latin America. It was created in 1933 and currently includes the major sector-oriented business associations in Chile: *Sociedad de Fomento Fabril* (manufacturing), *Sociedad Nacional de Agricultura* (Agriculture), *Sociedad Nacional de Minería* (mining), *Cámara Chilena de la Construcción* (construction), *Asociación de Bancos (banking),* and *Cámara Nacional de Comercio, Servicios y Turismo* (services). In its early years, the CPC was mainly organized to respond and counteract to influential labor and trade unions and the emergence of radical leftist parties in the 1930s and 1940s (Schneider 2004; Fairfield 2010b).

However, the implementation of protectionist policies and the consolidation of the industrialization process strengthened the CPC as the only economy-wide business association and created conditions for its institutional consolidation. According to Schneider (2004), unlike other peak associations in the region, in the 1960s the CPC already had professional staff, large operational budgets, and increasing number of affiliates.

At the same time, sector-oriented business associations were also well represented in policy boards. Since the 1960s, business associations like the *Sociedad de Fomento Fabril (SOFOFA)* or the *Sociedad Nacional de Agricultura (SNA)* were systematically included in

several policy councils and they participated in policy debates in congressional committees. In fact, it is not unusual that sectorial business associations provide technical information and assistance to legislators and policy-makers. For example, in 2008 representatives from the CPC provided technical support and drafted a bill aimed to improve quality standards in the industrial process and promote new mechanism of social responsibility (interview Fernando Alvear, CEO, *Confederación de la Producción y el Comercio*, Julio 2011).

Historically, sector-oriented associations led the participation of business interests groups in formal and informal policy boards simply because they usually had better technical and institutional capacity to push salient issues. However, the technical and institutional role of the CPC was significantly strengthened after the Allende government and especially after the transition to democracy in the 1990s (Interview Fernando Alvear, CEO, *Confederación de la Producción y el Comercio*, Julio 2011).

Allende's strong anti-business agenda provided strong incentives for business unity. In fact, the exclusion of business groups from policy forums and Allende's threat on private property rights, instead of dividing the business sector, revived incentives for collective action. It is not a secret that the business community supported the 1973 military coup. In fact, the CPC drafted Pinochet's first economic program and several members of its staff were appointed in Pinochet's cabinet. For example, Pinochet's first minister of economy was well known business leader, Fernando Léniz. Similarly, Walter Riesco –former president of the CPC and SONAMI – was an important legislative leader supporting Pinochet's agenda in the national assembly (Huneeus 2001).

The CPC also played a significant role after the Debt crisis in 1982. In fact, the CPC provided technical support and drafted out the recovery plan implemented by Pinochet.

According to Schneider (2004), "although the CPC lacked organizational resources like a large professional staff, it still showed remarkable institutional strength in key moments along other core dimension of institutional strength, interest intermediation." This intermediation capacity positioned the CPC as the main representative of business interests and consolidated its central role for business interests organization.

After the transition to democracy, the CPC gained operational and financial capacity and there is no doubt that it is the main interlocutor between the business community and the Chilean government. Despite their ideological differences – the business community has traditionally been very close to rightist parties like *Unión Democrática Independiente* (UDI) and *Renovación Nacional* (RN) -, the center-left coalition that ruled the country after Pinochet has cultivated business sector confidence by including the CPC and other large sectorial associations (e.g. SOFOFA) in consultation committees and policy decision boards. In fact, leftist politicians and policymakers have made a systematic effort to discuss with the CPC any possible change in the economic model after 1990. There is a strong consensus among policymakers that democratic stability depends on the fluidity of investment and economic growth. Indeed, they prefer to avoid political conflicts with business sectors.[37] Democratic governments in the 1990s promoted business-government collaboration and facilitated the participation of business interest groups in decision-making forums. For example, president Lagos' economic reforms were extensively discussed with the CPC and SOFOFA. In fact, the implemented reforms were based on SOFOFA's draft known as *Agenda para el Crecimiento* (Fairfield 2010b).

This is not a minor issue for the understanding of the relationship between government and business community in Chile. The conflict between Allende and the business sector in the early 1970s and its catastrophic consequences for inflation control and fiscal governance left a

[37] Interview with Cristobal Aninat and Ricardo Lagos Weber, Julio 2011.

profound mark on collective beliefs and policy preferences. After more than two decades of democracy, business leaders, policymakers, and politicians seem to unanimously agree that policy coordination (between business and government) should be encouraged to avoid the negative consequences of inflation and fiscal deficit on private investment. According to a former president of SOFOFA, this policy consensus is now "in our genes".[38]

Consequently, post-transition governments (from both center-right and center-left) have promoted several policy coordination mechanisms to effectively include business leadership in the decision-making process. For example, representatives of the CPC are currently included in several policy boards as the *Comisión de Eficiencia Energética*, the *Comité Publico-Privado de Seguridad Publica*, the *Comisión Técnica Consultiva de la Dirección del Trabajo*, or the *Comité Público-Privado para las Relaciones Económicas Internacionales*.[39]

The *Concertación* governments also promoted the active participation of business interest groups in the design of the policy instruments aimed to keep fiscal balance adjusted over time. For example, former president Ricardo Lagos adopted a very strict structural fiscal rule (its goal is to generate an annual structural surplus equivalent to 1% of the GDP) and the implementation of it was extensively discussed with the business community. In fact, the adoption of the structural fiscal rule was aimed to reduce uncertainty among business sectors just after the arrival of the first socialist president after Salvador Allende (Marcel 2013).

As I discussed above, the main pattern of business organization in Chile is the prevalence of a national, peak association. The CPC is institutionally strong, it has increased its technical capacity, and it is well integrated in relevant policy discussions.

[38] Interview with Fernando Alvear, CPC Chief Executive Officer
[39] Interview with Fernando Alvear, CPC Chief Executive Officer

However, they are not the only players in the policy decision game. As the Chilean economy has grown and diversified in the past two decades, traditional business associations have been compelled to share political influence with new and powerful economic conglomerates. The emergence of such powerful business conglomerates is a direct result of the decline of the manufacturing sector and the steady growth of banking, retail, and media. Most of these conglomerates or "*grupos*" consists of legally independent firms bound together by informal family ties. For example, the *Grupo Angelini* (ranked number one among the economic conglomerates in 2013) is composed by mining, transport, and banking firms. Several of these firms were created in the 1950s by an Italian businessman -Anacleto Angelini - and inherited by his nephew Roberto Angelini. This economic group reported assets for about US$1,200 million in 2013 (Arce 2013).

Table 4-2 shows other examples of economic conglomerates in Chile. This table provides a ranking of the top 10 economic conglomerates ordered by their reported assets. One can observe that most of these conglomerates focuses on tertiary economic activities like retail or banking industries. These conglomerates also have a strong presence in regional emergent markets like Colombia, Peru or Brazil. For example, the Solari group and its flag firm Falabella has recently expanded their activities to other countries in the region (especially Peru and Colombia) where they have made important investment in the retail industry (Arce 2013).

The emergence of these economic conglomerates is changing the political game in Chile. The CPC is still a dominant actor and still represents the mainstream policy preferences among business community.[40] However, the new cross-sectorial and less domestically orientation of the Chilean economic conglomerates make them more flexible for political influence and more

[40] Interview with Alberto Arenas (finance minister).

likely to shape specific policy outcomes. In other words, the emergence and consolidation of the economic conglomerates has had a negative impact on business unity in Chile.

Table 4-2 Business Organizations, Economic Conglomerates, and Lobbying Firms in Chile

	Year	*Main Economic Activity*
ENCOMPASSING ORGANIZATIONS		
Confederación de la Producción y del Comercio	1933	Encompassing
SECTOR-ORIENTED ORGANIZATIONS		
Sociedad de Fomento Fabril (SFF)	1944	Industry
Sociedad Nacional de Agricultura (SNA)	1871	Agriculture
Cámara Chilena de la Construcción (CChC)	2003	Infraestructure
Asociación de Bancos (ABIF)	1936	Banking
Sociedad Nacional de Minería (SONAMI)	1927	Mining
Cámara Nacional de Comercio, Servicios y Turismo (CNC)	1962	Tourism
ECONOMIC CONGLOMERATES		
Grupo Angelini		Fuel and mining
Grupo Luksic		Mining, banking, industry
Grupo Said		Retail, industry, banking
Grupo Yarur		Banking
Grupo Paulmann		Retail
Grupo Solari (Falabella)		Retail
Grupo Saieh		Media
Grupo Matte		Industry, mining, banking
Grupo Cueto		Transport

Source: Author's fieldwork

In summary, despite the most recent structural changes, the main encompassing association in Chile (CPC) has strong institutional capacity "to reconcile differences and promote consensus" on economic policy (Schneider 2004: 171) across sectors, especially after the collapse of the authoritarian regime. After 1990, the CPC became the main interlocutor between business and government (Fairfield 2010c, 76), it has immediate access to the executive branch

of government (interview Fernando Alvear, CEO, *Confederación de la Producción y el Comercio*, Julio 2011)[41], but most importantly, it has remained united as interest group:

> Los empresarios en Chile, somos absolutamente unidos. Podemos discutir de mil cosas, pero en el momento de actuar ante situaciones complejas, los empresarios son una sola voz. Y eso ha sidosa si desde que funciona la CPC - Tasha Fairfield 's interview with Ricardo Ariztia, former CEO of the CPC, 2005 (Fairfield 2010c, 76).

Similarly, Fernando Alvear current CEO of the CPC asserted that:

> Nosotros discutimos todos los temas intersectoriales en distintas mesas de trabajo. En esas mesas participan miembros de diferentes grupos y ramas de la economía. En ocasiones, también invitamos miembros de la rama ejecutiva del gobierno. Allí se discuten todos los temas y las posiciones. […] Somos bastante estructurados, institucionalizados. […] Sin embargo, todas las decisiones de política se toman en el comité ejecutivo [de la CPC] y a las negociones con el gobierno vamos yo (CEO) o el presidente de la CPC. […] Por suerte trabajamos desde hace mucho tiempo juntos. […] Y en el último tiempo, no hemos tenido diferencias significativas. (Interview Fernando Alvear, CEO, *Confederación de la Producción y el Comercio*, Julio 2011).

4.4. THE 2001 TAX REFORM

In order to illustrate how business and agenda-setters shape tax policy outcomes in Chile, this section analyze the tax reform process in 2001. The 2001 Anti-Evasion Reform constitutes a good illustration of the interaction between business and government in Chile for different reasons. First, business interest groups were not particularly inclined to allow any changes in the tax structure and were not particularly satisfied with the election of Ricardo Lagos as the new president. Second, the new president was completely convinced that raising tax revenues was the only way to expand new social spending, but at the same time, Lagos did not want to create political conflicts with the business community. Finally, both business and government were

[41] "Digamos que nuestro interlocutor mas frecuente en el gobierno es el presidente de la república o alguno de sus ministros mas cercano" (Interview with Fernando Alvear, CEO of the CPC, July 2011).

committed to the same model of economic development. Thus, this tax reform scenario contains all the necessary elements to illustrate the mechanisms of my theory of tax policy change.

In 2000, the newly elected president Ricardo Lagos proposed an ambitious reform package aimed to avoid tax evasion and increase tax revenues. According to Lagos:

> La responsabilidad fiscal es una condición básica para la reactivación y para un crecimiento estable. El presupuesto del 2001 responderá a las necesidades que hay en materia de equidad, inversión pública, seguridad ciudadana y fomento productivo. Pero al mismo tiempo, por ese presupuesto, nos proponemos abordar dos tareas para cumplir nuestras metas de política fiscal. La primera, poner en marcha un plan para reducir la evasión tributaria, plan que tiene que recaudar como mínimo, 800 millones de dólares anuales a partir del año 2005. Como todos sabemos, los niveles de evasión hoy día alcanzan aproximadamente a 4.000 millones de dólares. Esto requiere esfuerzo y dedicación. Hemos avanzado pero tenemos que apurar el tranco. Para lograr esta meta, fortaleceremos la capacidad de las instituciones fiscalizadoras y las dotaremos de las facultades y la institucionalidad necesarias para cumplir con mayor eficacia su función. Lograr esta meta requiere reformas legales y estoy seguro que este Parlamento nos dotará de las herramientas indispensables para poner freno a la evasión tributaria (Ricardo Lagos, Presidential Speech before Congress, May 21 2000)

President Ricardo Lagos, the first socialist president since Salvador Allende, designed the so-called Anti-Evasion package to fund new social spending programs. This "anti-evasion" package included several measures to close tax loopholes, eliminate tax benefits, and expand tax bases. The reform was aimed to reduce tax evasion by 20% and collect additional tax revenues for about US$800 million (Marcel 2002; Silva 2002; Aninat et al. 2006).

The bill proposal established new regulations for the VAT base (especially those related with trading fixed assets), restrictions on VAT refunds, restrictions on the use of tax losses in mergers, the elimination of corporate income tax loopholes (for example, the government proposed several changes to the calculation of assets depreciation), and limits on presumptive income. All these measures were aimed to increase effective (corporate income, personal income, and VAT) tax rates. However, the bill proposal also included some modifications to

reduce tax burdens. For example, it proposed reducing taxes on luxury goods (from 50% to 30%) and taxes on foreign direct investment.[42]

The Anti-Evasion reform bill also introduced a significant administrative reform to the *Servicio de Impuestos Interno (SII)* – the Chilean tax agency. This administrative reform included a significant expansion of the SII (18% increase in staff and budget), the implementation of a real-time database of financial transactions administrated by the SII, and the boosting of the SII's enforcement capacity (higher fines for tax evasion and new regulations for tax-related judicial processes).[43]

The government was clearly in favor of fighting tax evasion, but its main goal was to cut out tax avoidance, increase effective tax rates, and improve horizontal equity. In fact, the finance minister, Nicolas Eyzaguirre, presented the Anti-Evasion bill as the appropriate mechanism to improve horizontal equity (persons in the same or similar positions will be subject to the same tax liability) and restrict unjustified tax benefits for the rich.[44] According to the minister, the approval of the Anti-Evasion bill was not only a priority for the government before legislative elections, but it was also crucial to reach economic growth targets and fund new social programs.[45] Thus, it was evident that the Chilean government (the president and the finance minister) was completely committed to increase taxes and expand public expenditures.

In August 2000, the government argued that no taxes would be increased and the unique goal of the reform would be to fight tax evasion and improve the ability of the national tax agency to collect taxes. The president argued that the central government needed more resources

[42] Mensaje No. 178-34 por el cual el Presidente de la República presenta el proyecto de ley que establece normas legales para combatir la evasión tributaria. Also see Fontaine and Vergara (2000).
[43] Mensaje No. 178-34 por el cual el Presidente de la República presenta el proyecto de ley que establece normas legales para combatir la evasión tributaria. Also see Fontaine and Vergara (2000).
[44] El Mercurio, Septiembre 3, 2000" "Gobierno aspira a simplificar la tributación"; El Mercurio Marzo 16, 2001: "Eyzaguirre atribuye a desinformación críticas a proyecto de evasión"; Informe de la Comisión de Hacienda, Boletín No. 2.572-05.
[45] El Mercurio, Septiembre 14, 2000: "Hacienda prevé crecimiento del PIB sobre el 6% en 2001 y 2002"

to fight unemployment and expand the social welfare net, but the solution was not to increase taxes but improve tax collection. He asserted that: "no es justo que porque algunos no pagan haya que aumentar los impuestos a aquellos que sí los están pagando (El Mercurio, Agosto 11, 2000: "Respaldo de Lagos al proyecto contra evasión").

However, as the government provided more details about the bill, it was evident that the government's proposal would substantially increase the general tax burden. In fact, the Lagos administration delayed the bill proposal several months until the finance minster reached an agreement with members of the Christian Democratic Party (lead by the economist Alejandro Foxley) and the *Partido por la Democracia*, who opposed the introduction of new tax burdens.

On August 2000, the government sent Congress its proposal and it introduced substantial increases to the tax burden. It provoked serious opposition from rightist politicians and business associations. The business community expressed serious concerns about the new regulations on corporate and personal income tax, but they were also opposed to the new power that the anti-evasion bill provided to the tax agency (the SII). The president of the Sociedad Nacional Minera (SONAMI), Hernan Hochschidl, emphatically contended that the government's proposal was not a mere "anti-evasion" bill: "el poder ejecutivo está tratando de realizar una verdadera reforma tributaria que tendrá su mayor efecto en los negocios que realizan la grandes y medianas empresas del país" (El Mercurio, Agosto 18, 2000: "Sonami veta proyecto de evasión tributaria"). Walter Riasco, chief executive of the *Confederación de la Producción y el Comercio (CPC)*, expressed serious concerns about the bill, because "the new provisions would affect taxpayers by imposing excessive sanctions and radical changes to the formulas to determine tax bases."[46] The CPC intensified its media campaign against the tax reform in January 2001. Few days after the finance minister Eyzaguirre sent the bill to congress, the

[46] El Mercurio, Octubre 19, 2000: "Riesco: Falta de voluntad de ambas partes no permite el acuerdo."

president of the CPC, Ricardo Aritzia, affirmed that the "anti-evasion" reform would had negative impact on the economic activity because new taxes would be introduced:

> En general estamos preocupados con el proyecto de reforma tributaria porque hay elementos que sí afectan claramente y gravan a las empresas con nuevos tributos. Por lo tanto, no compartimos algunas de las opiniones que ha dado en estos últimos días el ministro de Hacienda, Nicolás Eyzaguirre (El Mercurio, Enero 15, 2001: "CPC mantiene objeciones a proyecto evasión tributaria")

Aritzia also argued that the tax reform bill would negatively affect not only large companies, but also small business, because it would introduce additional costs to the trade of assets.[47] The CPC also contended that any tax increases would create serious obstacle to attract new froing and direct investment.[48]

The arguments against the tax reform bill not only came from the CPC. Sector-oriented business associations, economic conglomerates, and individual firms also expressed their disagreement with the government's proposal. For example, the executive officer of Empresas CMPC (the largest Chilean pulp and paper company) harshly condemned the government's proposal to reform tax structure and argued: "it does not give any confidence to the business community."[49] Hernán Hoschchild, the president of the national mining association (*Sociedad Nacional de Minería - Sonami*) alleged that the tax reform bill would drastically increase the tax burden and it would hurt national savings and investment.[50] The executive officer of the *Sociedad de Fomento Fabril*, Andres Concha, criticized the bill and alleged that the elimination of tax benefits to the business sector would harm domestic savings and investments.[51]

---

[47] El Mercurio, Marzo 12, 2001: "CPC estima que proyecto evasión tributaria perjudicará a Pymes"
[48] El Mercurio, Octubre 12, 2000: "Refuerzan el rechazo a aumento de impuestos."
[49] El Mercurio, Marzo 26, 2001: "Ernesto Ayala: Ley Laboral y Tributaria no dan confianza a empresariado"
[50] "Las modificaciones introducidas por el Ejecutivo atentan directamente contra las empresas mineras en operación. Ellas resultan doblemente perjudicadas debido a que los impuestos que gravan los intereses relacionados se aplicarán a todo tipo de deuda, independientemente de la fecha que se contrató y registró en el Banco Central. Esto significa que la tasa impositiva aumenta del 4% al 35%". El Mercurio, Abril 2, 2001: " Sonami rechaza proyecto de evasión tributaria."
[51] El Mercurio, Octubre 12, 2000: "Refuerzan el rechazo a aumento de impuestos."

The members of the rightist parties in congress shared the concerns of the business interest groups. Several members of the *Unión Demócrata Independiente* (UDI) echoed the business sector's complaints and denounced the government's bill as a hidden tax reform. For example, congressman Julio Dittborn (UDI) argued that:

> Lo que la demagogia del Gobierno trata de vender es que no hay un aumento de las tasas, pero resulta que la recaudación tributaria es la multiplicación de la tasa del impuesto por la base, por lo que el impuesto afecta. Y lo que aquí se hace en esta reforma tributaria es obviamente aumentar las bases sin aumentar las tasas (El Mercurio, Agosto 25, 2000: "Dittbron: Proyecto tributario implica aumento de impuestos").

Similarly, the chair of the senate's Budget committee, Jovino Novoa (UDI), also condemned the government's proposal: "la principal crítica al proyecto es que constituye una justificación para aumentar los impuestos, para darle cada vez mayores atribuciones al Servicio de Impuestos Internos (SII) y deja indefensos a los contribuyentes (El Mercurio, Agosto 25, 2000: "UDI: Proyecto sobre evasión tributaria no debe aprobarse").

President Lagos and several ministers of his cabinet made important efforts to conciliate their positions with different members of the business community. It was not an easy task because, in the late 1990s, the business community still had strong links with the political right and opposed Lagos' candidacy for the presidency. In fact, during the presidential campaign, Lagos accused the CPC of forcing workers to vote for Joaquin Lavin (Lagos' contender).[52] However, as soon as Lagos was elected, he created the Consejo de Dialogo Social, a advisory board integrated by the Confederación de la Producción y del Comercio (CPC), the Central Unitaria de Trabajadores (CUT), and the Confederación Nacional de la Pequeña y Mediana Empresa (Conapyme). This advisory board was aimed to facilitate the discussion between

[52] El Mercurio, Enero 11, 2000: "W. Riesco refuta los reclamos". Francisco Vidal, Lagos' campaign manager, declared that: "Dirigentes como el señor (Walter) Riesco y el señor (Hernán) Hotschild confundieron su representación empresarial con una postura política combativa y activa en favor de Lavín" El Mercurio, Enero 22, 2000: " El Laguismo pasa la cuenta a los empresarios."

workers, business, and government about the labour and tax reforms that Lagos wanted to implement in the first two years of his administration.[53] The president also made several appearances in the media declaring his willingness to cooperate with the business community in the implementation of fiscal policies that improve macroeconomic conditions for economic development:

> Diría que lo que necesitamos es una alianza poderosa entre políticas correctas del ámbito público y un sector privado resuelto y emprendedor. Si esto lo hacemos y lo hacemos bien, no me cabe ninguna duda de que podemos iniciar una nueva década de rápido crecimiento económico (Interview with President Lagos. El Mercurio, Mayo 31, 2000: "Pdte. Lagos ofrece nuevas garantías a empresarios")

The finance minister, Nicolas Eyzaguirre, also meet regularly with the business community to discuss the details of his tax reform proposal. In November 2000, the finance minister organized a meeting in the presidential palace to explain the details of his proposal to representatives from the *Cámara Chilena de la Construcción (construction)*, the *Cámara Nacional del Comercio (retail)*, the *Asociación de Bancos*, the *Sociedad Nacional de Minería (mining)*, and the *Sociedad de Fomento Industrial (industralists).* Several members of the government cabinet also attended the meeting (home, labor, and finance ministers). In this meeting, the CEO of CPC presented his concerns about the tax reform bill and the finance minister declared that the government was completely willing to take into account those concerns.[54] In fact, the finance minister and the CPC established a technical committee to study possible modifications to the tax reform bill before legislative approval.[55]

However, this climate of cooperation quickly deteriorated as the legislative process advanced and other political conflicts (e.g. legal process against General Pinochet, truck-drivers

[53] El Mercurio, Enero 25, 2000: "Lagos instala un consejo de dialogo social"
[54] El Mercurio, Octubre 13, 2000: "Gobierno y empresarios estrechan contactos."
[55] El Mercurio, Noviembre 24, 2000: "CPC y Hacienda culminan trabajo."

strike, labor reform)[56] compromised the government-business dialogue. Internal disputes within the CPC (there were intense discussion with SOFOFA regarding new organizational statutes) and the arrival of a new executive office (Walter Riesco was replaced by Ricardo Ariztia) also determined a substantial shift in the business interest groups' positions regarding Lagos' administration.[57] In fact, as soon as Ariztia was appointed as CEO of the CPC, he declared that the government proposal would harm the country's economy and investment rates. The finance minister responded emphatically to those criticisms: "de dónde sacaron esa majadería de que no hay inversión. […] En realidad, lo que ocurre es que el consumo está bajo todavía, pero esto se explica porque aún el empleo no se ha recuperado (El Mercurio, Enero 23, 2001: "Dura réplica de Eyzaguirre por críticas a reformas").

The back-and-forth between business and government was intense because the government also promoted a comprehensive labor reform that business perceived as harmful for their interests. Lagos blame business sector for the lack of job creation and business responded that the government's proposal would create serious inflexibilities for the job market.[58]

The discussion of the bill in congress illustrates quite well the intensity of the political conflict between the government and the business community (and its rightist supporters). Two observations are specially interesting: first, the president had to declare the Anti-Evasion bill as

[56] Business interest groups were particularly displeased with the labor reform promoted by the government. Indeed, the CEO of the CPC declared that: "el proyecto del gobierno apunta a una reforma usando el modelo europeo, plagado de todo tipo de rigideces, donde existen los fueros laborales, las decisiones discrecionales de los funcionarios de la Dirección del Trabajo, toda una serie de medidas que, lejos de alentar el empleo, desalienta la inversión y, finalmente, redunda en el aumento del desempleo" El Mercurio, Marzo 18, 2001: "El pliego empresarial: la Concertación no cree en el modelo económico."

[57] El Mercurio, Diciembre 23, 2000: "Presidencia de la CPC." El Mercurio, Abril 28, 2000: "Consejo Nacional de CPC aprobó reforma de estatutos."

[58] El Mercurio, Mayo 11, 2001: "Críticas a empresarios generan desconfianzas." The economist Rodrigo Vergara, a researcher at the *Centro de Estudios Públicos*, argued that; "Un proyecto contra la evasión tributaria obviamente parece razonable. Pues se trata de una lacra social que debe disminuir lo más posible. El problema es que éste es más que un proyecto contra la evasión tributaria, es un proyecto que también aumenta los impuestos. […] Como está hoy establecido el proyecto, necesita una cirugía mayor. Las medidas contra la evasión tienen muchas más posibilidades de un trámite legislativo más rápido. En mi opinión debería haber una reformulación del proyecto" (El Mercurio, Octubre 11, 2000: "Análisis del proyecto de evasión.")

top-priority bill (*urgencia suma)* to avoid procedural obstacles in the House and the Senate;[59] and second, business interest groups were completely integrated to the legislative process.

As soon as the government sent congress its proposal on tax evasion, different legislative groups promised substantial revisions and additions in the mark-up sessions, and committee hearings were simply delayed. In the meantime, academics and media related to business interest groups made calls to postpone the legislative discussion.[60] In early October 2000, the president declared his tax reform bill as a fast-track bill (*suma urgencia*), which forced an immediate discussion in the House's appropriations committee.[61] This constitutional provision forced congress to discuss the government's bill, but it did not stop the opposition's efforts to reduce the impact of the new tax regulations on tax burdens.

In fact, some legislators from the Christian Democratic Party, with the support of the CPC, promoted a revision to the bill that added 1.5 points to the corporate tax rate in exchange of a reduction of the personal income tax (marginal) rate from 45% to 35%.[62] This tax reduction was proposed early stages of the legislative debate, but both Christian Democrats (Alejandro Foxley and Edgardo Boeninger) and the CPC intensified their efforts to include it as part of the tax reform when it was discussed in the Senate's appropriation committee.[63] The implementation of this compensation mechanism within the original bill was the center of the debate between the main members of the government coalition. Legislators from the Socialist Party (PS) strongly rejected the proposal because "it would only benefit 17,000 taxpayers whose income was higher than 3.5 million [a month]" (Interview with Carlos Ominami –PS-, El Mercurio, Marzo 13, 2001:

[59] Informe de la Comisión de Hacienda recaído en el proyecto de ley, en Segundo tramite constitucional, que establece normas para combatir la evasión tributaria. Chile, Senado de la Republica, Boletín No. 2.272-05
[60] El Mercurio, Septiembre 19, 2000: "No es el momento para discutir evasión tributaria."
[61] El Mercurio, Octubre 3, 2000:"Suma urgencia a proyecto tributario."
[62] El Mercurio, Octubre 18, 2000: "Ejecutivo analiza propuesta de rebaja tributaria a las personas." El Mercurio, Noviembre 11, 2000: "Buscan amplio acuerdo para rebajar impuestos a personas."
[63] El Mercurio, Marzo 7, 2001: "Aúnan esfuerzo para reducción de impuestos."

"Discrepan sobre rebaja de impuestos personales"). However, for Christian Democrats, only this personal income tax decrease would guarantee a political agreement between business interest groups and government about a marginal increase in the corporate tax rate.[64]

The discussion of the bill was delayed again when it arrived to the Senate's Appropriations Committee in December 2000.[65] The committee discussed the bill in early January 2001, but they decide to postpone the voting until March, so more additions and revisions could be introduced.[66] In March 2001, Lagos declared the bill again as a fast-track bill, and the Senate's Appropriation Committee started the discussion again with a public hearing that included the executive officers of the CPC and SOFOFA.[67]

These legislative hearings with business interest groups were not unusual. A meticulous examination of the legislative records allows us to observe that top executives from the encompassing business association (the CPC) and the main sectorial business associations were actually quite involved in the process. The Senate's Appropriations Committee kept regular public and private meeting that not only included the members of the committee, the finance minister (Nicolas Eyzaguirre), and the director of the tax agency, but also the CEO of the CPC (Ricardo Ariztia), the CEO of the industrialists' association (Javier Fuenzalida), the CEO of the retail business association (Rafael Cumsille), and several representatives of the tax agency's labor union (Sandra Macchino, Daniel Vergara).[68]

In a committee hearing held on March 9 2001, the CEO of the CPC (Ricardo Ariztia) passionately attacked the government's bill because it would significantly increase the tax burden for the private sector. Ariztia also argued that the Anti-Evasion reform would negatively

[64] El Mercurio, Marzo 13, 2001: "Discrepan sobre rebaja de impuestos personales."
[65] El Mercurio, Diciembre 6, 2000: "Postergan análisis de reforma tributaria."
[66] El Mercurio, Enero 11, 2001: "Postergan evasión tributaria."
[67] El Mercurio, Marzo 8, 2000: "Senado dará 'fast-track' a evasión tributaria."
[68] El Mercurio, Marzo 13, 2001: "Discrepan sobre rebaja de impuestos personales."

affect small and medium-size business and would create strong incentives to attract private and foreign investments.[69] In the same meeting other representatives of different sectorial business organizations also showed their concerns about the government's proposal. For example, the president of the *Confederación del Comercio Detallista y Turismo* (Rafael Cumsille) also expressed concerns about the effect of the new tax regulation on small businesses and the increasing power of the tax agency.[70] Business interest groups were especially displeased because they considered that the anti-evasion bill was a hidden tax reform:

> En las actuales condiciones el proyecto presenta varios puntos que no están directamente relacionados con la evasión tributaria y que pensamos van dirigidos a cambiar la legislación vigente para lograr una mayor recaudación (Interview with Esteban Alvano, president of the Santiago Chmaber of Commerce, El Mercurio, Marzo 15 2001: "Proyecto contra evasión tributaria puede afectar inversión extranjera.")

The CPC reinforced its presence in the Senate with a vigorous media offensive. Several executive officers of sectorial business associations offered interviews and press conferences in the main newspapers and TV news broadcasters. The CEO of the CPC, Ricardo Ariztia, also offered long-interviews to the main newspapers in Santiago. In those interviews, Ariztia defended the business lobby against the tax reform bill and ratified the high level of business unity in Chile:

> Todos los que creamos, invertimos, tomamos riesgos, tenemos objetivos comunes. [No somos un poder factico], pero nos movemos. Nos movemos. […] Es legitimo que los empresarios planteen ideas políticas que contribuyan al desarrollo del país (interview with Ricardo Ariztia, El Mercurio, Marzo 18, 2001: "El pliego empresarial: la Concertación no cree en el modelo económico").

Ariztia also launched a fierce attack on the government "anti-evasion" bill:

> En el proyecto de evasión de impuestos se aprovechan de incluir por lo menos cuatro artículos que gravan las empresas con mayores costos. Ahí aparece un costo adicional

[69] Informe de la Comisión de Hacienda recaído en el proyecto de ley, en Segundo tramite constitucional, que establece normas para combatir la evasión tributaria. Chile, Senado de la Republica, Boletín No. 2.272-05

[70] Informe de la Comisión de Hacienda recaído en el proyecto de ley, en Segundo tramite constitucional, que establece normas para combatir la evasión tributaria. Chile, Senado de la Republica, Boletín No. 2.272-05

> para la construcción al impedir que las contribuciones de bienes raíces se puedan descontar como gasto del Impuesto a la Renta de Primera categoría; la prohibición de la depreciación acelerada, gravar con IVA los bienes inmuebles con uso mayor a un año. Y los intereses provenientes del crédito externo se gravan con una tasa del 35%. Estos puntos que hemos planteado insistentemente al gobierno no tienen nada que ver con evasión. Es elusión: quitar franquicias tributarias que estaban consideradas al momento que se hizo la inversión. Hay cuestiones que podíamos aceptar, siempre y cuando no nos cambien las reglas de juego en el camino (El Mercurio, Marzo 18, 2001: "El pliego empresarial: la Concertación no cree en el modelo económico").

The same week the industrialists' association released a research study contending that the elimination of tax benefits would negatively affect business sector's profits rate, especially the industrial sector:

> El gremio estima que modificaciones tributarias tales como aplicar el mecanismo de depreciación normal para calcular el impuesto global complementario de los retiros realizados por los socios; eliminar la posibilidad de deducir de los impuestos a pagar por la empresa, las contribuciones de bienes raíces; y gravar con IVA la venta de bienes muebles del activo fijo y otros, generarán una menor rentabilidad en la inversión realizada por los socios y, por tanto, una disminución de su ingreso personal […] La rentabilidad de la inversión que obtiene el socio, experimentará una caída de hasta 2 puntos porcentuales respecto de la que alcanza con la ley vigente y en el caso que la relación deuda/capital aumente la rentabilidad podría ser hasta 4 puntos menor (El Mercurio, Marzo 23, 2001: "Revelan Efecto Negativo de Normas Tributarias")

Interestingly, the week after this media offensive, substantial revisions were introduced to the bill and discussed in the Senate's appropriation committee. Most of these amendments (*indicaciones*) were introduced by business-friendly legislators like Evelyn Matthei, Jovino Novoa, Hosain Sabag and Andres Saldivar.[71] Opposition congressmen were not only interested in delaying the legislative process and postpone the debate to the next legislature, but mainly they wanted to modify the bill according to the business interest groups' concerns.[72]

The revisions were focused on the new functions of the tax agency (e.g. *facultades del director del SII para implementar plataformas web de pago, facultades para devolver impuestos,*

[71] El Mercurio, Marzo 15, 2000: "Avanza tramite de evasión tributaria." El Mercurio, Abril 17, 2001: "Ingresan mas de 50 indicaciones a proyecto de evasión tributaria."
[72] El Mercurio, Marzo 15, 2000: "Ley Anti-evasión no estará lista el 21 de mayo."

control de información bancaria, etc.), the calculation of presumptive income tax, personal income tax exemptions, VAT exemptions, and corporate and personal income tax rates.[73] In particular, revisions were included to the mechanism to calculate the tax benefits for capital depreciation, changes to the real estate tax, the VAT and taxes on the trade of transferable fixed assets.

A careful examination of congressional records provides strong evidence of these changes. The government proposed the elimination of several tax credits, the congress approved most of them but kept tax exemptions for construction sector (for example, tax credit for new buildings). The government also proposed restricting tax exemptions for presumptive income, the congress rejected this provision. The government proposed the elimination of VAT exemptions for the sale of fixed assets, the congress held on exemptions for assets sold four years after purchase. The government proposed to expand the access to bank information, the congress approved restricted access to records (but it did not allow access to records over three years old). Fairfield (2010) calculates that these modifications to the original bill meant 31% revenue loss for the government between 2001 and 2005 (in comparison with the original estimates).

Business leaders not only attacked Lagos' reform within congress. They also ran a very aggressive media campaign against the Anti-Evasion bill. The president of the CPC and SOFOFA offered regular interviews to different newspapers and TV stations between August 2000 and May 2001. In these interviews, business leaders emphasized that the Anti-Evasion bill

[73] Informe de la Comisión de Hacienda recaído en el proyecto de ley, en Segundo tramite constitucional, que establece normas para combatir la evasión tributaria. Chile, Senado de la Republica, Boletín No. 2.272-05

was rather a substantial tax reform and it would actually increase taxes on productive activity. They mainly claimed that the anti-evasion bill was a hidden anti-investment tax reform.[74]

Unlike the Senate, the bill was not modified significantly in the House of Representatives. However, it only passed because the *Concertación* had a majority over the rightist opposition. In the congressional record, the finance minister criticized the rightist opposition and the CPC because they did not support the government‘s bill even after it was modified substantially (in the senate) to satisfy their demands.[75] Ricardo Ariztia responded that the delay in the legislative approval of the bill was responsibility of the government and its subterfuges to introduce covert tax increases into the bill.[76]

At the end of the legislative process, after several amendments, the minister of finance asserted that “las mermas que se originaron por los artículos que se ‘cayeron’ están entre los 15 y 20 millones de dólares, lo que significaría una disminución de 2,5% de la recaudación esperada” (Interview with minister Eyzaguirre, El Mercurio, mayo 17, 2001: Listo para ley proyecto de evasión tributaria.”). The initial target of the tax reform was to increase tax revenues by US$1 billion but, after the “tax war” initiated by the business interest groups (and supported by the rightist opposition), new tax revenue would reach only US$775 million. Business interest groups not only managed to reduce the scope of the reform but also accomplished an important political victory over the most popular and the first socialist president in Chile after the transition to democracy.

[74] La Tercera, January 20, 2001 “Orientaciones para un sistema ideal”
[75] El Mercurio, Mayo 4, 2001: “Despachan proyecto de lucha contra la evasión tributaria.”
[76] El Mercurio, Mayo 18, 2001: “ Proyecto anti-evasión grava con mas impuestos a las empresas.”

4.5. CONCLUDING REMARKS

The Chilean experience is a very good illustration of the factors that explain tax politics in presidential regimes. As I have shown in this chapter, the agenda setters in contemporary Chile face increasing fiscal needs and, independently of their ideological allegiances, are usually in favor of increasing tax revenues in order to extend social spending. New fiscal rules and the volatility of the international prices of cooper have created strong political incentives to reduce tax evasion and raise tax burden on individual and corporations. At the same time, there are historical and ideological reasons to defend and deepen the neoliberal economic model and guarantee a constant flow of domestic and external investments. From a traditional point of view, popular and institutionally strong presidents with appropriate legislative support should be able to implement tax reforms and achieve those policy goals. In that sense, the *Concertación* should not have any problems enacting tax reforms. However, this analysis shows that tax-friendly policy preferences and strong legislative support are not sufficient conditions for the implementation of tax reforms. The feasibility of the reforms also depended of the characteristics of the business interest groups and their patterns of coordination for political action. The qualitative analysis presented in this chapter indicates that the high level of coordination and policy integration of the business interest groups in Chile and the strong links between business and the rightist opposition have created an hostile environment for tax reform in Chile. These factors explain why it has been so difficult to change the tax structure in post-authoritarian Chile.

The empirical evidence presented in this chapter demonstrated that the president had a strong majority in the House of Representatives, but no majority in the Senate, and the business interest groups, centrally represented by the CPC, found in the Senate a fertile environment to effective opposed Lagos' anti-evasion bill. Once the government proposed the bill in late 2000,

the encompassing business association and the industrialists' association initiated an intense campaign to frame public opinion against the anti-evasion bill, used well-established advisory boards to promote several changes to the bill proposal, and participated actively in the discussion in the Senate's Appropriations Committee (where they were political influential and the president had no majority). As a result of this lobbying strategy, the bill was substantially modified to the point that the effective corporate tax rate only increased up to 17% and the personal income tax rate decreased from 45% to 35%.

There are several keys for the success of the business interest groups' lobbying strategy. First, the encompassing business association was able to create a policy consensus among its members, despite the diversity of their interests and the structural change of the Chilean economy after several years of industrial transformation. Different business interests groups were disciplined under a unique ideological flag: they would do anything to avoid populist economic policies like the ones implemented by Salvador Allende and that caused the economic crash in the early 1907s. Second, they made intense use of the institutional and non-institutional channels of policy integration that have been established in post-authoritarian Chile. They have never attempted to isolate the *Concertación* government (like they did with Allende's administration in the 1970s), and they never initiated any direct conflict with the socialist governments. On the contrary, they participated actively in the advisory boards created by the government and kept open doors to direct negotiations with the executive branch of government. Third, the CPC has used its organizational capacity to coordinate different sectorial organizations (as SOFOFA or SONAMI) and execute a consistent and unified lobbying strategy. As I show in this chapter, the CPC was able to keep hierarchical mechanisms of preference aggregation. Indeed, the negotiations with government officers and politicians were always coordinated and lead by the

president of the CPC, the CEO of the CPC, and occasionally, the CEO of SOFOFA. Sectorial business leaders appeared only sporadically to support the efforts of the encompassing business association in congress or simply to frame debates in the mass media. Finally, business interest groups have always counted with strong political support in the Chilean Senate, where rightist parties and coalitions are always predominant as a consequence of the electoral system inherited from the authoritarian regime. Although this factor is less important in explaining tax politics in Chile, there is no doubt that the binomial electoral system serves really well to the business community and its lobbying strategy.

This example also suggests that the agenda-setters' policy preferences may shape the policy-making process, but they may not prevail over business interests if the business community is centrally-coordinated, well integrated to the policy-making process, and also has strong partisan linkages in congress. In this context, central governments may have problems to implement revenue-raising tax policies.

5. COLOMBIA: THE ENDLESS PROCESS OF FISCAL REFORM

Tax reforms are very common in Colombia. Since 1974, every finance minister proposed or implemented changes to the tax structure. Academics, policymakers, and international experts that suggested substantial changes aimed to increase tax revenues, promote tax efficiency, or raise tax equity (Musgrave 1969; Bird, Poterba, and Slemrod 2005). As a result of these reforms, the general tax burden has increased significantly over the past twenty years. However, tax efficiency and equity are still unfulfilled aspirations, and structural problems have not been solved yet.

Several questions rise when we analyze the Colombian case. Why so many reforms? Why is relatively easy to approve tax reforms in Colombia? Why is so difficult to introduce significant changes to the tax structure? What is the role of business interest groups? The theoretical framework and the empirical evidence I have shown in previous chapters provide some good clues to answer these questions.

Tax reforms are quite frequent in Colombia because fiscal deficits (primary and global) have been traditionally large and politicians have had only few incentives to reduce government expenditures. The primary fiscal balance in Colombia has been negative since 1992 (excepting for the short period 2006-2008) and the global fiscal balance (including social security contributions) has been negative since the 1970s. At the same time, public expenditures

skyrocketed as a result of the new political and institutional arrangements created by the 1991 constitution. On one hand, political and fiscal decentralization was intensified. On the other hand, the central government implemented several spending initiatives to compensate economic sectors affected by the economic liberalization and provide new political and social rights. In fact, the central government's current expenditures (as % of the GDP) increased from 6.3% in 1990 to 15% in 2000, and then to 17% in 2010.[77]

In Colombia, there is a constant urgency to increase government revenues, but policy alternatives are rather limited. First of all, anti-inflationary policies prevent governments to use increasing money supply (M1) to fund public expenditures. Second, trade liberalization policies implemented in the early 1990s eliminated tariffs to imports as a source of tax revenues. Third, access to external debt has been very limited for Latin American countries after the 1982 Debt Crisis and the subsequent financial crisis in 1998 and 2008. Finally, the oil production in Colombia barely satisfies domestic needs.

Other alternatives to finance central government's activities are also very limited. For example, the privatization of public companies was a usual policy alternative in the early 1990s (Hernández 2004). In the early 1990s, the government privatized most of the public companies in strategic sectors as electricity generation (ISA, ICEL, EPSA, EEB, CORELCA), mining (CARBOCOL), telecommunications (TELECOM), television broadcasting (INRAVISION), transportation (airports and ports), local utilities, industry (IFI), and numerous banks (*Banco del Comercio, Banco Tequendama, Banco Ganadero, Banco Popular, Banco del Estado, Banco Central Hipotecario*).[78] Consequently, this source of revenue is mostly over because the

[77] Based on Economic Commission for Latin America and the Caribbean –ECLAC- statistical data.
[78] For more details please read Hernandez (2004)

government does not own more assets to sell, and those available cannot be easily sold for political or macroeconomic reasons.[79]

This constant fiscal pressure explains why policymakers are always pursuing new sources of revenues and there have been at least two tax reforms every presidential term since 1974. In this chapter, I will show that Colombian agenda-setters are relatively successful in passing tax reforms through congress, but these reforms are usually partial or insignificant. In fact, some of these tax reforms are usually known as "mini-reforms." I also show that these reforms were always marginal precisely because none of them were actually threatening for business interests. Business community has been always able to block or soften any proposals aimed to actually increase their tax burden.

This chapter is organized as follows. First, I analyze the evolution of taxation in Colombia between 1990 and 2010 (my dependent variable). I pay special attention to the evolution of value-added, personal income, and corporate income taxes. I also present briefly every tax reform adopted since 1990. Second, I describe the policy preferences of policymakers (agenda-setters). Third, I describe the business interests groups in Colombia between 1990 and 2010. In this section, I focus on three aspects: pattern of business organization (centralized vs. decentralized), degree of policy integration, and market power. This section briefly describes the main business associations, conglomerates, and firms that participate in policy discussions. Fourth, I illustrate the political game of tax reform by describing the policymaking process that resulted in the approval of the tax reform in 1998. This section constitutes a process-tracing exercise aimed to explain the causal mechanisms presented in the theoretical chapter. Finally, I present some concluding remarks.

[79] For example, presidents Uribe and Santos have found a lot of problems to privatize or partially sell public oil and energy companies. El Tiempo, Marzo 28, 2014: "Consejo de Estado suspende privatizacion de Isagen."

5.1.TAX REVENUE IN COLOMBIA 1990-2010

Figure 5-1 shows the evolution of tax revenue collection in Colombia between 1990 and 2010 (as a percentage of the total government expenditures). We can observe two significant trends. There was a large decline of tax revenue collection from 1990 to 1999. In this period, tax revenues decreased from 110% to 60% (as % of the central government's total expenditures). After the economic crisis in 1998-1999, tax revenue collection has increased systematically (except in 2008 as a consequence of the global recession).

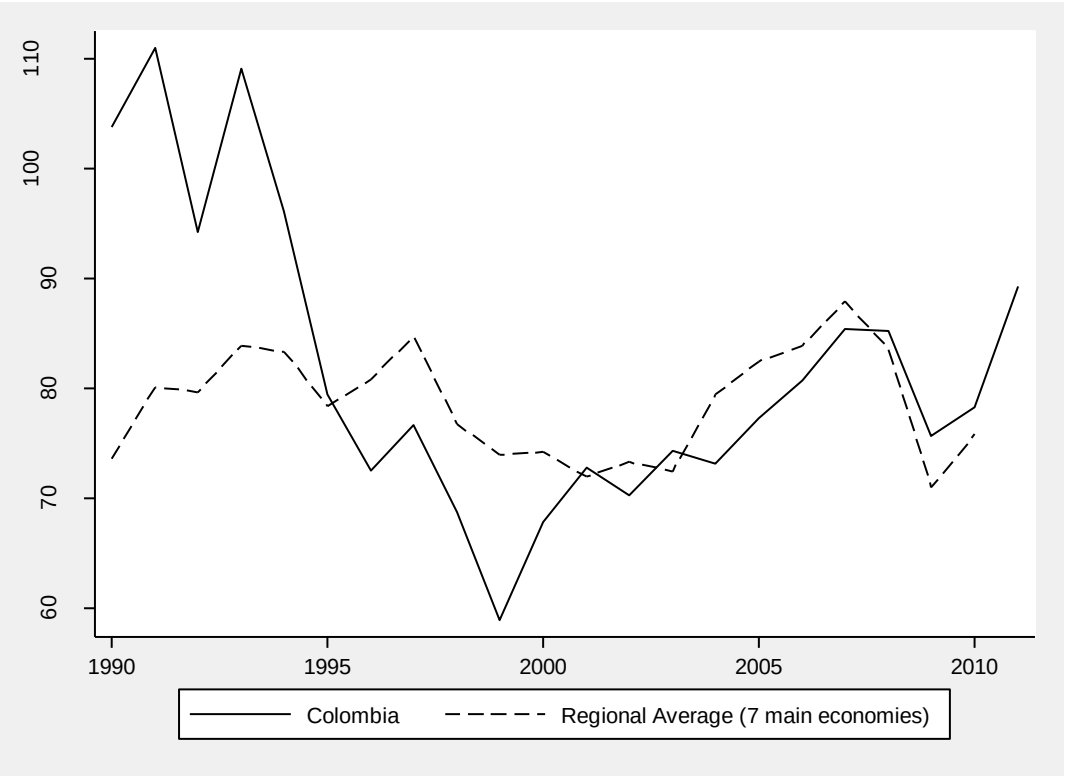


Figure 5-1 Tax Revenue in Colombia 1990-2011 (% Total Expenditures)

We could also observe that, before 1998, tax revenue collection in Colombia did not follow the same pattern followed by other countries in the region. While the 7 main economies of the region increased their tax revenues in the 1990s, tax revenues in Colombia sharply declined. Such decline was the consequence of the loss of revenues from tariffs and taxes on external trade. The average tariff rate was reduced from 83% in 1985 (one of the highest tariffs in the region) to 13% in 1995 (Garay Salamanca 1998). Consequently, the economic liberalization policy had an unusually large impact on tax revenues, not only because tariffs were drastically reduced, but also because other tax rates were also reduced to attract foreign investments. For example, corporate tax rate was reduced from 40% in 1985 to 35% in 1995 and the personal income tax rate was reduced from 49% in 1985 to 35% in 1995. In the 1990s, the government was unable to replace such losses with other tax revenues at the same pace that they were reducing rates. All the increases in the value-added tax rates were not enough to stop the massive loss of tax revenues provoked by the economic liberalization. Figure 5-1 shows that Colombia only reached the regional average level of tax revenue collection in the early 2000s.

Now, let us observe the composition of central government's tax revenues. The figure 5-2 shows the evolution of direct and indirect taxation in Colombia between 1990 and 2010. It shows that there was a substantial trade-off between direct and indirect taxation in the past two decades. Again, we can identify two clear trends in the evolution of tax revenues in Colombia. While direct tax revenue collection decreased from 47% in 1991 to about 38% in 1996 (as % of the total tax revenues), the indirect tax revenue collection increased from 50% to about 61% (as % of the total tax revenues) in the same period. This trend was reversed in 1998, when the effects of the global economic crisis required the government to increase personal and corporate tax income rates, and also to create new direct taxes. Consequently, the gap between direct and

indirect taxation has become smaller. By 2010, the total tax revenues in Colombia were divided almost in half between direct and indirect taxation (see Figure 5-2).

Figure 5-2 Tax Revenue by Type, Colombia 1990-2011 (% Total Tax Revenue)

On the other hand, the evolution of tax rates shows two different patterns. On one hand, figure 5-3 shows that the marginal corporate tax rate remained almost constant since 1990 at 30% of net profits, it increased to 35% of net profits in 1997, then again in 2003 to 38.5% in 2003 (to pay for the president Uribe's national security strategy)[80], and it was finally reduced to 33% in 2006 for Uribe's second term. On the other hand, the value-added tax rate increased

[80] El Tiempo, Marzo 30, 2006: "Uribe anuncia nuevo cobro de impuesto de Guerra."

steadily since the late 1980s to reach a 16% rate in 1996 and then it remained constant for the rest of the period.

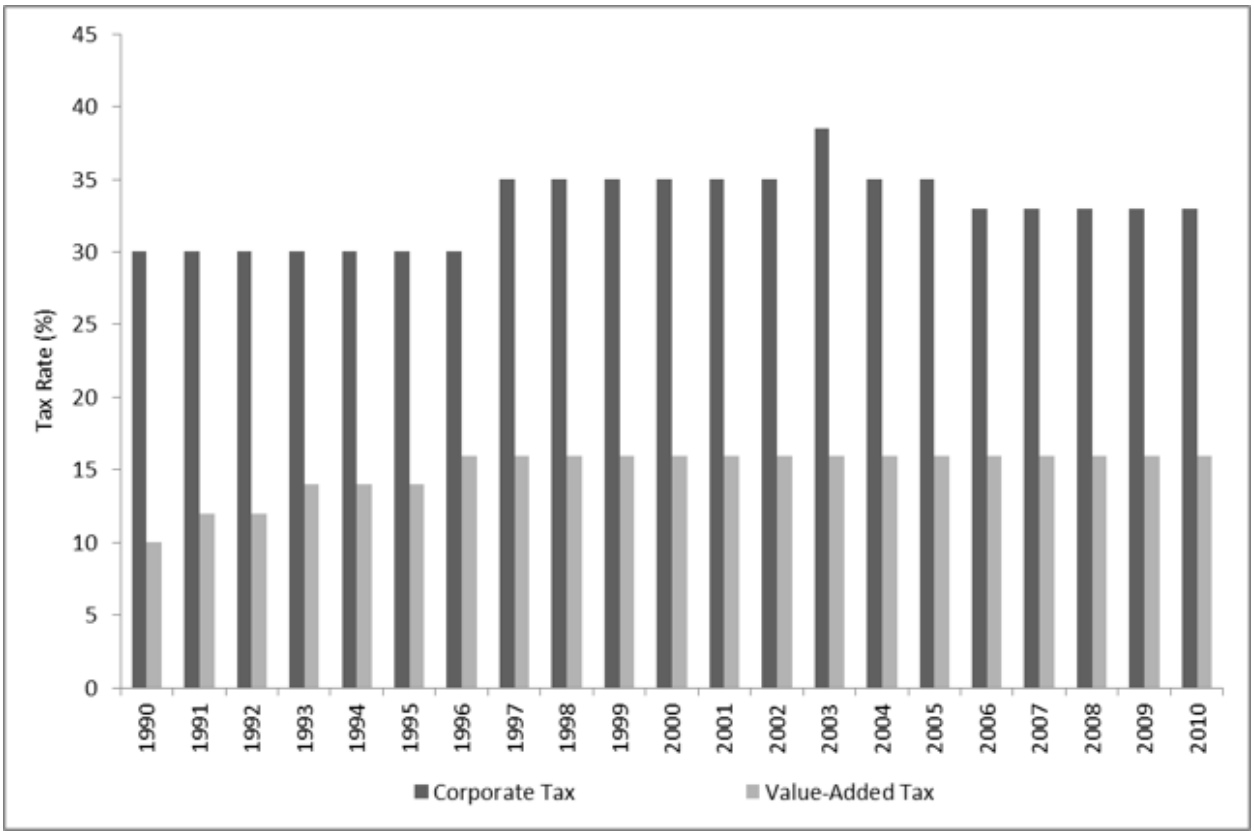


Figure 5-3 Corporate Income and Value-Added Tax Rates, Latin America 1990-2010

These adjustments seem to suggest that tax pressure was higher on consumers during the worst years of the structural adjustment, and then central government has put more pressure on corporations and individual as the neoliberal economic model revealed some significant fractures in the late 1990s. However, empirical data shows that this appreciation is actually incorrect. On one hand, corporate tax rates increased after 1997, but all the tax reforms implemented after the financial crisis in 1998 introduced numerous tax loopholes and credits that mostly benefit corporations. On the other hand, the value-added tax rate has remained constant since 1997, but

its tax base has been extended to goods and services that were not traditionally subject of taxes like food, medicine, or books. Additionally, the Colombian government has significantly improved its administrative capacity to collect the VAT and its enforcement capacity to punish tax evasion.[81]

Therefore, the gap between direct and indirect tax collection seems to be smaller not as a result of serious improvements in tax efficiency and fairness, but more as a result of better macroeconomic conditions (which always have a positive effect on tax revenues) and an increasing (but veiled) pressure on consumers and the middle class.

A detailed description of the numerous tax reforms implanted in the past two decades provides strong evidence for the argument above. Table 5-1 describes with great details the most recently approved tax reforms in Colombia between 1990 and 2010. In the past twenty years, all the presidents in Colombia implemented at least two tax reforms during their terms in office. In other words, there is a tax reform every two years.

However, none of these reforms could be classified as a structural or efficiency-oriented tax reform. Most of them only implemented small modifications to the tax system: new surtaxes, small changes to tax rates, marginal extensions of the tax bases, new distortionary taxes (e.g. financial transactions tax), or minimal administrative reforms. Some scholars defined these minor reforms as "piecemeal" or "quick-fix" tax reforms that are aimed to increase tax revenues only in the short-run (Olivera, Pachon, and Perry 2010).

The evolution of the value-added tax provides a good illustration of these "quick-fix" reforms. The value-added tax (VAT) was adopted in Colombia in the 1970s to pay for subnational governments' activities. It was usually considered as a minor tax. However, after the

[81] Portafolio, Junio 18, 2014: "No creo que la reforma tributaria sea tan urgente."

economic liberalization, the VAT has become one of the most important sources of tax revenue for the Colombian government. For this reason, it is not surprising that most of the tax reforms adopted in the past two decades were aimed to modify (usually increase) the value-added tax rate or extend its tax base. In fact, the massive loss of tax revenues provoked by the drastic tariff reduction was mainly substituted with continuous increases in the value-added tax rate.

Table 5-1 Recent Tax Reforms in Colombia

Year	Administration	Law	Modification
1990	Gaviria	Law 49 1990	VAT basic rate increased from 10 to 12 % Tax exemptions reduced. Administrative Reform
1992	Gaviria	Law 6 1992	VAT rate increased from 12 to 14 % Some goods excluded from VAT (i.e. basic consumer basket and some agricultural equipment not produced in the country). Income tax rate increased to 37.5 percent. VAT on capital goods made deductible (shift from income to consumption VAT).
1995	Samper	Law 223 1995	Income tax rate reduced to 35 percent. VAT rate increased to 16 percent. Reduced exemptions in income tax and VAT. Strengthened the minimum presumptive income tax regime. Personal enterprise considered a limited liability company. Tax treatment of commercial leasing defined. Capital losses deduction against the capital gains tax.
1997	Samper	Law 383/1997	Foreign investment and academic research incentives created.
		Decree 81/1997	External financing tax created Stamp tax increased from 0.5 to 1 %
1998	Pastrana	Law 488/1998	Broadening Corporate Income Tax base.
		Decree 2331/1998	Broadening VAT base. VAT tax rate reduced to 15% Financial transactions tax rate created at 2 per thousand.
2000	Pastrana	Law 633/2000	Broadening VAT base Financial transactions tax rate increased from 2 to 3 per thousand.
2002	Uribe	Decree 838/2002	VAT Expansion, Corporate Income Tax Increase, Other Taxes Net wealth tax created: 1.2% of patrimony once (“War Tax”)
		Law 788/ 2002	Income tax rate increased to 38.5 % Broadening VAT base.

			Controls to evasion established. New exemptions for specific economic activities (loopholes)
2003	Uribe	Law 863/2003	Financial transactions tax rate increased from 3 to 4 per thousand. Net wealth tax re-established (“War Tax II”) Deductions to investment established (loopholes)
2005	Uribe	Law 1004/ 2005	Income tax rate reduced to 15% to firms in free trade zones.
2006	Uribe	Law 1111\2006	Decreased Income Tax rates from 35% in 2006 to 34% in 2007 and to 33% in 2008. Eliminated dividend tax on non-residents. Financial transaction tax permanent
2012	Santos	Law 1607/2012	Reduced Corporate Income Tax rate from 33% to 25% Reduced Capital Gains Tax rate from 33% to 10%. Introduced a new 8% income tax on equity (“fairness tax”) Modified the various rates for VAT to three: 0%,5% and 16%. Broadening VAT base.

Source: PWC Corporate Taxes, Worldwide Summary; Scartascini/Hallerberg, Lora, Mahon (2004)

The VAT rate was raised from 10% to 12% in 1990, from 12% to 14% in 1992, and raised again from 14% to 16% in 1995. However, the most important changes were focused on the lists of items (goods and services) that are subject to VAT. Vehicles, communications, hotels, and air transportation are subject to VAT since 1990; alcoholic beverages (except beer) since 1992; cigarettes since 2000; beer since 2003 (with preferential rates); and security services since 2012. The list of non-taxable items is getting shorter and currently only includes food, raw materials for construction, medical services, public transportation, or public utilities.

Obviously, the policy debate is focused on which items should be subject to VAT, which ones should not, and the general scheme of preferential rates. Unsurprisingly, sectorial-oriented business associations are usually very active in lobbying for VAT exemptions to their products or the sectors that provide them with raw materials.

Table 5-1 also provides details about the most recent changes adopted for personal income taxation between 1990 and 2010. First of all, we can observe that no major changes were introduced to personal income tax before 1998. Tax reforms in 1990, 1992, and 1995 adopted

minimal changes in the tax rate scale, and established some tax credits for donations and investment in strategic sectors. The maximum personal income tax rate -there is a scale that defines tax rates according to different levels of income - was raised by president Gaviria from 35% to 37.5% in 1992. President Samper reversed this increase in 1995.

Major changes were adopted in the late 1990s and the 2000s. In 1998, the personal income tax base was extended and several exemptions and deductions were eliminated. The tax rate was increased to 38.5% in 2002 and new controls to evasion were adopted. Most of these changes were adopted as part of the austerity policy implemented by the government after the global financial crisis in 1998 (Sanchez and Espinosa 2005). The limited access to the international financial markets, the deterioration of social conditions, and the growing unemployment rates demanded major fiscal efforts that could not being afforded by lower and middle classes only. Under these circumstances, increasing direct taxation seemed unavoidable and conservative governments responded consistently.

However, this new corporate tax rate did not last for very long. In 2003, president Uribe introduced tax deductions for investments in "strategic" sectors and numerous tax exemptions were also approved. In 2006, personal income tax rate was reduced to 35% and congress approved a gradual rate reduction from 35% in 2006 to 33% in 2008. In other words, the government put some temporary pressure on personal (and corporate) income taxation for economic recovery purposes, and then this tax effort was gradually reduced once the crisis was over and the country (as most of its neighbors) entered into a new, almost unexpected path of economic prosperity. This additional tax effort also contributed to finance the national security strategy aimed to military defeat leftist guerrillas.

In 2012, the president Juan M. Santos implemented a tax reform that reduced personal income rates from 33% to 25% and created an additional income tax (*Impuesto Mínimo Alternativo Nacional*) for taxpayers that receive net salaries greater than US$1,800/month. This new scheme seeks to reduce income inequality indicators.

Personal income and corporate income taxes are traditionally interconnected in the Colombian tax system. Corporate tax rate was set at 30% of net profits in 1986 and it was not modified during the process of economic liberalization. However, several modifications have been adopted for the corporate income tax base. For example, several tax deductions were adopted for donations and investments in scientific research in 1992. In 1995, tax exemptions were created for foreign investment funds, non-profit organizations, educational institutions, religious organizations, and political parties (!). Other changes to the corporate tax rate scale (ranges of taxable profits) were also adopted in 1992 and 1995.

In 1998, as part of an austerity plan, corporate income tax base was extended and maximum rate was raised from 30% to 35%. This tax reform included generous tax deductions for "job creators." In 2002, president Alvaro Uribe implemented a net wealth tax of 1.2% on individual property to be paid only once and that was aimed to finance his war on leftist guerillas. Uribe also increased corporate income tax rate to 38.5% of net profits, but established numerous tax exemptions for specific economic sector (i.e. palm oil production), foreign direct investment, and free trade zones. Once he was reelected for his second term in office, corporate tax rate was reduced to 33% and tax exemptions and credits were definitively included as part of the tax system. In 2012, president Santos reduced corporate tax rate from 33% to 25%.

These substantial reductions in corporate income taxes have been compensated with the adoption of new, temporary taxes as the financial transaction tax (1998), the so-called "war tax"

(2002), and the so-called "equity tax" (2012). The tax on financial transactions (2 per thousand for every transaction) was adopted as a temporary tax in 1998, increased to 4 per thousand in 2003, and adopted permanently in 2006. The net wealth tax or "war tax" (1.2% of patrimony) was created as one-year temporary tax in 2002 and adopted again in 2003. The "equity tax" was adopted in 2012 as a temporary tax to finance new social programs between 2013 and 2015. All of these taxes were presented to the public opinion as distributive direct taxes aimed to charge corporations and upper/upper-middle class. However, they have significant anti-redistributive effects, because they have a strong impact on small firms and the middle class.

In summary, a general analysis of taxation in Colombia suggests that recent tax reforms have introduced significant policy bias towards indirect taxation and have also created significant distortions in personal income and corporate income taxation. The main consequence of this policy bias is that governments have put a lot more pressure on lower and middle classes, and have systematically reduced tax pressure on upper classes and corporations. In other words, the Colombian tax system is not only inefficient, but also reinforces income inequality.

In the following sections, I illustrate how this policy bias is the result of the interaction between taxer-type agenda-setters and weakly coordinated business interest groups. As predicted in the theory section, the combination of these two explains why tax reforms are quite frequent in Colombia, they have never been structural, and they mostly benefit business interests over consumer interests.

5.2. AGENDA SETTERS' TAX POLICY PREFERENCES

As argued in the theoretical chapter, the study of tax policy change in Latin America must start by analyzing the agenda-setters' tax policy preferences. They are first-movers in the policymaking process. Table 5-2 presents a detailed description of the Colombian presidents' fiscal policy preferences and their partisan powers between 1990 and 2010. In brief, we could classify all the Colombian presidents in the past two decades as *taxer-type* agenda-setters. In other words, no matter their partisan allegiances or ideological agendas, Colombian presidents usually prefer to increase taxes rather than reduce government spending. As one of the minister of the cabinet explains, these particular policy preferences are historically, rather than contextually determined:

> [En Colombia] hay una asimetría estructural […] con la constitución de 1991, lo que paso en el país es que unas demandas por mayor gasto público, unas demandas que estaban escondidas, se materializaron, se hicieron reales. Y eso es fácil. Lo difícil es la parte de los ingresos. […] Se estaba multiplicando el gasto publico por dos, y eso llevo necesariamente a aumentar los ingresos. Y también es difícil aumentar los impuestos sobre las personas y las empresas […] Entonces el país subió muy rápido los gastos y no es fácil aumentar los ingresos, por eso cada presidente lo intenta poco a poco […] entonces cada coyuntura viene con un impuesto transitorio que se vuelve permanente. Todo el mundo tiene una idea de lo que se debe hacer […] (Interview with Alejandro Gaviria, health minister, July 2014).

In fact, empirical evidence suggests that fiscal policy preferences are independent from ideological or partisan cleavages. Most recent presidents in Colombia are (or have been) affiliated to two traditional parties: liberal and conservative. Cesar Gaviria (1990-1994), Ernesto Samper (1994-1998), and Juan Manuel Santos (2010-2014) are important figures within the Liberal Party. Meanwhile, Andres Pastrana (1998-2002) and Alvaro Uribe (2002-2010) are leaders of the Conservative Party. The ideological distinction between both parties (Liberal and Conservative) was relative clear before the 1950s, but it practically disappeared after three

decades of consociational agreement between both parties –the so-called *Frente Nacional* (1958-1974) –, the exclusion and physical extermination of leftist parties (e.g. *Union Patriotica*) in the 1980s (Hartlyn 1993).

Table 5-2 President's Ideology and Policy Preferences, Colombia 1990-2014

Period	President	Party	Party Ideology	Tax Policy Preferences	Partisan Powers
1990-1994	Cesar Gaviria	Liberal Party	Center Right	Taxer	Fairly Strong
1994-1998	Ernesto Samper	Liberal Party	Center-Right	Taxer	Fairly Strong
1998-2002	Andres Pastrana	Conservative	Right	Taxer	Weak
2002-2006	Alvaro Uribe I	Primero Colombia	Right	Taxer	Strong
2006-2010	Alvaro Uribe II	Primero Colombia	Right	Taxer	Strong
2010-2014	Juan M. Santos	Unidad Nacional	Center Right	Taxer	Strong

Consequently, ideological differences seem to be minimal after 1990. On one hand, both parties are closer to the right or center-right in the traditional ideological scale. On the other hand, party fragmentation in recent years provides weak incentives for party-level ideological differentiation (Dargent and Muñoz 2011).

Traditional political economy scholars suggest that rightist parties are more prone to fiscal discipline, and more willing to reduce expenditures and reduce taxes (Alesina and Roubini 1992; Alesina and Rosenthal 1995). However, this is not the case for the right in Colombia. Fiscal conservatism is not an essential part of the rightist political discourse or its policy vision, especially after the implementation of the economic liberalization reforms in the 1990s. On one hand, there are not political incentives to praise fiscal conservatism because there are not challengers with real chances of getting elected (they are minority parties or they were physically

eliminated in the 1980s). On the other hand, Colombian rightist politicians were able to arrogate to themselves a leadership role in the adoption of social programs as large-scale housing projects in the 1970s and 1980s, or economic assistance programs for poor families in the 2000s (Baez et al. 2012; González 2011).

In summary, rightist presidents in Colombia are not necessarily fiscally conservative. In context of fiscal stress, they usually prefer to increase taxes rather than adopt radical programs of spending reduction.

This does mean that their fiscal preferences are equal. In fact, one can distinguish among them by their preferences about taxation. Again, all of them prefer raising revenues as the best fiscal-reduction policy tool, but some of them are more concerned about tax efficiency while others are worried about equity. The first group is more concerned about the effect of taxation on productivity and competitiveness. For example, in 2012 the former president Alvaro Uribe asserted the principles of his model of tax reform:

> La seguridad social y la parafiscalidad en nuestro medio son costosas pero equitativas, la mayor parte de las cargas están en cabeza del empresario. También, para no afectarlas, nuestro Gobierno introdujo incentivos a la inversión, que aliviaban el ensanche productivo sin desmontar obligaciones sociales. […] No olvidemos: la promoción de inversión, que ha sido uno de nuestros postulados, tiene que convertirse en una libertad incluyente (Alvaro Uribe's speech at his party's national convention, October 28, 2012).

From this perspective, tax reforms are never neglected because they were necessary to finance strategic infrastructure projects, the war on terrorism, or social programs to alleviate poverty. However, the goals of the tax reforms should be always consistent with the economic principle of promoting and protecting domestic and foreign investment. Consequently, the tax reforms proposed by the first groups are usually focused on reducing direct taxes and collect more revenues from indirect taxes.

On the other hand, the second group is more concerned about the effects of taxation on inequality (at least, they frame their attempts to reform the tax structure as policies to reduce inequality). The 2012 tax reform is the most recent example of this kind of public policy rationale:

> Cuando se habla de reforma tributaria, la gente tiembla porque piensa automáticamente que le van a subir los impuestos. En este caso no se trata de esto. Nuestra economía, por fortuna, está creciendo, estamos generando empleo, y no necesitamos tramitar una reforma para aumentar los ingresos del país. […]¿Qué buscamos con la reforma entonces? Pues la respuesta es muy clara y muy contundente: con esta reforma buscamos que haya más equidad y que se puedan crear más empleos dignos y estables. […]. ¿Qué queremos? Que paguen menos los que ganan menos. Y que paguen más los que ganan más. ¡Así se construye la equidad! Eso es lo queremos hacer con esta reforma. […] Es mejor tener una tarifa más baja, que la gente pague efectivamente, a tener una tarifa que sea tan alta que sirva de estímulo para que las personas busquen la forma de no pagarlas (Alocución del Presidente Juan Manuel Santos sobre el Presupuesto General de la Nación y el Proyecto de Reforma Tributaria, October 23, 2013.)

Consequently, the tax reforms proposed by the second group seek to reduce the negative impact of indirect taxation on redistribution and collect more direct taxes.

5.3. BUSINESS INTEREST GROUPS IN COLOMBIA

As discussed in the theoretical framework, the first source of business political influence is economic diversification. Scholars on business politics have demonstrated that business interest are usually more influential as the domestic economy depends more on their performance and the fluidity of their investments. In fact, theory predicts that business interests groups will be more influential if domestic economy is less diversified. The large-N analysis presented in chapter 3 evaluated this claim by calculating a country-level index of economic diversification measured as the total share in the national production of three largest industrial sectors. The index ranges

from zero to 100 percent. A value closer to zero percent means that the national production is completely diversified, while a value closer to 100 percent means that national production is highly concentrated in few sectors. This index indicates that business interest groups are more powerful as the national production is more concentrated in only some few sectors because the stability of the economy (and the political system) depends on them. Figure 5-4 shows the evolution of the market power index in Colombia over the last two decades.

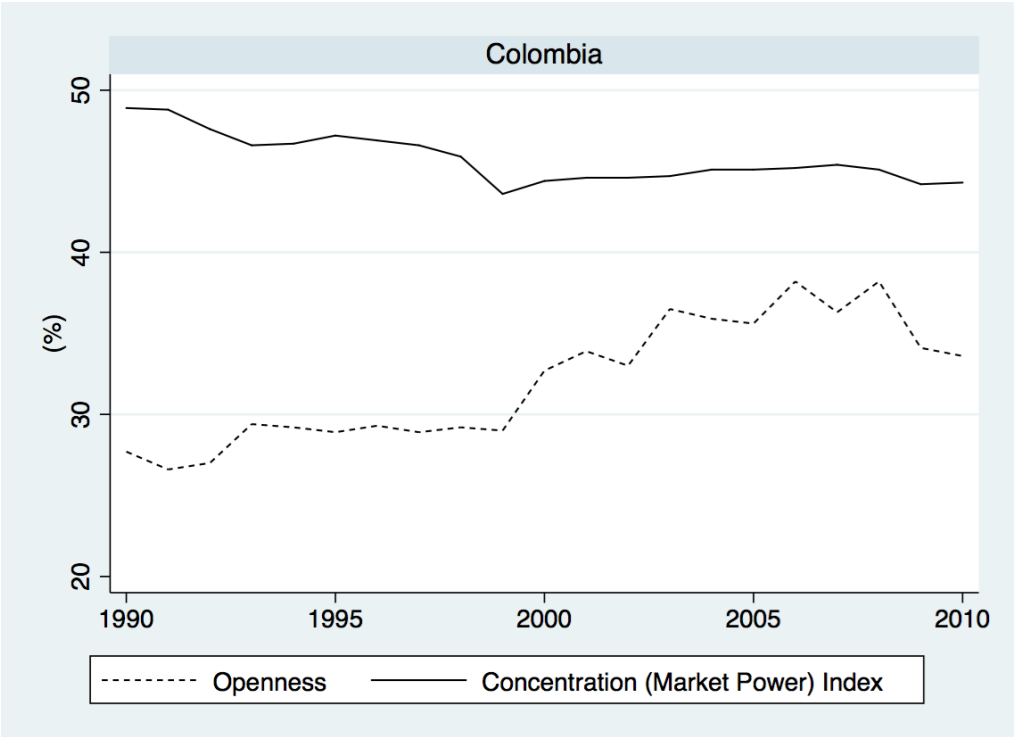


Figure 5-4 Business Market Leverage, Colombia 1990-2010

Economic openness increased substantially, especially in the 2000s when economic liberalization was consolidated and the government made important efforts to increase external trade to other countries in the region, China, and the United States (Ramírez 2005). However, higher levels of trade openness did not translate into higher levels of diversification. Figure 5-4

shows that economic diversification increased in the 1990s (concentration index decreased substantially between 1990 and 2000) but such process stopped in the 2000s. In fact, there was a small increase in the level of concentration of the economic activities. Thus, while the Colombian economy became more open to external trade, the domestic industrial structure remained quite concentrated. In other words, business community adapted quite well to the challenges of economic liberalization and only some few new actors entered to the domestic market. Economic liberalization did not translate into industrial transformation. It only caused a significant process of adaptation to the firm and industry level (Misas 2002; Garay 1998; Isaza 2005; Jaramillo 2012; Jaramillo and Parra 2012). More than industrial diversification, we witnessed a complex process of ownership transformation.

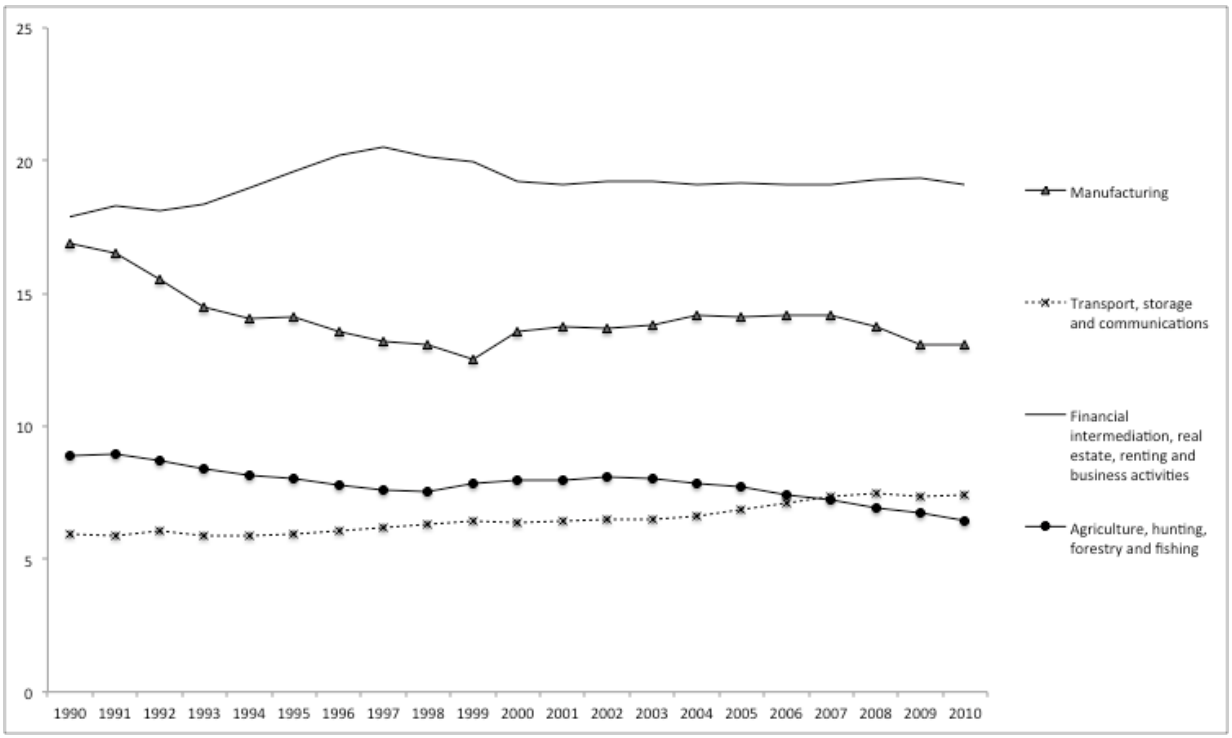


Figure 5-5 Economic Structure, Colombia 1990-2010

Figure 5-5 shows the main characteristics of this process of business adaption. In the early 1990s, manufacturing sector suffered the impact of economic liberalization and decreased its participation in the domestic output. However, the participation of manufacturing industries in the national output increased and stabilized in the 2000s. Unlike the Chilean case, economic liberalization did not cause deindustrialization. In fact, liberalization had worst effects on the agricultural sector. Figure 5-5 also shows that, after 20 years of neoliberal policies, the relative weight of agriculture in the domestic output has decreased substantially from about 10% of the GDP to about 6% of the GDP.

Figure 5-5 also suggests that services sector (transportation, communications, etc.) has filled up the place left by the agricultural sector. Thus, traditional industries as coffee or rice crops lost relative weight regarding new industries like mobile communications and entertaining. In fact, figure 5-5 shows that the economic liberalization process was very beneficial for the financial sector. Its participation in the domestic output increased substantially in the 1990s and the sector consolidated itself as the main industrial sector in the Colombian economy in the 2000s. Not surprisingly, the most important economic actors in Colombia (economic conglomerates) focus their main operations in the banking sector (Guevara 2003).

The empirical evidence presented in this section suggests that business interest groups in Colombia have strong market power because the process of industrial diversification was rather weak. Industrial production is not only weakly diversified but also there was not a significant change in the configuration of the industrial structure. Consequently, business interest groups keep significant leverage in policymaking because, given the industrial structure I just described, their disinvestment threats are still credible. However, given the extension of the process of

integration to the global market, the process of diversification of the economic structure continues and business market leverage continues declining over time.

Business organizational features are the second factor that enables business interest groups to be politically influential. Unlike business interest groups in Chile, the level of business coordination and policy integration in Colombia is rather weak. There is an economy-wide encompassing association that represents the largest sectorial business associations and it plays a role in the policy-making arena, however, its influence on public opinion and policymakers is limited. Unlike its Chilean counterpart, the Colombian encompassing business association is institutionally weak and its members are not disciplined in all instances. Consequently, the encompassing business association's political action is not consistently influential and decisive for tax policy-making purposes. In words of an academic and well-experienced technocrat:

> Colombia no es Guatemala donde básicamente el sector privado dice que impuestos van y que impuestos no van. Yo creo que aquí hay cierta autonomía del poder ejecutivo. Ellos tienen su poder de lobby con ciertos congresistas. Tienen algunos congresistas que controlan. Por ejemplo, el sector financiero es muy exitoso. Pero hoy en día, […] los gremios son activos. Los gremios saben que ellos pueden ganar algunas batallas y perder otras. Ellos tienen una visión mas estratégica en el sentido de que saben que mayores impuestos son inevitables. Y que cada año esta pelea esta abierta. Por ejemplo, la ANDI ha perdido mucha importancia. La ANDI es decadente. Mientras otros grupos como las empresas prestadoras de servicios se han vuelto muy exitosos (Interview with Alejandro Gaviria, health minister, July 2011).

Let us start with a brief description of the business organization model in Colombia. Business interests in Colombia are organized around one economy-wide encompassing association, numerous sector-oriented associations, some few economic conglomerates, and some few lobbying firms. The *Consejo Gremial Nacional (CGN)* is the economy-wide encompassing business association. It was created in 1993 to defend business interests during the peak of the process of economic liberalization. The change of the domestic economic model had a substantial effect not only on the structure of the economy but also on the structure of business

organization. Business associations (*gremios*) lost substantial subsidies and privileges granted to them during the protectionist era and their access to public funds is increasingly more difficult. These negative externalities of the economic liberalization seemed to provide strong incentives for business unity and coordination.

The CGN currently represents the most influential sector-oriented business associations in the country (see table 6-2 under sector-oriented organizations) and about 60% of the domestic industrial production. The members of its executive board actively participate in the most important policy making forums and boards and they are important figures for public policy discussions. For example, the former CGN's executive-director – Luis Carlos Villegas- is one of the most important figures in the domestic political arena; ha has represented business sector in several peace negotiation talks and was appointed as ambassador to the United States in 2013. In summary, the CGN represents business interests and has an important role in the policymaking arena.[82]

However, the CGN's organizational structure is quite weak, it does not have strong institutional linkages with government agencies (with some exceptions), and it does not have real capacity to enforce any decisions among its associates. For example, the CGN does not have its own office or building. Its headquarters are located in a small office at the ANDI (National Industry Association) headquarters in Bogota. A president and a vice-president constitute the CGN's board of directors, and they operate with reduced-size staff that is actually hired by (and respond to) sector-oriented associations (in general, this staff belongs to the ANDI or SAC's regular staff). The CGN's president lead a coordination committee integrated by the presidents of all affiliated sector-oriented business organizations (about 21 people). All the decisions made by

[82] Interviews with Alberto Echavarria, Marleny Garcia, Roberto Junguito, Eduardo Saenz, Dario Restrepo, Salomon Kalmanovitz. Please see Appendix C for more details.

this coordination committee should be consensual and then implemented by five technical committees: economic, legal affairs, international trade, environment, transportation, and infrastructure. These technical committees are not actually part of the GNC. They are "virtual" committees run by top executives from sector-oriented associations. For example, the National Industry Association (ANDI) administrates the economic committee, the National Association of Exporters (*Asociación Nacional de Comercio Exterior – ANALDEX*) administrates the international trade, and the National Chamber of Infrastructure (*Cámara Colombiana de la Infraestructura - CCI*) administrates the infrastructure committee.

Any decisions made by the CGN's coordination committee are consensual but non-enforceable. The affiliated members can actually make decisions different from the ones proposed by the coordination committee and they would not be disciplined. In other words, the CGN works as a coordination mechanism to influence public opinion, but it is has not real power for policy-making purposes. Such power belongs to some of the sector-oriented associations.[83]

Consequently, the CGN depends entirely on the financial support and operational capacity provided by its affiliated members. Sector-oriented business organizations affiliated to the CGN do not only provide operational capacity, resources, and technical assistance, but also access to institutional and informal decision-making instances.

The CGN does not have real capacity to operate independently; it does not have its own technical or political staff. It can only coordinate its affiliated members' political action and provide a "brand" of business unity to support such political action. The CGN's affiliated organizations are better organized, better staffed, and better endowed for political influence

[83] Interview with top-executives from ANDI, ASOBANCARIA, ANDESCO, and CCI.

activities. In other words, sector-oriented business associations are more powerful than the economy-wide business association.[84]

This particular institutional arrangement has strong consequences for business political influence. On one hand, the CGN can undertake actions to frame public opinion about some issues, but it does not have real operational capacity to undertake any complex political maneuver (as lobbying or making financial contributions to political campaigns). Top executives from sector-oriented associations usually undertake these political operations.

Thus, the CGN's president promotes issues in the media and probably talks (formally and informally) with high-level officials in the executive and the legislative branches of government. However, it is really unusual to see the president of the CGN around congress. On the contrary, mid-level executives from sector-oriented business associations regularly attend hearings at the economic legislative committees and visit individual legislators at their offices. They are an active part of the congressional environment.[85]

On the other hand, the CGN's decisions are fruitful only if there is a consensus among sector-oriented business association about the policy issues under discussion. Otherwise, every sector-oriented association will display its own strategies and political influence activities. The CGN does not have any effective forcible instrument to impose paths of action or to discipline defectors. On one hand, membership to the CGN and financial contributions to the organization are strictly voluntary. On the other hand, the CGN get financial contribution only from sector-oriented associations, while sector-oriented business associations attracted large financial contributions directly from affiliated firms. Thus, the CGN depends economically on the status of its relationships with sector-oriented business association.

[84] Information based on fieldwork notes and interviews with top-executives from ANDI and Fedepalma.
[85] Interview top executive from ANDI. Roberto Junguito and Eduardo Saenz also made similar points.

The relationship between business associations and economic conglomerates is a second source of institutional weakness. Table 5.3 lists the main five economic conglomerates in Colombia. The *Ardilla-Lule* group consists of several firms operating in the manufacturing and media industries. The *Santo Domingo* group focuses its activities on media and financial holdings. The *Sarmiento-Ángulo* group concentrates several firms in the banking and construction sectors. The *Sindicato Antioqueño* group consists of several firms operating in the manufacturing sector. Several insurance companies integrate the *Bolivar* group.

Similar to the Chilean case, the emergence of economic conglomerates is one of the most important transformations of the Colombian economy after the economic liberalization (Garay Salamanca 1998; Peres 1998; Misas 2002). They not only displaced sector-oriented associations as the dominant actors in the policy-making arena, but they also have control over larger portions of domestic production and external trade. At the same time, economic conglomerates gained control over sector-oriented business associations (Rettberg 2005). Given the size of the economic conglomerates, they are able to make large financial contributions to the sector-oriented business associations and such contributions have granted them control over executive boards and decision-making instances. Consequently, the economic conglomerates are strong veto players within the sector-oriented business associations (and consequently for the economy-wide encompassing business association).

Table 5-3 Business Organizations, Economic Conglomerates, and Lobbying Firms in Colombia

	Year	*Main Economic Activity*
ENCOMPASSING ORGANIZATIONS		
Consejo Gremial Nacional	1993	Encompassing
SECTOR-ORIENTED ORGANIZATIONS		
Asociación Nacional de Industriales (ANDI)	1944	Industry
Sociedad de Agricultores de Colombia (SAC)	1871	Agriculture
Cámara Colombiana de Infraestructura (CCI)	2003	Infraestructure
Asociación Bancaria y de Entidades Financieras de Colombia (ASOBANCARIA)	1936	Banking
Federación de Aseguradores Colombianos (FEDEGAN)	1963	Cattle producers
Federación Nacional de Comerciantes (FENALCO)	1945	Retail
Asociación Nacional de Comercio Exterior (ANALDEX)	1971	International Trade
Federación Nacional de Cafeteros de Colombia (FEDECAFE)	1927	Coffee
Confederación Colombiana de Cámaras de Comercio (CONFECAMARAS)	1969	Commerce
Federación Nacional de Cultivadores de Palma de Aceite (FEDEPALMA)	1962	Palm Oil
ECONOMIC CONGLOMERATES		
Organización Ardilla Lulle	1968	Industry and Media
Grupo Santo Domingo	1970	Media, Holding
Grupo Luis Carlos Sarmiento Angulo	1971	Banking,Construction
Sindicato Antioqueño	1973	Industry
Grupo Bolívar	1945	Banking
MAIN LOBBYING FIRMS		
Gestión Legislativa y Gobierno S.A.		
Urdaneta, Vélez, Pearl & Abdallah		
Sed Nove		
Jimeno Acevedo & Asociados		

For example, the influence of the *Grupo Santo Domingo* and the *Grupo Ardila Lula* on the decisions made by the National Industry Association (ANDI) is remarkable (Rettberg 2003; Rettberg 2005). Top executives from firms associated to economic conglomerates (e.g. Bavaria, Postobon, Caracol TV, RCN) have actual control over the process of nomination and appointment of the members of the sector-oriented associations' board of directors.[86]

However, economic conglomerates have strong incentives to start political operations outside the umbrella of the formal business organizations (sector-oriented or economy-wide encompassing associations). Their economic power gives them direct access to politicians and bureaucrats in the executive and legislative branches of government. Economic conglomerates have great financial capacity and flexibility to fund political campaigns at the national level. Data about campaign contributions are not official or transparent in Colombia, but according to different journalistic sources, the economic conglomerates (*grupos*) and their firms are the main financial contributors for presidential and senatorial electoral campaigns (Lewin 2014). Sector-business associations are not legally allowed to contribute to electoral campaigns, therefore, all the financial resources going from business to politics are channeled through individual firms and economic conglomerates.[87]

This particular scheme of campaign contributions makes economic conglomerates very influential on individual politicians and very capable for lobbying activities. Indeed, lobbying activities have been undertaken directly by CEOs and top executives from economic conglomerates. For example, the CEO of Bavaria (the *Grupo Santo Domingo*'s flagship firm) personally coordinated the pro-business legislative caucus during the discussion and approval of the 1992 tax reform (Parra 2004). In the past decade, the presence of the economic

[86] Interviews with Alejandro Gaviria, Miguel Urrutia, Roberto Junguito, Marleny García, Beatriz Ariza, Myriam Conto. Please see Appendix C for more details.
[87] Please see http://www.lasillavacia.com/

conglomerates in the legislative floor has been more regular and "institutionalized." Now they have middle-level executives who work directly with legislators and regularly attend committee hearings and general floor meetings. There has been some sort of professionalization of the economic conglomerates' lobbying activities. It has been a spontaneous professionalization, because there are not legal regulations for lobbying in Colombia.[88]

The recent emergence of lobbying firms is part of this process of spontaneous professionalization of lobbying. Before the predominance of the economic conglomerates, former members of the ministerial cabinet, former senators, or prestigious lawyers generally undertook lobbying activities. It was a matter of networking rather than a matter of resources. Firms and business associations usually hired prestigious former ministers or lawyers who had strong personal connections with the president, the ministers of the cabinet, or pivotal members of congress. Members of traditionally rich families were a common choice too. Thus, lobbying consisted of large chains of personal favors (especially, patronage chains) among members of the political and economic elite. Financial contributions to political campaigns were much less common.[89]

The diversification of the economy after the economic liberalization made those traditional lobbying strategies completely obsolete. The emergence of new, powerful, and complex economic conglomerates required more sophisticated strategies for political influence (Parra 2004). On one hand, the owners of the economic conglomerates were not necessarily members of traditional upper classes in Colombia. For example, Carlos Ardila Lule and Luis Carlos Sarmiento Angulo were raised in middle class households and their enormous fortunes

[88] Interviews with several lobbyists that work in congress at the time of my fieldwork. They preferred to remain anonymous.
[89] Interviews with Eduardo Saenz, Roberto Junguito, Alejandro Gaviria, Jaime Gomez, Marleny Garcia, Beatriz Ariza, Myriam Conto. Please see Appendix C for more details.

were not inherited. Thus, their social connections with traditional political elites are relatively new (at least in comparison with Julio M. Santo Domingo or the members of the *Sindicato Antioqueño* who inherited their fortunes and were part of the aristocracy since the late 1800s). Consequently, their linkages with the political and bureaucratic elites from both traditional parties (liberal and conservative) were not as fluid as their counterparts in the traditional business associations (e.g. coffee growers).

Most importantly, as the economic structure became more complex, new industries and business emerged in the 1990s. Such complexity required higher levels of technical expertise for policymakers and lobbyists. For example, new financial and tax regulations are far more sophisticated after the liberalization than during the years of protectionism (Abascal et al. 2011). Thus, traditional lawyers (usually specialized in constitutional, civil, or penal law) are not prepared anymore to deal with the complexities of the new financial and capital markets.

All these factors provided strong incentives to the professionalization of lobbying activities and explain the recent emergence of lobbying firms in Colombia. Table 5-3 lists the most important lobbying firms in the country as of 2014. Firms as *Sed Nove* and *Gestion Legislativa y Gobierno S.A.* are quite successful in the current policy-making arena and they are increasingly more influential in policy debates.[90]

In summary, the pattern of business organization in Colombia can be described as one in which business centralization and unity is relatively weak and sector-oriented business associations are influential, operationally efficient, and relatively autonomous. Additionally, economic conglomerates are becoming dominant actors and have significant control over sector-oriented associations. Finally, lobbying firms are becoming increasingly powerful and influential and business interests request their services more often. In other words, business community'

[90] Please see http://www.dinero.com/negocios/articulo/los-reyes-del-lobby/133367

political influence activities are less institutionalized but more professionalized. Consequently, economic conglomerates and individual firms are more influential than sector-oriented and economy-wide encompassing associations. The Colombian business organizational model is moving towards fragmentation.

5.4. RECENT TAX REFORMS IN COLOMBIA

In this section, I describe how the peculiarities of business coordination in Colombia and its evolution towards a more pluralistic model of business organization explain why a large number of tax reforms have been adopted in the past two decades and why those reforms are usually partial rather than structural. I illustrate this argument using the case of some of the multiple tax reforms implemented in Colombia after 1990s. In particular, I show that relatively strong business interest groups were quite successful in diminishing the scope of the tax reforms proposed by president Gaviria (1992), Pastrana (1998), and Santos (2012). However, the characteristics of these business interest groups (weak centralization and coordination) did not enable them to completely block systematic increases in the general tax burden and they have been compelled to seek for sector-focused tax exemptions and credits. In contrast with the chapter on Chile, this chapter provides fewer details about any particular tax reforms, but it provides a more general view of the tax policymaking process and the role that business interest groups play within it. Given the important number of tax reforms implemented in Colombia since 1990, a panoramic view seems more convenient to explain the causal mechanism that transforms, in this case, weak business coordination into less stable tax environments.

As I showed in the section 5.3, Colombian presidents, for ideological principles or pragmatic reasons, are usually interested in increasing tax revenues. As I explained above, presidents and high-level technocrats (finance minister) are always facing a recurrent state of fiscal stress and volatility in non-tax revenues. On one hand, there has been a persistent structural fiscal deficit since the 1990s (Giugale 2003). On the other hand, revenues coming from the oil production are distributed and administrated by the subnational governments(Aguilar, Cortés, and Olivera 2013; Bohórquez 2013; Bonet et al. 2014) and the access to external debt is increasingly limited. Consequently, since 1990 all the presidents in Colombia are quite inclined to propose and implement tax reforms. For example, president Cesar Gaviria (1990-1992) and his finance minister Rudolf Hommes, proposed a tax reform to finance the cost of the implementation of a new constitution in 1992:

Luis Fernando Londoño Capurro Presidente de la Comisión III H. Senado de la República.

> El presente mensaje tiene por objeto solicitar a esa Honorable Corporación, de la manera más comedida y de conformidad con el artículo 163 de la Constitución Política, se de trámite de urgencia al proyecto de ley número 20 de la Cámara de Representantes por el cual se expiden normas en materia tributaria y se expiden otras disposiciones , el cual fue presentado a consideración del Congreso Nacional el pasado 11 de marzo, por los señores ministros de Hacienda y Crédito Público y de Justicia. [If the reform is not approved] Si ésta no se aprueba dentro del primer semestre del presente año, los programas de inversión y de funcionamiento del Gobierno deberán reducirse o financiarse con deuda, generando una presión sobre la demanda superior al 2 por ciento del PIB. Lo anterior podría afectar negativamente la inflación y la tasa de cambio, la inversión, la producción, el empleo y, sobre todo, las exportaciones. Por este motivo, la situación fiscal del presente año, gravada por el deterioro de los sectores cafetero y eléctrico, hace imprescindible que el Gobierno Nacional cuente a la mayor brevedad con nuevos recursos tributarios (Mensaje del Presidente de la Republica al Congreso, Mayo 12, 1992).

In 1994, as soon as he was appointed, president Ernesto Samper (1994-1998) promoted a bill proposal aimed to increase tax revenues and fight tax evasion:

> En una reunión con la Junta Interparlamentaria de esa colectividad realizada ayer en la Casa de Nariño el jefe de Estado reiteró que la iniciativa no busca incrementar las actuales tarifas de los impuestos sino taponar los huecos de la evasión fiscal que supera el 30 por ciento. La reforma busca recaudar 3,2 billones de pesos en los próximos tres años. (El Tiempo, Marzo 31, 1995: "Samper pide apoyo a la reforma tributaria.)"

In fact, fiscal situation during Samper administration was quite difficult not only because the economy was not growing at satisfactory rates, but also because Samper administration had to implement the institutional changes required by the 1991 constitution. He was responsible not only for making the new judicial and decentralization systems a reality, but also he also had to implement profound educational reforms and finance the war on the drug cartels. By the mid-1990s, running the Colombian government was twice the costs and the tax revenues were basically constant. Consequently, the Samper administration promoted and implemented three tax reforms: Law 174/1994, Law 223/1995, and the Law 383/1997.

The next president, Andres Pastrana proposed and implemented seven tax reforms: four of them were approved by congress (Law 488/1998, Law 608/2000, Law 633/2000, Law 716/2001) and another three were implemented via decree powers. In this particular case, president Pastrana not only inherited precarious fiscal conditions from his predecessor, but also he had to deal with the devastating effects that the 1998 global crisis had on the Colombian economy. As in the case of his predecessors, Pastrana was almost forced to constantly promote new tax legislation in order to finance the central government's activities and keep social programs working. At the end of his term in office, Pastrana asserted that:

> Les soy sincero: Habíamos previsto una situación fiscal difícil, pero la realidad que encontramos al llegar al Gobierno fue mucho más grave que nuestras expectativas. Por eso no pudimos bajar el IVA y, por el contrario, tuvimos que realizar reformas tributarias para mejorar los ingresos del Estado, es decir, los ingresos para la inversión social en beneficio de los más pobres y para el bienestar de todos los colombianos. A esto se sumaron el terremoto del Eje Cafetero que demandó una gran cantidad de recursos -¡más de 1.6 billones de pesos!-, los problemas de violencia que requirieron mayor inversión en

> seguridad y en fortalecimiento de las Fuerzas Militares y de Policía, y la difícil situación del sector financiero que nos obligó a destinar inmensos recursos a evitar una crisis financiera, es decir, a salvar los ahorros y la vivienda de todos los colombianos.
> Por eso fuimos conscientes desde el primer momento: Así resultara impopular, teníamos que poner la casa en orden mediante dos mecanismos: mejorar los ingresos, por un lado, y ajustarnos el cinturón en los gastos, por el otro. Lo he dicho varios veces: tal vez a mi Gobierno no lo recordarán por la popularidad, ¡pero sí por la responsabilidad!" (Andres Pastrana, Presidential Address, May 16, 2002)

In 2002, Alvaro Uribe was elected as a president and immediately proposed and implemented a new tax reform. The situation of the public finance was improving by 2002, but Uribe was elected with a clear mandate: fight the leftist guerrillas. The implementation of his new national security policy required additional resources and in the first year of his administration Uribe implemented four tax reforms (Law 788/2002, Law 818/2003, Law 820/2003, and Law 863/2003). In 2010, after some years of economic prosperity and relative peace, Uribe proposed a new tax reform. This time his goal was to incentivize more domestic and foreign investments:

> La reforma tributaria debe estimular el crecimiento, mejorar la equidad social, responder al clamor de ser estructural, ayudarnos a recuperar el grado de inversión, simplificar la normatividad y contribuir a la formalización de la economía. […]Para impulsar la inversión y el empleo, se propone una reducción de tarifas de renta, que nos sitúe en mejores condiciones competitivas con el entorno internacional. […] Necesitamos que la reforma contribuya a rescatar la calificación de grado de inversión que el país perdió hace ya un tiempo largo. Se había olvidado el tema porque las circunstancias internas y externas de la economía han facilitado crédito con buenos plazos y menores tasas de interés. El grado de inversión nos permitiría sortear con éxito cualquier dificultad financiera dentro o fuera de Colombia. (Alvaro Uribe, presidential address to congress, July 20, 2006).

This evidence shows that tax reforms are usually not optional but imperative for Colombian presidents. But most importantly, this qualitative evidence shows that reforming the tax structure is not a device of ideological differentiation among politicians. For pragmatic

reasons, all politicians in Colombia want to increase tax revenues and promote tax reforms as soon as they are able to do it.

Tax reforms are adopted as regular laws in Colombia, so the legislative process is not unusual. Before introducing the bill to legislative discussion, the president and the finance minister usually discuss the contents and goals of the bill with business interests groups, labor unions, legislative caucuses, and party leaders.[91] It is very common that, before drafting a bill proposal, the finance minister proposes initial ideas to the interest groups and the public opinion only to test how they would respond:

> Sometimes, the finance minister (or even the president himself) proposes contradictory or very controversial alternatives. The whole point is not only to get a sense of what public opinion and business expect from the tax reform, but this is also useful to frame public opinion regarding some critical issues. (Interview with former finance minister, he asked to remain anonymous, July 2011)

The finance minister usually organizes meetings with different economic and political actors to explain the reform and its implications. For example, in 2012 Mauricio Cardenas (finance minister 2012-2014) traveled around the country explaining and discussing his initiative for tax reform with entrepreneurs, subnational authorities, labor unions, and political activists.[92] Such meetings generally are more focused on discussing broad principles and goals of the proposed reform. In October 2012, several ministers (finance, labor, health) explained the main goals of the government's proposal: change the formula to calculate personal and corporate income tax (the new formula slightly increased personal income tax rate and kept the same rate for corporate income tax), standardize the VAT rate, reduce some rates for minor taxes, and improve the capacity of the tax agency to fight tax evasion. The goal was clear: increase tax revenues by improving tax agency' ability to catch taxpayers and extend the personal income tax

[91] Interviews with several legislators and a former finance minister.
[92] See "Sin Llegar Al Congreso, Reforma Tributaria Ya Se Discute" Portafolio, October 12, 2012

base. The finance minister also visited business interest groups and presented the bill as a harmless proposal to them:

> El Gobierno Nacional no necesita más ingresos fiscales, no estamos buscando recaudo, estamos buscando que los impuestos nos ayuden a generar más equidad entre los colombianos y a generar más condiciones para generar más empleo en nuestro país (Mauricio Cardenas, finance minister, meeting with business community, Medellin, October 12, 2012)

According to a former finance minister, these meetings constitute the first, essential step to build a political coalition that will support the tax reform bill in congress (Interview with a former finance minister, July 2014). He recalls that

> Después de la reunión, mi equipo de trabajo evalúa qué partes de la nueva legislación probablemente obtendrán apoyo y cuáles no. También le hacen modificaciones al proyecto inicial para responder a las demandas de los gremios económicos y otros grupos. Es una etapa importante, porque esos cambios muchas veces facilitan la aprobación del proyecto de ley en el congreso (Interview with a former finance minister, July 2014).

As the government attempts to frame public opinion, business community promotes its policy preferences and pushes its own agenda. The *Consejo Gremial Nacional (CGN)* usually meets with the finance minister and discusses the government's proposal. Depending on the contents of the proposal, the CGN can either directly ask the finance minister to postpone the reform or ask him to introduce changes before the bill is introduced to congress.[93] For example, in 2011 president Santos aborted its tax reform proposal after the CGN and some of its affiliated associations showed little support for the initiative. In this particular case, business interest groups argued that economic recovery was not complete and an increase in the tax burden will cause problems for economic growth.[94]

[93] Interview with top executive from the CGN July 2011 (the interviewee preferred to remain anonymous).
[94] "La reforma tributaria ya se hizo". Fenalco, Presidencia Nacional 2011

In 2012, the government's proposal had a much better reception among business community and the finance minister actually managed to get more support from them by introducing some specific changes to the bill before it was introduced to legislative discussion.[95] For example, the minister Cardenas made several changes to the personal income tax scale after several business leaders criticized the negative impact that the extension of the personal income tax base would have for small business and the middle class.[96]

The success of the first business offensive clearly depends on the level of consensus among the members of the CGN. The CGN could not influence the initial government's proposal if its affiliated sector-oriented associations do not show strong commitment to such strategy (the CGN has no enforceability powers), or the economic conglomerates show strong support to the government's proposal. In other words, the CGN cannot block government's attempts to raise taxes if the tax policy preferences of sector-oriented associations and economic conglomerates are too distant from one another.

For example, the president Uribe proposed a new net wealth tax to finance the costs of the war on terrorism. Business community was completely divided regarding the president's proposal and the CGN could not build any consensus. The president of FEDEARROZ (rice farmers) supported Uribe's proposal and argued that

> Todos los colombianos deben contribuir en proporción a lo que tienen, porque, la seguridad es un problema de todos y no de un sector exclusivamente. […] El que tenga más que pague más y el que tenga menos que pague menos. (W Radio, Interview with Rafael Hernandez, CEO of FEDEARROZ, May 11, 2009).

In the meantime, the president of the textile manufacturers association (ASCOLTEX) attacked the government's proposal:

[95] Interview with top executive from the CGN (the interviewee preferred to remain anonymous).
[96] Revista Dinero, Agosto 10, 2012: "Clase media: la 'carne de cañón' de la tributaria."

> Los empresarios del sector textil están agobiados con tanta carga tributaria y de convertirse en realidad esta propuesta podría tener efectos en el empleo.
>
> […] la situación es muy complicada en materia de carga tributaria para los empresarios colombianos y esta propuesta puede ser muy peligrosa. (W Radio, Interview with Rafael Hernandez, CEO of FEDEARROZ, May 11, 2009).

At the end of the day, the new tax was approved but the government introduced several exemptions to protect "strategic" sector of the economy. The role of the CGN was minimal and sector-oriented lobbyists and business associations shaped the legislative bargaining (Interview with Angel Cabrera, Congressman, July 2011).

Similarly, the business counter-offensive against the tax reform in 2012 was not coordinated by the CGN. In this case, most of the negative reactions came from sectorial business associations as the farmer business association (SAC). For example, the CEO of the SAC asserted that his association would lobby against the reform[97] and the CEO of the industrialists association asserted that

> [La reforma] genera incertidumbre sobre la carga tributaria total mas allá de los impuestos nacionales. Las empresas pagan una cantidad de tasa y contribuciones especiales en las regiones que no son deducibles de la rente. (Portafolio, Octubre 25, 2012: " Empresarios afirman que reforma tributaria es equitativa.")

Similarly, the CEO of the exporters association argued that:

> Nos preocupa –dijo– el incremento de la tasa de tributación de las zonas francas, lo mismo que la obligación de tributar en Colombia, aunque se invierta afuera. Esto afectará la inversión (Portafolio, Octubre 25, 2012: "Empresarios afirman que reforma tributaria es equitativa.")

And the CEO of the small business association also showed concerns about the effects of the reform on its affiliates:

> Si bien la reforma tributaria pretende establecer un nuevo manejo de los parafiscales, el problema no solo radica en si son altos o no. También es indispensable establecer un sistema de transparencia tributaria donde se pueda hacer un seguimiento claro de qué se

[97] El Tiempo, Marzo 12, 2012: "SAC, con peros a la reforma tributaria."

> hace con estos impuestos y cómo se benefician las microempresas y los empleados en general al cumplir con sus obligaciones. (Portafolio, Octubre 25, 2012: "Empresarios afirman que reforma tributaria es equitativa.")

In Colombia, tax reforms bills are studied and discussed in the third and fourth committees of the House and the Senate (*comisiones tercera y cuarta de la Cámara de Representantes y del Senado de la Republica*), the so-called *comisiones económicas*. Occasionally, senators and representatives from the third and the fourth committees put together a joint committee, the so-called *Comisión Mixta*. In the past, the joint committee was the last stage of the legislative process and it was merely aimed to reconcile the different versions of the bill approved by the economic committees in the Senate and the House. More recently, the joint committee meets much early in the legislative process and works as a parallel forum while economic committees at the House and the Senate formally study the bill (interview with Angel Cabrera, Congressman, July 2011).

The hearings of the joint committee area also attended by public policy experts and business interest groups that are interested in contribute to the discussion. Professional lobbyists and non-governmental organizations also attend these committee hearings. I personally attended several meetings of the joint committee. Those meetings were composed by legislators from the Senate and the House, technical staff from the Finance Ministry, policy experts from *Fedesarollo* (one of the main policy think-tanks in Colombia), the vice-president of the ANDI (industrialists' association), the vice-president for legal affairs of FENALCO (retail trade association), and mid-level executives from two other business associations. Unfortunately, the current regulation on lobbying activities in congress does not require recording the participation of this people in the joint committee, but the role of the business leaders was very active. They not only provide opinion about the topics discussed but also provide technical information that both legislators

and technocrats were using to support their arguments. Interestingly, none of these business representatives were spoken in behalf of the CGN. They were always speaking in behalf of their sectorial associations (Fieldwork observations collected in July-August 2011).

In this phase of the legislative discussion, the role of the encompassing association becomes less meaningful. Sectorial associations lead all the lobbying activities. For example, sectorial business associations led the business counter-offensive against the tax reform in 1998. One week after the finance minister introduced the bill for legislative approval, several firms and sector-oriented associations started an aggressive campaign to block any extension of the value-added tax to items as advertising, beer, soda, paper, and financial services.[98] Top executives from the media business association (*Asociación Nacional de Medios*) and the newspapers business association (*Asociación Colombiana de Editores de Diarios y Medios Informativos*) attended the legislative committees to advise legislators that higher taxes on advertisement would be directly transferred to consumers, making advertisement less reachable to local and regional newspapers. They also asked for urgent meetings with the finance minister and the president.[99] Similarly, the small and medium industries association (*Asociación Colombiana de Medianas y Pequeñas Industrias*) advised that the inclusion of leasing contracts within the VAT tax base would significantly increase production costs and reduce the small and medium-size industries' ability to create new jobs.[100] In 2012, staff from the retailers association, the industrialists association, and the palm oil association briefed the hearings organized by the economic joint committee. Before the meeting, low-level staff from these organizations distributed technical reports (favorable to business interests) among legislators and policymakers that attended the hearing.[101]

---

[98] "Los cocos que asustan en el Congreso," *El Tiempo* September 7, 1998.
[99] "Un nuevo intento de gravar con IVA la publicidad." *El Tiempo*, September 3, 1998.
[100] "Ajustes empeorarían la situación de las PYMES." *El Tiempo*, September 9, 1998.
[101] Filed work observation.

> Cuando sale la reforma, la estudiamos y hacemos comentarios a través de comunicaciones. Entonces, se mandan cartas a los congresistas, a los ponentes. Mandamos cartas con las posiciones de Fedepalma y con las alternativas que plantea Fedepalma a los ponentes y al ministerio de agricultura. […] hay temas que es mejor tratarlos a través de la SAC. […] Es un lobby muy institucional. Nosotros lo hacemos bien sea través del presidente de Fedepalma o yo voy a congreso a ayudar al congresista a ilustrar el tema. Incluso algunos congresistas nos buscan porque no tiene el conocimiento técnico que nosotros tenemos (Interview with executive officer from Fedepalma –palm oil industry, August 2011).

Unlike the encompassing business association (CGN), large sector-oriented business associations have their own technical staff. Low-skilled staff constitutes the first and most basic level of business lobbying strategy. They regularly attend legislative hearings and policy-making forums to collect information directly from legislators and technocrats. Low-skilled staffers also collect information about legislative initiatives that can potentially affect sectorial business interests, identify key players, and build basic networks with congressional staff.[102]

The presence of sectorial business associations' staffers in the congressional office building is regular and it is not formally regulated. It is very usual that business-friendly legislators provide office space and some basic services to business associations' staff. In fact, it is not uncommon that business associations' low-level staffers create strong social linkages with legislative staff. Such low-profile network facilitates some very basic but crucial lobbying activities as the delivery of small favors, or the distribution of gifts to legislators and their staff for holidays or special occasions.[103] A mid-level lobbyist from a sector-oriented business association recalls that:

> Nosotros asistimos a las sesiones de las comisiones conjuntas y las reuniones de bancada a las que nos invitan. […] una vez tenemos la lista de proyectos hacemos un estudio jurídico de los proyectos. Luego vamos y le damos a los congresistas los insumos que nosotros producimos. Participamos en foros y discutimos los temas con los congresistas. Nosotros vamos y nos presentamos y establecemos una relación amigable con los congresistas […] algunos nos reciben bien otros no, pero si existe una relación de largo

[102] Interview with lobbyists working in the Colombian congress (they preferred to remain anonymous).
[103] Interview with lobbyists working in the Colombian congress (they preferred to remain anonymous).

> tiempo, es fácil contactarlos y promover nuestros temas. (Interview with lobbyist, July 2011).

In these instances, lobbying can step up to high-rank members of congress and those efforts are directly coordinated by the top executive officers of the business associations:

> Por ejemplo, si se tiene que hacer un desayuno con los ponentes o con el ministros, nosotros acompañamos, pero va el presidente, porque tiene otra instancia (Interview with executive officer from Fedepalma –palm oil industry, August 2011).

After these preliminary legislative hearings are completed, the tax reform bill is considered independently at each economic committee, amendments are introduced, and committee members vote to approve or reject the new version of the bill. Lobbying activity is quite intense during the so-called "mark-up" session and top-level executives from sectorial business associations and economic conglomerates swing into action.

In the Colombian congress, this stage constitutes the peak of lobbying activity for a simple reason: the version of the bill approved by the economic committee will not change radically in the floor. It is the best moment to introduce amendments favoring particular business interests. The economic committee introduces most of the amendments to the original bill. Accordingly, the participation of business associations' top-level executives and professional lobbyists is quite intense. Formal and informal meetings between lobbyists and committee members are regular. Top executives from sector-oriented business associations and CEOs from economic conglomerates play a critical role during these "mark-up" sessions. Upper-level business leadership rarely attends committee hearings or visits the congressional office building, but they privately meet with pivotal legislators and rank members of the economic. Consequently, lobbying activity goes back and forth between the congressional building and

prestigious social clubs in Bogota. An executive officer from a sectorial business association illustrates really well this process:

> De hecho, nosotros tenemos parlamentarios que podemos llamar amigos. Nosotros lo llamamos y ellos nos ayudan. Nos reunimos con ellos. Ellos vienen. […] Por ejemplo, los congresistas de las zonas palmeras….parlamentarios que son amigos del sector y que lo apoyan. (Interview with executive officer from Fedepalma –palm oil industry, August 2011).

These legislators collected the business interest groups' concerns and introduced amendments to the tax reform bill. A detailed analysis of the legislative activity in the economic committees suggests that, for example, more than 300 amendments were introduced to the 2012 tax reform when it was discussed in the economic committees. The original bill presented by the government had around 100 articles. After the first debate in the economic committees the bill had 150 articles, and the bill approved in the floor has about 200 articles. In other words, the bill was completely transformed after legislative discussion.[104] Hundreds of other small amendments were introduced especially to move particular products and services from one tax category to another – and consequently create tax exemptions for those sectors.[105]

Examples are numerous: congressmen Juan Mario Laserna, Alejandro Chacón, and José Darío Salazar (among others) introduced several amendments to excluded personal banking accounts aimed to fund construction from income tax base (*cuentas AFC*); congressman Eduardo Crissien Borrero introduce preferential VAT rates for several agricultural products as cocoa, cotton, coffee, wheat, corn, and rice; congressman Ángel Custodio Cabrera introduced an amendment to create VAT exemption for contact lenses and glasses; congressman Manuel Mora

[104] Congressional archive: see Gaceta del Congreso No. 829 22/11/2012; Gaceta del Congreso No. 914 11/12/2012
[105] Gaceta del Congreso No. 829 22/11/2012; Gaceta del Congreso No. 914 11/12/2012

introduced an amendment to declare a tax-free zone in the province of Norte de Santander.[106] As I mentioned above, the members of the economic committee introduced hundreds of these small amendments aimed to protect particular business (e.g. retailers) or regional interests (e.g. Norte de Santander). Congressman Angel Cabrera described some of the changes introduced in the committee hearings:

> Se han corregido errores, como el de gravar alimentos básicos como el arroz. Hay discusiones sobre la mesa, como qué deducciones en el impuesto de renta de personas naturales se amplían y cuáles se quedan. El impuesto a la equidad quedaría en 10 por ciento: 3 % para el ICBF, 2 % para el Sena y de 5 % para salud. Además, debería ser un parafiscal y no un impuesto, pues tiene destinación específica (Portafolio, Noviembre 5, 2012: "Continúa lluvia de propuestas sobre la reforma tributaria.")

As mentioned above, there were hundreds of amendments introduced by legislators and sponsored by sectorial business interest groups. The large number of amendments makes very difficult to quantify and assess the real impact of business interest groups on tax policy. Some of these amendments seem to be quite substantial but they are actually insignificant, while some minor modifications actually create huge tax loopholes that greatly benefit very specific sectors of the domestic economy.

The case of the 2012 tax reform is quite illustrative. The congressional record (Gaceta del Congreso No. 829 – November 22, 2012) contains details of the amendments initiated by the legislative economic committee after discussing the tax reform bill with business interest groups. The list of amendments (*Pliego de Modificaciones*) compares the text of the original bill with the text of the modified bill after the committee hearings. Table 5-4 summarizes the most significant amendments to the 2012 tax reform bill.

[106] Gaceta del Congreso No. 914 11/12/2012. Portafolio, Noviembre 18, 2012: "Congreso tiene mas de 100 propuestas de refoma tributaria."

Table 5-4 Amendments to the 2012 Tax Reform bill

Original Bill	**Bill after the committee hearings**
Tax residence: 365 days every tax year	Tax residence: 183 days every tax year
Subjects personal tax income: formal workers, informal workers, and capital owners.	Subjects to personal tax income: formal workers and informal workers.
Personal income tax deduction for informal workers (by industry): Agriculture: 70% Retail: 65% Transport: 40% Services: 40% Professional Services: 65% Manufacturing: 60% Construction: 65%	Personal income tax deduction for informal workers (by industry): Agriculture: 100% (raw materials, fertilizers, annual depreciation, insurance) Retail: 100% (public utilities, rent) Transport: 100% (parking, insurance, communications) Services: 100% (public utilities, rent) Professional Services: 100% (public utilities, rent) Manufacturing: 100% (public utilities, rent)
Reduced VAT tax rate (5%): 36 items mostly agricultural products	Reduced VAT tax rate (5%): 42 items mostly agricultural products
VAT exemptions: 24 items	VAT exemptions: 36 items
Corporate tax residence and rate: national and international corporations that operate in the country. Tax rates: 25% and 33%	Corporate tax residence: more flexible definition of international corporations that operate in the country. More restrictive for the 33% tax rate
Alternative Personal Income Tax Base (*Impuesto mínimo alternativo*): reduced tax rate (less than 15%) for income levels lower than 4,700 UVT (unidades de valor tributario) - US$64.000	Alternative Personal Income Tax Base (*Impuesto mínimo alternativo*): reduced tax rate (less than 15%) for income levels lower than 9,200 UVT (unidades de valor tributario) - US$126.000. Tax rate scale was also modified

Source: Gaceta del Congreso No. 829 22/11/2012; Gaceta del Congreso No. 914 11/12/2012

These examples demonstrate that tax reforms bills are substantially transformed in the economic committees, but the changes introduced in congress are marginal rather than structural. Unlike the Chilean case, business interest groups and business-friendly legislators promote small changes to the bill to benefit particular sectors; they do not change the general framework proposed by the government. As tax structure becomes more complex and intricate, sectorial business interest groups and economic conglomerates find easier to get particularistic tax benefits. Lobbying for tax loopholes is apparently more beneficial than lobbying for pro-business

tax reforms, especially in a context where tax pressures are endless. An executive officer from the insurance sector associations argues that:

> Lo que se ve es que las reformas tributarias estructurales se han vuelto muy difíciles porque intervienen mucho los actores del sector privado tratando de obtener ventajas. Entonces, le ha quedado muy difícil al ejecutivo pasar reformas tributarias estructurales. Ahí el congreso se vuelve mas poderoso. Hay un montón de gente influyente en el congreso. A veces los gremios. A veces los grupos. Y ahora con mas frecuencia, empresarios individuales. Hay unos grupos pequeños muy exitosos que tienen sus propios parlamentarios (Interview with Roberto Junguito, FASECOLDA, Julio 2011).

For example, the participation of top-level executives from Bavaria in the 1992 tax reform (Bavaria is the biggest beer company in Colombia that used to be part of the *Grupo Santo Domingo*) is a perfect illustration of this lobbying strategy. In 1992, president Gaviria proposed a tax reform aimed to increase the VAT general rate from 12% to 14% and extend its base to include more goods and services, including beer. Industrial sector strongly opposed Gaviria's tax reform. Producers of tradable goods as clothing and beer have been seriously affected by economic liberalization, and they considered that increasing VAT rates would put them in more vulnerable position regarding their international competitors.

The president and the finance minister were completely in favor of increasing tax revenues. Indeed, it was an urgent task for them. On one hand, they needed to replace lost tax revenues after the drastic reduction of tariffs (Junguito and Rincón 2004). On the other hand, the implementation of a new constitution required additional fiscal efforts to fund new social and economic programs. In other words, Gaviria and Hommes (both rightist politicians) strongly prefer increase taxes and had very limited capacity to reduce public expenditures.

Once the finance minister announced the reform, business interest groups started an intense campaign against it. The campaign was personally led by Augusto Lopez – Bavaria's CEO – who was well known as one of the most powerful business leaders and had strong

linkages with politicians and traditional parties.[107] As usual, the National Industry Association (ANDI) and the *Grupo Bavaria* (or *Grupo Santo Domingo*) started an aggressive campaign in the media condemning the government attempt to increase VAT rates. The government responded with judicial enquiries against the beer industry for tax evasion.[108]

Bavaria's CEO personally planned and monitored legislative hearings to promote a motion of non-confidence against the finance minister and the director of the tax agency. The finance minister was accused of promoting financial panic and abuse of power. At the same time, the *Grupo Santo Domingo* used all its media power to attack the finance minister. The *Grupo Santo Domingo* used to control the most important radio broadcasting company in the country (*Caracol Radio*) and the most important cable television company (*TvCable*). For several weeks, there was 24-hours coverage of the political trial against the finance minister.[109]

The finance minister received strong political support from subnational governments and the non-confidence motion failed to pass. The finance minister stayed in office but VAT rates were not raised for beer industry and new measures to fight tax evasion never were approved in congress. As I show in table 5-1, in 1992 VAT rates increased for several other industries; those industries that were not well-organized or endowed for political influence activities.

Observe that the participation of the economy-wide encompassing association becomes less important as the tax reform bill advances in the legislative process. In the final stages of the legislative process, the role of the CGN is purely formal and limited to press briefings and media appearances. It focuses on creating a (false) sense of business unity, because as I have shown in this section, business political influence in congress comes from sector-oriented business

[107] Lopez built strong linkages with politicians in the early 1990s because he funded party-oriented polls. According, to press reports, Bavaria paid for several electoral polls for the liberal and conservative parties in order to shape their presidential candidates for the presidential election in 1994.
[108] "Duelo de Titanes." *Semana*, December 21 1992
[109] "Duelo de Titanes." *Semana*, December 21 1992

associations, professional lobbyists, and economic conglomerates. They make deals directly with legislators.

5.5. CONCLUDING REMARKS

This chapter demonstrates that, like their Chilean peers, Colombian agenda-setters face increasing fiscal needs and, independently of their ideological allegiances, are usually in favor of increasing tax revenues in order to extend social spending or simply to cope with the government expenditures. Like their Chilean peers, Colombian agenda-setters have strong partisan and constitutionally power that, in theory, would allow them to implement structural tax reforms to deal with their fiscal needs. In fact, the presidents and finance ministers in Colombia are quite successful in implementing tax reforms. There have been more than 20 tax reforms in Colombia in the past two decades. However, these tax reforms are never structural. In fact, these reforms are so limited that every two years the central government has to propose a new tax policy to increase revenues and finance its expenditures. The qualitative analysis presented in this chapter indicates that the low level of centralization and policy integration of the business interest groups in Colombia facilitates the recurrent implementation of reforms but it also creates serious obstacles to the definition of a consistent and solid tax policy.

Business interest groups in Colombia are not coordinated enough to stop permanent government's attempts to increase the tax burden; however, they are strong enough at the sectorial-level to introduce hundreds of tax loopholes aimed to protect specific sectors of the economy. Unlike the Chilean case, business interest groups in Colombia are weakly centralized and coordinated and sector-oriented interests prevail over economy-wide interests.

Business centralization in Colombia seems to be more formal than functional, and this pattern of business organization has had important consequences for tax policy. Indeed, the prevalence of business fragmentation provides strong incentives for business interest groups and politicians to embrace complex, inefficient, and regressive tax structures.

The consolidation of economic conglomerates and the persistence of sector-oriented business interests substantially increased the number of veto players involved in tax policy-making and provides strong incentives for policy fragmentation. However, despite the remarkable level of business fragmentation, business interests groups are quite capable to neutralize the president's institutional advantages in policy-making. In other words, business unity emerges from the sum of powerful sector-oriented business association and economic conglomerates rather than from the presence of a strong economy-wide encompassing business association.

6. CONCLUSION

6.1.KEY ARGUMENTS AND FINDINGS

Much of the debate about fiscal policy-making has focused on the effect of institutional settings on policy outcomes. The role of economic or political actors is rarely the center of the debate. This is particularly true in the case of business interest groups. The crucial role that firms and business organizations play in fiscal (economic) policy-making is generally recognized as an obvious fact but is rarely analyzed systematically (W. C. Smith et al. 2014). Scholars and pundits simply argue that money buys influence or that business interest groups have hijacked democratic governments. However, there have been very few attempts to understand the mechanisms that effectively translate business influence into specific policy outcomes. This dissertation highlights the importance of business interest groups for the analysis of tax policy-making.

This dissertation sought to demonstrate that business interest groups are key actors in the fiscal policymaking process and that they shape agenda-setters' ability to successfully enact raising-revenues tax reforms. In this dissertation, I present strong empirical evidence that business interest groups have a preponderant role in the definition of the tax policy tools in Latin America. However, this role is reactive rather than proactive. Encompassing business associations, industry-level associations, conglomerates, and firms display their power of

influence only when the agenda-setter strongly prefers to increase taxes over cutting expenditures as his optimal fiscal strategy. When these conditions are met, economically powerful and centrally coordinated business interest groups will curtail the effect of taxer-type agenda-setters on tax policy outcomes.

The empirical evidence presented in this dissertation supports the theoretical claim that general and direct tax collection will decrease as business interest groups become more powerful and organized, even when agenda-setters strongly prefer to increase taxes. Additionally, this dissertation provides empirical evidence that indirect taxation will substantially increase if business interest groups are centrally coordinated, even their preferences clash with those of the agenda-setter.

Therefore, this dissertation offers a comprehensive theory to analyze the politics of tax reform. The central argument begins with a basic bargaining problem between agenda-setters and business interest groups. In the case of policy divergence between these actors, the agenda-setter will propose a tax reform and business interests groups will seek to impede the process or avoid increases in corporate or income taxes (direct taxation).

Empirical large-N analysis and case studies suggest that revenue-raising and progressive tax reforms will be less likely in the presence of highly coordinated and centralized encompassing business associations *(centralized coordination)*. If business interest groups are highly coordinated (*centralized coordination*) or their market leverage is high (the economy is not diversified), they will have significant leverage and organizational resources to block tax reform bills in congress or even earlier as technocrats draft legislation. Even if the agenda setter strongly prefers to increase taxes, the presence of economically powerful or highly coordinated encompassing business associations substantially attenuates the effect of agenda-setter's tax

policy preferences. The most feasible policy outcome is no increase in the direct tax burden (especially corporate taxation) and an increase in the indirect tax burden to fund government activities.

On the other hand, if business interests' market leverage is low or business interest groups are not centrally coordinated (*sector coordination* or *non-coordination/decentralization*), they will not be integrated to policy-making forums, and their organizational/financial resources will be relatively low (or the amount of resources available will vary across industries). Consequently, business interest groups will be less able to block tax reform initiatives. They can only soften their impact on specific economic sectors (those sectors with most resources available for lobbying). Therefore, if the agenda-setter strongly prefers to increase taxes, sector-oriented associations, economic conglomerates, and firms will lobby individual legislators in order to get particularistic benefits as tax credits, tax deductions, or loopholes. In this case, the most likely policy outcome is an increase in the direct tax burden and a resulting tax structure that will include several loopholes aimed to protect those industrial sectors that were able to afford successful lobbying strategies in congress.

In summary, this dissertation presents a theory of policy change that suggests that agenda-setters' policy preferences are not the only factor shaping tax policy outcomes. Variation in tax policy outcomes is also a function of the domestic patterns of business organization (*centralized coordination vs. decentralized/non-coordination*). In other words, certain kinds of business organizations (centrally coordinated and well integrated to the policy process) are more successful than agenda setters in the legislative process. These findings enter into a discussion with the literature on the varieties of capitalism (P. A. Hall and Soskice 2001; Rueda and Pontusson 2000; Rueda 2007; Cathie Jo Martin and Swank 2004). In this literature, variation on

the model of business organization explains the dynamics of the policy bargaining process and the characteristics of the policy outcomes. However, this literature assumes that higher levels of business coordination and policy integration produce relatively positive outcomes such as widespread welfare and social policies. They do not pay much attention to the effects of business coordination on tax policy and financial regulation. This dissertation attempts to fill this theoretical gap and contends that centralized patterns of business coordination could potentially have regressive effects. In centrally coordinated business environments, tax burden increases but the relative weight of personal and indirect taxation is much greater than the weight of corporate income taxation. In other words, centrally coordinated business interest groups are quite successful in transferring the tax burden to non-organized (or less organized) groups of citizens. On the other hand, if we recognize that capitalism has special attributes in Latin America and that there is such a thing as hierarchical capitalism (Hall and Soskice 2001, Schneider 2013), then this dissertation also contributes to the understanding of the policy implications of the varieties of capitalism.

The second major contribution of this dissertation is the direct attention paid to economic elites and their role in economic governance. Identifying particular types of business organizations, their respective internal logics, and their effect on policy helps to unveil the causal mechanisms that transform money into political access and influence. In general, we accept that money buys influence and influence buys outcomes. This dissertation departs from traditional perspectives on the relationship between government and business to focus on the internal workings of business organization. By doing so, it offers a new approach to study business politics.

The third general contribution is that the theory of policy change presented in this dissertation allows us to understand the evolution of the Latin American "variety of capitalism" after the end of the state-led industrialization. As demonstrated by Schneider (2004, 2013), the relationships between state and business significantly changed after the liberalization process and the diversification of Latin American economies. This historical change not only transformed the role of the government in the economy, but also the distinctive patterns of capitalism in the region, and consequently, the political leverage of business interest groups.

6.2. BUSINESS POLITICS AND TAX REFORM IN LATIN AMERICA

At the heart of this dissertation has been the desire to understand how varieties of capitalism affect public policy outcomes. In order to do so, this dissertation presents a novel theory of tax policy change, tests that theory with an original large-N dataset, and illustrates its causal mechanisms by focusing on the study of domestic actors and particular pieces of tax legislation in Latin America. In the case studies, I describe how different patterns of business organization in Chile and Colombia shape business political action and the conditions for tax reform in times when presidents and finance ministers were quite willing to increase taxes.

The case studies emphasize the importance of the models of business coordination and policy integration as factors that explain tax policy in Chile and Colombia. I demonstrate that the capacity of business interest groups to influence economic policies does not rely only on their market leverage (which is limited after the liberalization process), but also on their organizational attributes.

In particular, I show that business interest groups in Chile are very influential in the fiscal policy-making process because they are centrally coordinated around the *Confederación de la*

Producción y el Comercio (CPC), and well integrated to policymaking forums. High levels of business coordination and policy integration have transformed Chilean business interest groups into very powerful players for the tax policy-making game. Such prevalence of the organized business interests has conditioned left and center-left governments' ability to implement revenue-raising tax reforms.

Unlike the Chilean case, the recent consolidation of economic conglomerates (*grupos económicos*) and the persistence of sector-oriented business interests in Colombia have substantially increased the number of veto players involved in the tax policy-making process. Thus, business unity in Colombia emerges from the sum of powerful sector-oriented business associations and economic conglomerates rather than from the presence of a strong economy-wide encompassing business association. Consequently, business interests' political influence is more uneven from one industrial sector to another and tax reforms are easier to implement. This does not necessarily mean that business interests are weaker in Colombia (in fact, some sectorial business associations and economic conglomerates are quite powerful and influential). It just means that business interest groups are less coordinated and their political influence is less homogeneous.

The case studies suggest that the domestic patterns of business organization matter a great deal. Differences in the model of business organization (*centralized coordination* in Chile vs. *decentralized coordination* in Colombia) explain why is very difficult to reform the tax structure in Chile and very easy to do it in Colombia. These patterns of business organization also explain the complexity of the Colombian tax structure and its extreme susceptibility to tax avoidance. Market leverage and patterns of business coordination shape business political

strategies and resources available for lobbying, and consequently their leverage for policy bargaining.

In Chile, business interest groups are highly coordinated and well integrated to the policymaking process, which improves their bargaining position when tax reforms are discussed. As I showed in this dissertation, top-level executives from the encompassing business association (*Confederación de la Producción y el Comercio- CPC*) participate directly in the legislative discussion of tax reforms initiatives. Their voice is powerful because the CPC aggregates business preferences and promotes unified policy preferences. The CPC set business political agenda and sectorial business associations, economic conglomerates, and even firms support it unreservedly (most of the time). Such levels of internal coordination guarantee high levels of leverage for Chilean business interests in the policy-making process.

Unlike their Chilean counterparts, business interest groups in Colombia are less coordinated and disciplined. The *Consejo Gremial Nacional (CGN)* set policy goals and lead the "business offensive" in the tax policy-making process. However, it does not have any kind of enforcement capacity among sectorial associations or groups of firms. The CGN is not as well organized and integrated to the policy-making forums as the CPC in Chile. Its operational capacity and financial resources are quite limited. It depends too much on the support that receives from two or three sectorial business associations (i.e. *Asociación Nacional de Industriales, Federación Nacional de Comerciantes, Federación Nacional de Ganaderos*). Consequently, the CGN can only play a limited role in the media or the public opinion. The CGN is a player with very low leverage in the policy-making process. Business political influence comes from sectorial business associations, economic conglomerates, and firms.

6.3. DIRECTIONS FOR FURTHER RESEARCH

Though this dissertation sheds light on the consequences of business organization for fiscal policy outcomes, it does not deal with important issues like the emergence of such patterns of business organization and their role in the political campaigns funding. This is a potentially fruitful avenue for further investigation. After all, the dynamics of business politics has important consequences for democratic accountability and representation. Meanwhile, the study of the role of money in Latin American politics is quite limited, and we know very little about the emergence of different patterns of business organization in the region. Future research might focus on the effect that political competition has on the development of different patterns of business organization. Specifically, this could illuminate the institutional and electoral incentives that shape the structure of business representation. This puzzle not only contributes to the understanding of the role of money in politics, but also to the question of the existence of a Latin American (developing world) variety of capitalism.

Another contribution of this dissertation is to clarify and quantify the distinctions among centralized and decentralized patterns of business organization; and distinctions among centralized and decentralized models of policy bargaining. It provides a clear link between the organizational attributes of informal veto players and tax policy. Future research might use this framework to study the role of business interest groups in policy-making in recently democratized countries. The obvious extension of this dissertation's arguments is to study the political influence of business in other economic policy areas like labor and social policies. We still know very little about the role of business interest groups in the definition of social and welfare policy goals. Research on this particular topic would shed light on the consequences of different patterns of business organization for inequality. Is there something about the patterns of

business organization (and their policy consequences) that explains why Brazil and Colombia are the most unequal countries in the region?

These findings also lead to some very important policy implications. One of the most important lessons is that the design of regulatory frameworks for lobbying is not a minor problem for political representation and economic development. The understanding of the policy consequences of different patterns of business organization provides important insights for the design of effective regulations on the influence of money in politics.

APPENDIX A. MAIN BUSINESS ORGANIZATIONS IN LATIN AMERICA

ARGENTINA

Peak Business Associations

Asociación Empresaria Argentina (1967) (fr. Consejo Empresario Argentino) is not strictly a national peak association because it does not represent the main productive sectors of the economy. However, it brings together some of the leading companies in the country as Aceitera General Deheza, Arcor, Bagó, Banco Santander Río, Bayer, BGH, Bridgestone Argentina, Cartellone, Cencosud, Citibank, Clarín, Control Union Argentina, Coto, Dow Argentina, Droguería del Sud, Endesa, Estrada Agropecuaria S.A., Fiat Argentina, Grimoldi, Grupo Miguens, IBM Argentina, IMPSA, IRSA, La Anónima, La Nación, Los Grobo, Mastellone, Medicus, Mercedes-Benz Argentina, Metrogas, Nidera, OSDE , Peugeot Citroën Argentina, Praxair Argentina, PricewaterhouseCoopers, Quickfood, RIMSA, Roemmers, Roggio, San Jorge Emprendimientos, Sidus, Southern Cross Group, Techint, Telecom, TN & Platex, and Volkswagen Argentina.

Main Sector-oriented Business Associations

- Sociedad Rural Argentina.
- Unión Industrial Argentina.
- Asociación de Bancos Públicos y Privados de la República Argentina.
- Asociación de Bancos de la Argentina.
- Asociación Argentina de Compañías de Seguros.
- Asociación de Importadores y Exportadores de la República Argentina.
- Confederación Argentina de la Mediana Empresa.
- Confederación de Asociaciones Rurales.

BOLIVIA

Peak Business Associations

Confederación de Empresarios Privados de Bolivia (1974). It brings togeteher around 27 business associations: Asociación Boliviana de Agentes en Valores, Asociación Boliviana de Aseguradores, Asociación de Bancos Privados de Bolivia, Asociación Nacional de Mineros Medianos, Bolsa Boliviana de Valores S.A., Cámara Americana de Comercio de Bolivia, Cámara Boliviana de Fabricantes de Cerveza, Cámara Boliviana de la Construcción, Cámara Boliviana de la Electricidad, Cámara Boliviana del Medicamento, Cámara de la Industria Farmacéutica Boliviana, Cámara de Telecomunicaciones de Bolivia, Cámara Nacional de Comercializadores de Minerales y Metales, Cámara Nacional de Comercio, Cámara Nacional de

Consultoría, Cámara Nacional de Despachantes de Aduana, Cámara Nacional de Exportadores de Bolivia, Cámara Nacional de Industrias, Cámara Oficial Española de Comercio e Industria en Bolivia, Federación de Empresarios Privados de Chuquisaca, Federación de Empresarios Privados de La Paz, Federación de Empresarios Privados de Oruro, Federación de Empresarios Privados de Pando, Federación de Empresarios Privados de Potosi, Federación de Empresarios Privados del Beni, Federación de Entidades Empresariales Privadas de Cochabamba, and, Unión Boliviana de Entidades Financieras de Ahorro y Préstamo Para La Vivienda.

Main Sector-oriented Business Associations

- Asociación de Bancos Privados de Bolivia.
- Asociación Boliviana de Aseguradores.
- Cámara Agropecuaria del Oriente.
- Cámara Nacional de Comercio.
- Cámara Nacional de Exportadores.
- Cámara Nacional de Industrias de Bolivia.
- Asociación Nacional de Mineros Medianos

BRAZIL

Peak Business Associations

Acao Empresarial (1993). It brings together 56 organizations, 7 confederations, 7 federations and other 42 associations, institutes, trade unions and business groups: Confederação das Associações Comerciais e Empresariais do Brasil, Confederação da Agricultura e Pecuária do Brasil, Confederação Nacional do Comércio, Confederação Nacional das Instituições Financeiras, Confederação Nacional da Indústria, Confederação Nacional do Transporte, Confederação Nacional das Empresas de Seguros Gerais, Previdência Privada e Vida, Saúde Suplementar e Capitalização, Federação Brasileira das Associações de Bancos, Federação das Associações Comerciais e de Serviços do Rio Grande do Sul, Federação Nacional da Distribuição de Veículos Automotores, Federação Nacional das Empresas de Seguros Privados e de Capitalização, Federação das Indústrias do Estado do Paraná, Federação das Indústrias do Estado de São Paulo, Federação das Indústrias do Estado do Rio de Janeiro, among others.

Instituto de Estudos de Desenvolvimento Industrial (1989). It is a think tank created by about 44 large companies. Its main objective is to propose new alternatives for industrial development.

Pensamento Nacional das Bases Empresariais (1987).

Main Sector-oriented Business Associations

- Confederação das Associações Comerciais e Empresariais do Brasil.
- Confederação da Agricultura e Pecuária do Brasil.
- Confederação Nacional do Comercio.

- Confederação Nacional das Instituições Financeiras.
- Confederação Nacional da Industria.
- Confederação Nacional do Transporte.
- Confederação Nacional das Empresas de Seguros Gerais, Previdência Privada e Vida, Saúde Suplementar e Capitalização.
- Federação Brasileira das Associações de Bancos.
- Federação das Associações Comerciais e de Serviços do Rio Grande do Sul.
- Federação Nacional da Distribuição de Veículos Automotores.
- Federação Nacional das Empresas de Seguros Privados e de Capitalização.
- Federação das Industrias do Estado do Paraná.
- Federação das Industrias do Estado de São Paulo.
- Federação das Industrias do Estado do Rio de Janeiro.

CHILE

Peak Business Associations

Confederación de la Producción y del Comercio (1935). It brings together the main business associations in Chile: Sociedad Nacional de Agricultura, Cámara Nacional de Comercio, Servicios y Turismo, Sociedad Nacional de Minería, Sociedad de Fomento Fabril, Cámara Chilena de la Construcción, and the Asociación de Bancos e Instituciones Financieras.

Main Sector-oriented Business Associations

- Asociación de Bancos e Instituciones Financieras de Chile.
- Asociación de Aseguradores de Chile.
- Confederación del Comercio Detallista y Turismo de Chile.
- Sociedad de Fomento Fabril.
- Confederación Gremial Nacional Unida de la Mediana y Pequeña Industria, Servicios y Artesanado.
- Sociedad Nacional de Agricultura.
- Sociedad Nacional de Minería.
- Cámara Chilena de la Construcción.

COLOMBIA

Peak Business Associations

Consejo Gremial Nacional (1993). Its board of directors informally brings together the main business associations of the country: Asociación Nacional de Industriales, Federación Nacional de Comerciantes, Asociación Bancaria y la Sociedad de Agricultores de Colombia. However, it

is not a decisive organization and it is not formally organized as a peak association. In fact, the CGN is under strict control of the ANDI. The CGN works more as a consultive committee.

Main Sector-oriented Business Associations

- Asociación Nacional de Industriales.
- Sociedad de Agricultores de Colombia.
- Cámara Colombiana de Infraestructura.
- Asociación Bancaria y de Entidades Financieras de Colombia.
- Federación de Aseguradores Colombianos.
- Federación Nacional de Comerciantes.
- Asociación Nacional de Comercio Exterior.
- Federación Nacional de Cafeteros de Colombia.
- Confederación Colombiana de Cámaras de Comercio.

COSTA RICA

Peak Business Associations

Unión Costarricense de Cámaras y Asociaciones de la Empresa Privada (1975). It brings together the following business associations: Asociación Bancaria Costarricense, Asociación Cámara de Infocomunicación y Tecnología, Asociación Cámara de Vivienda de Interés Social, Asociación Consejo para la Promoción Internacional de la Medicina de Costa Rica, Asociación Costarricense de Fabricantes de Empaques Flexibles, Asociación Costarricense de Grandes Consumidores de Electricidad, Asociación Costarricense de la Industria del Plástico, Asociación Costarricense de Productores de Energía, Asociación de la Industria Farmacéutica Nacional, Asociación de Zonas Francas de Costa Rica, Asociación Nacional de Exportadores de la Industria Textil, Cámara Costarricense de Empresas de Factoreo, Cámara Costarricense de Hoteles, Cámara Costarricense de Importadores de Graneles, Cámara Costarricense de Importadores, Distribuidores y Representantes, Cámara Costarricense de la Construcción, Cámara Costarricense de la Industria Alimentaria, Cámara Costarricense de Restaurantes y Afines, Cámara Costarricense de Tecnología de Información y Comunicación, Cámara Costarricense Norteamericana de Comercio, Cámara de Comercio de Costa Rica, Cámara de Comercio e Industria Costarricense Alemana, Cámara de Industriales de Alimentos Balanceados, Cámara de Publicidad Exterior, Cámara Nacional de Agricultura y Agroindustria, Cámara de Servicios Corporativos de Alta Tecnología, Cámara Nacional de Armadores y Agentes de Vapores, Cámara Nacional de Avicultores de Costa Rica, Cámara Nacional de Cafetaleros, Cámara Nacional de Comerciantes Detallistas y Afines, Cámara Nacional de Productores y Exportadores de Melón y Sandía, Cámara Nacional de Radio, Cámara Nacional de Transportes, Cámara Nacional de Turismo, Consejo de Desarrollo Inmobiliario, and Federación Centroamericana de Laboratorios Farmacéuticos.

Main Sector-oriented Business Associations

- Asociación Bancaria Costarricense.
- Cámara Nacional de Agricultura y Agroindustria.
- Cámara Costarricense de la Construcción.
- Cámara de Industrias de Costa Rica
- Cámara de Comercio de Costa Rica

DOMINICAN REPUBLIC

Peak Business Associations

Confederación Patronal de la Republica Dominicana (1946).

Consejo Nacional de la Empresa Privada -Consejo Nacional de Hombres de Empresa (1982): 33 firms and 38 associations.

Main Sector-oriented Business Associations

- Asociación Dominicana de Exportadores.
- Federación Dominicana de Comerciantes.
- Asociación de Industrias de la República Dominicana.
- Instituto Agrario Dominicano.
- Instituto Azucarero Dominicano.

ECUADOR

Peak Business Associations

Asociación Nacional de Empresarios (1958). It brings together individual businessmen, firms, and associations. However, this association does not include most of the main sector-oriented Business Associations.

Main Sector-oriented Business Associations

- Asociación de Bancos Privados del Ecuador.
- Asociación de Instituciones Financieras del Ecuador.
- Federación Ecuatoriana de Exportadores.
- Federación Nacional de Cámaras de Comercio del Ecuador.

- Federación Nacional de Cámaras de Industrias del Ecuador
- Asociación de la Industria Hidrocarburifera del Ecuador.
- Corporación de Promoción de Exportaciones e Inversiones.
- Cámara de Agricultura.

EL SALVADOR

Peak Business Associations

Asociación Nacional de Empresa Privada (1966). It brings together about 140 individual firms and 39 Main Sector-oriented Business Associations.

Main Sector-oriented Business Associations

- Asociación Bancaria Salvadoreña.
- Asociación Salvadoreña de Empresas de Seguros.
- Cámara de Comercio e Industria de El Salvador.
- Asociación Salvadoreña de Industriales.
- Cámara Agropecuaria y Agroindustrial de El Salvador.

GUATEMALA

Peak Business Associations

Comité Coordinador de Asociaciones Agrícolas, Comerciales, Industriales y Financieras (1957). It brings together the following business associations: Cámara de Industria de Guatemala, Asociación de Azucareros de Guatemala, Cámara del Agro de Guatemala, Cámara Guatemalteca de la Construcción, Cámara de Finanzas, Asociación Guatemalteca de Exportadores, Federación de la Mediana y Pequeña Empresa Guatemalteca, Cámara Empresarial de Comercio y Servicios, and Cámara de Turismo de Guatemala. The association includes more than 10 associations and 120 trade committees, representing more than 100.000 employers, of which 75% belong to small and medium enterprises.

Main Sector-oriented Business Associations

- Asociación Bancaria de Guatemala.
- Asociación Guatemalteca de Instituciones de Seguros.
- Cámara de Comercio de Guatemala.
- Cámara de Industria de Guatemala.

- Asociación General de Agricultores.
- Asociación Guatemalteca de Exportadores.

HONDURAS

Peak Business Associations

Consejo Hondureño de la Empresa Privada (1967). It includes: Fundación para la Inversión y Desarrollo de Exportaciones, Federación de Cámaras de Comercio e Industrias de Honduras, Asociación Nacional de Industriales, Asociación Nacional de Exportadores de Honduras, Cámara de Comercio Hondureño-Americana, Asociación Nacional de Medianas y Pequeñas Industrias de Honduras, Gerentes y Empresarios Asociados de Honduras, Asociación de Zonas Francas de Honduras, Federación Nacional de Agentes Aduanales de Honduras, Cámara Hondureña de Empresas de Consultoría, Cámara Hondureña de Productos Equivalentes, Cámara de Comercio e Industrias de Tegucigalpa, Cámara de Comercio e Industrias de Atlántida, Cámara de Comercio e Industrias de Cortés, Cámara de Comercio e Industrias de El Progreso, and other 42 sector-oriented business organizations.

Main Sector-oriented Business Associations

- Asociación Hondureña de Instituciones Bancarias.
- Cámara Hondureña de Aseguradores.
- Federación de Cámaras de Comercio e Industrias de Honduras.
- Asociación Nacional de Industriales.
- Asociación Nacional de Exportadores de Honduras.
- Asociación Nacional de Medianas y Pequeñas Industrias de Honduras.
- Gerentes y Empresarios Asociados de Honduras.

MEXICO

Peak Business Associations

Consejo Coordinador Empresarial (1976). It includes the following associations: Confederación de Cámaras Industriales, Confederación de Cámaras Nacionales de Comercio, Servicio y Turismo, Confederación Patronal de la República Mexicana, Asociación de Bancos de México, Consejo Mexicano de Hombres de Negocios, Asociación Mexicana de Instituciones de Seguros, Consejo Nacional Agropecuario, Cámara Nacional de la Industria de Transformación, Cámara Nacional de Comercio de la Ciudad de México, Asociación Mexicana de Intermediarios Bursátiles, Consejo Empresarial Mexicano de Comercio Exterior, Asociación Nacional de Tiendas de Autoservicio, and Asociación Mexicana de Afores.

Consejo Mexicano de Hombres de Negocios (1962). It brings together the top executives from the main firms and economic conglomerates in Mexico including Televisa, Grupo Posadas, Industrias Penoles, FEMSA, Banamex, Grupo Modelo, Vitro, Carso Global Telecom, Bimbo, and Grupo Infra.

Main Sector-oriented Business Associations

- Confederación de Cámaras Industriales.
- Confederación de Cámaras Nacionales de Comercio, Servicio y Turismo.
- Confederación Patronal de la República Mexicana.
- Asociación de Bancos de México.
- Asociación Mexicana de Instituciones de Seguros.
- Consejo Nacional Agropecuario.

NICARAGUA

Peak Business Associations

Consejo Superior de la Empresa Privada (1972). It includes the Cámara de Comercio de Nicaragua, Cámara de Industrias de Nicaragua, Cámara Nicaragüense de la Construcción, Instituto Nicaragüense de Desarrollo, Confederación de Asociaciones Profesionales de Nicaragua, Unión de Productores Agropecuarios de Nicaragua, Cámara de la Pesca de Nicaragua, Cámara Nacional de Turismo de Nicaragua, Asociación Nacional de Avicultores y Productores de Alimentos, Asociación de Productores y Exportadores de Nicaragua, Asociación Nicaragüense de Distribuidores de Vehículos Automotores, Asociación Nicaragüense de la Industria Textil y de Confección, Asociación Nicaragüense de Formuladores y Distribuidores de Agroquímicos, Federación Cámara Nicaragüense de Zonas Francas Privadas, Cámara Minera de Nicaragua, Cámara de Urbanizadores de Nicaragua, Cámara Nacional de la Salud, and Asociación de Exportadores de Café de Nicaragua.

Main Sector-oriented Business Associations

- Cámara de Comercio de Nicaragua.
- Cámara de Industrias de Nicaragua.
- Cámara Nicaragüense de la Construcción.
- Confederación de Asociaciones Profesionales de Nicaragua.
- Unión de Productores Agropecuarios de Nicaragua.
- Cámara Nacional de Turismo de Nicaragua.
- Asociación de Productores y Exportadores de Nicaragua.
- Cámara Minera de Nicaragua.
- Cámara de Urbanizadores de Nicaragua.

- Cámara Nacional de la Salud.
- Asociación de Exportadores de Café de Nicaragua.

PANAMA

Peak Business Associations

Consejo Nacional de la Empresa Privada (1964). It includes the following associations: Asociación Bancaria de Panamá, Asociación de Productores Procesadores y Exportadores de Productos del Mar, Asociación de Propietarios de Inmuebles, Asociación de Representantes Distribuidores de Productos Farmacéuticos, Asociación de Usuarios de la Zona Libre de Colon, Asociación Nacional de Avicultores de Panamá, Asociación Nacional de Mueblerías, Asociación Panameña de Corredores y Promotores de Bienes Raíces, Asociación Panameña de Aseguradores, Asociación Panameña de Ejecutivos, Asociación de Universidades Privadas de Panamá, Asociación Panameña de Exportadores, Asociación Panameña de Hoteles, Asociación Panameña de las Industrias del Atún, Cámara de Comercio de Colon, Cámara Marítima de Panamá, Cámara Minera de Panamá, Cámara Panameña de la Construcción, Cámara Panameña de Tecnología, Cámara Panameña de Mercado de Capitales, Consejo Nacional de Promotores de Vivienda, Sindicatos de Industriales de Panamá, Unión Nacional de Centros Educativo Particulares de Panamá, Unión Nacional de Pequeñas y Medianas Empresas.

Main Sector-oriented Business Associations

- Asociación Bancaria de Panamá.
- Asociación Panameña de Exportadores.
- Cámara Panameña de la Construcción.
- Sindicato de Industriales de Panamá.
- Asociación Panameña de Ejecutivos de Empresas.

PARAGUAY

Main Sector-oriented Business Associations

- Unión Industrial Paraguaya.
- Asociación de Bancos del Paraguay.
- Cámara de Bancos Paraguayos.
- Asociación Paraguaya de Compañías de Seguros.
- Cámara Nacional de Comercio y Servicios de Paraguay.
- Asociación de Empresas Financieras del Paraguay.
- Asociación Rural del Paraguay.

PERU

Peak Business Associations

Confederación Nacional de Instituciones Empresariales Privadas (1984). It includes: Asociación de Bancos del Perú, Asociación de Administradoras Privadas de Fondos de Pensiones, Asociación de Exportadores, Asociación de Representantes Automotrices del Perú, Asociación Nacional de Laboratorios Farmacéuticos, Asociación para el Fomento de la Infraestructura Nacional, Asociación Peruana de Avicultura, Asociación Automotriz del Perú, Asociación Peruana de Empresas de Seguros, Asociación Peruana de Entidades Prestadoras de Salud, Asociación Peruana de Operadores Portuarios, Bolsa de Valores de Lima S.A., Cámara Peruana de la Construcción, Federación de Instituciones Privadas de Educación Superior, Federación de Cámaras del Norte, Federación de Cámaras del Sur, Federación de Cámaras del Centro, Federación de Cámaras de la Amazonía, Instituto Peruano de Auditores Independientes, Sociedad de Comercio Exterior del Perú, Sociedad Nacional de Minería, Petróleo y Energía, Sociedad Nacional de Pesquería, Sociedad Nacional de Radio y Televisión, and Sociedad Nacional de Seguridad.

Main Sector-oriented Business Associations

- Asociación de Bancos del Perú.
- Asociación Peruana de Empresas de Seguros.
- Cámara Nacional de Comercio, Producción y Servicios.
- Cámara Peruana de la Construcción.

URUGUAY

Main Sector-oriented Business Associations

- Asociación de Bancos del Uruguay.
- Cámara de Industrias del Uruguay.
- Cámara Nacional de Comercio y Servicios del Uruguay.
- Cámara Mercantil de Productos del País.
- Asociación de Importadores y Mayoristas de Almacén.
- Asociación Rural del Uruguay.
- Federación Rural.
- Unión de Exportadores del Uruguay.
- Asociación Uruguaya de Empresas Aseguradoras

VENEZUELA

Peak Business Associations

Federación Venezolana de Cámaras y Asociaciones de Comercio y Producción (1944).

Main Sector-oriented Business Associations

- Asociación Bancaria de Venezuela.
- Cámara de Aseguradores de Venezuela.
- Asociación Nacional de Industriales Metalúrgicos y de Minería de Venezuela.
- Asociación Venezolana de Exportadores.
- Cámara Petrolera.
- Confederación Nacional de Asociaciones de Productores Agropecuarios.
- Confederación Venezolana de Industriales.
- Federación Nacional de Ganaderos de Venezuela.
- Unión Patronal Venezolana del Comercio.

APPENDIX B. LIST OF INTERVIEWS

COLOMBIA

Local Scholars

- Marcela Eslava, Department of Economics, Universidad de los Andes -- Expert on Fiscal Policy
- Eduardo Saenz, Department of Economics, Universidad Nacional de Colombia -- Expert on Interest Groups and Lobbying
- Dario I. Restrepo, Department of Economics, Universidad Nacional de Colombia -- Expert on Fiscal Policy and decentralization
- Eduardo Wiesner, independent consultant -- -- Expert on Fiscal Policy and decentralization

Technocrats

- Alejandro Gaviria, Former Deputy Director, National Planning Agency -- Department of Economics, Universidad de los Andes
- Miguel Urrutia, Former Member Board of Directors, Colombian Central Bank -- Department of Economics, Universidad de los Andes
- Salomon Kalmanovitz, Former Member Board of Directors Colombian Central Bank -- Department of Economics, Universidad de Bogota Jorge Tadeo Lozano
- Roberto Steiner, former IMF Executive -- Director FEDESARROLLO (Most important Think-Tank in Colombia)
- Olga Lucia Acosta, ECLAC, Colombia Office -- Office of the Director of National Planning of Colombia.
- Roberto Junguito, former Minister of Finance -- President of FASECOLDA (interest group insurance companies).

Legislators (members of the Budget Committee)

- Jose Dario Salazar Cruz (chairman) -- Partido Conservador (President)
- Oscar Mauricio Lizcano Arango -- Partido de la U
- Juan Mario Laserna -- Partido Conservador
- Piedad Zuccardi -- Partido de la U
- Jorge Iragorri -- Partido de la U
- Camilo Sanchez -- Partido Liberal
- German Villegas --Partido Conservador
- Gabriel Zapata -- Partido Conservador
- Alvaro Ashton -- Partido Liberal (chairman)
- Ivan Name -- Partido Verde
- Efrain Cepeda --Partido Conservador
- Angel Custodio Cabrera (chairman) -- Partido de la U
- Jair Arango -- Cambio Radical
- David Barguil -- Partido Conservador
- Simon Gaviria -- Partido Liberal
- Carlos Cuenca -- Cambio Radical

- Hernando Padaui -- Cambio Radical
- Pedro Muvdi (chairman)
- Oscar Henao -- Partido Liberal
- Héctor Vergara -- Partido de la U

Lobbyists / Interest Groups

- Asobancaria (Bankers Association) -- Jaime Alberto Gomez (Vicepresidente Juridico)
- Andi (Industrialists Association) -- Alberto Echavarria (Vicepresidente Asuntos Juridicos)
- Andesco (Public Utilities Association) -- Marleny Garcia Rodriguez (Asistente Legislativa)
- Camara Colombiana de Infraestructura (Public Works and Infraestructure Companies Association) -- Beatriz Ariza. Directora de Asuntos Economicos
- Camara Colombiana de Infraestructura (Public Works and Infraestructure Companies Association) -- Francisco Jose Suarez. Vicepresidente)
- Fedepalma (Oil palm growers Association) -- Myriam Conto Posada (Vicepresidencia Juridica)
- Fasecolda (Insurance Companies Association) -- Roberto Junguito (President)
- SAC (Agricultural Companies Association) -- Luis Londono (President)

CHILE

Academics/Technocrats

- Cristobal Aninat, Diego Portales University
- Vittorio Corbo, Instituto de Economía - Pontificia Universidad Católica de Chile
- Francisco Rosende, Instituto de Economía - Pontificia Universidad Católica de Chile
- Klaus Schmidt-Hebbel, Instituto de Economía - Pontificia Universidad Católica de Chile
- Rodrigo Vergara, Instituto de Economía - Pontificia Universidad Católica de Chile
- Alberto Arenas de Mesa, Instituto de Economía - Pontificia Universidad Católica de Chile
- Alejandro Foxley Rioseco, CIEPLAN
- José Pablo Arellano, CIEPLAN
- Jorge Rodríguez, CIEPLAN

Legislators

- Eduardo Frei (Chair)
- Camilo Escalona
- Carlos Kuschel
- Ricardo Lagos Weber
- Jovino Novoa
- Joaquín Godoy
- Pablo Lonrenzini
- Carlos Recondo
-

Interest Groups/Lobbyists

- Confederación de la Producción y del Comercio – CPC
- Sociedad Nacional de Agricultura (SNA):
- Sociedad Nacional de Minería (SONAMI):
- Cámara Chilena de la Construcción (CChC)
- SOFOFA
- Asociación de Bancos e Instituciones Financieras de Chile (ABIF)

Subnational Governments

- Asociacion Chilena de Municipalidades, Jaime Pilowsky Greene

APPENDIX C. ADDITIONAL TABLES

Table C-1 Changes Tax Structure Latin America 1990-2010

Country	Year	CIT	VAT	Overhaul	Changes
ARG	1990	20.0	13.0	Yes	VATD, DD, PIRD, CIRD, O
ARG	1991	20.0	15.6		VATI, CITN
ARG	1992	20.0	16.0		VATI, CIRI, DD
ARG	1993	30.0	18.0	Yes	DD
ARG	1994	30.0	18.0	Yes	Exemptions for mining
ARG	1995	30.0	18.0		VATI
ARG	1996	30.0	21.0		PITB, CITB, OT
ARG	1998	33.0	21.0		OT
ARG	1999	35.0	21.0		PIRI, CIRI
ARG	2000	35.0	21.0		PITB
ARG	2001	35.0	21.0		OT, DD
ARG	2002	35.0	21.0		OT
ARG	2003	35.0	21.0		A
BOL	1990	2.5	10.0		CIRI
BOL	1992	3.0	10.0		VATI
BOL	1993	3.0	13.0		PIRI
BOL	1995	25.0	13.0	Yes	PITB, CIRI, CITB, OT
BOL	1996	25.0	13.0		CIRI
BOL	1997	25.0	13.0		OT
BOL	2001	25.0	13.0		OT
BOL	2002	25.0	13.0		OT
BOL	2003	25.0	13.0		OT
BOL	2004	25.0	13.0		OT
BRA	1990	30.0	10.0		CIRD
BRA	1991	30.0	10.0		VATI
BRA	1993	25.0	10-15		CIRD
BRA	1994	25.0	10-15		VATI, PIRI, OT
BRA	1995	25.0	10-15		DD
BRA	1996	15.0	10-15		PIRD, CIRD, OT
BRA	1999	15.0	10-15		OT
BRA	2000	15.0	10-15		PIRI
BRA	2001	15.0	10-15		OT, A
BRA	2002	15.0	10-15	Yes	OT
BRA	2003	15.0	10-15		Mini-tax reform: contribution for PIS
BRA	2004	15.0	10-15		Mini-tax reform: Contribution on financial transactions
CHI	1990	32.5	16.0		VATI
CHI	1991	35.0	18.0		CIRI
CHI	1994	35.0	18.0		PIRD
CHI	1995	35.0	18.0		PIRD
CHI	1996	35.0	18.0		OT
CHI	2002	35.0	18.0		PIRD, CIRI
CHI	2003	35.0	18.0		VATI, PIRD, CIRI; Investment Platform Law: new exceptions for foreign capital
CHI	2004	35.0	18.0		CIRI
CHI	2010	35.0	19.0		Temporary increase in the First Category tax (i.e. corporate income tax) from current 17% to 20% for income received or accrued during calendar year 2011.
COL	1990	30.0	10.0		VATI, OT
COL	1992	30.0	12.0		OT
COL	1993	30.0	14.0		VATI, PIRI, CITB

COL	1995	30.0	14.0		PIRI, CIRI, OT
COL	1996	30.0	16.0		VATI, OT
COL	1997	35.0	16.0		OT
COL	1998	35.0	16.0		CITB
COL	2000	35.0	16.0		VATD, DD, OT
COL	2001	35.0	16.0		VATI, OT
COL	2003	38.5	16.0		VATE, PITB, CIRI, OT; Mini-tax reform: tax exemptions: wind-generated electricity, hotel services, seismic services, exporters
COL	2004	35.0	16.0		A
CRI	1992	30.0	12.0		VATI
CRI	1993	30.0	11.0		VATD
CRI	1994	30.0	10.0		VATD
CRI	1995	30.0	10.0		VATI
CRI	1996	30.0	15.0		OT
CRI	1997	30.0	15.0		VATD
CRI	1998	30.0	15.0		OT
CRI	2000	30.0	13.0		PITN
CRI	2002	30.0	13.0		CITN, OT
CRI	2003	36.0	13.0		PIRI, CIRI, OT
CRI	2004	30.0	13.0		CIRD
DOM	1992	46.0	6.0	Yes	PIRD, CIRD, OT
DOM	1993	30.0	8.0		PIRD, CIRD
DOM	1994	26.0	8.0		PIRD, CIRD
DOM	1995	25.0	8.0		PIRD, CIRD, VATI
DOM	2001	25.0	8.0		PITN
DOM	2003	25.0	12.0		VATI, OT
DOM	2004	25.0	8.0		OT
ECU	1990	25.0	10.0		PIRD, CIRD
ECU	1994	25.0	10.0		CIRD, OT
ECU	1995	25.0	10.0		OT
ECU	1997	25.0	10.0		PITN, OT
ECU	1998	25.0	10.0		OT
ECU	1999	0.0	10.0		PITN, CITN, OT; Income tax was suspended this year. The government implemented a financial transaction tax (1%)
ECU	2000	0.0	10.0		VATI; Income tax was suspended this year. The government implemented a financial transaction tax (1%)
ECU	2001	25.0	12.0	Yes	DD, OT
ECU	2003	25.0	12.0		OT
ECU	2010	23.0	12.0		Production Code: promote new investments within the country by granting tax holidays
GTM	1990	34.0	7.0		OT
GTM	1992	34.0	7.0	Yes	OT. New Exports Incentive Law grants exporters of nontraditional goods a tax rebate.
GTM	1993	25.0	7.0		PITN, PIRD, CIRD
GTM	1995	30.0	7.0		PIRI, CIRI, OT
GTM	1996	30.0	7.0		VATI
GTM	1998	30.0	10.0		PIRD, OT
GTM	1999	27.5	10.0		CIRD
GTM	2000	27.5	10.0		CIRD
GTM	2001	31.0	10.0		PIRI, CIRI, OT
GTM	2003	31.0	10.0		OT
GTM	2004	31.0	12.0		VATI
HND	1990	35.0			CIRD
HND	1991	35.0			VATI
HND	1995	35.0	7.0		OT

HND	1996	35.0	7.0		PIRD
HND	1999				PIRD, CIRD
HND	2000				PIRD, CIRD
HND	2004	25.0	12.0		OT
MEX	1990	36.0	15.0		PIRD
MEX	1991	35.0	15.0		CIRD
MEX	1992	35.0	10.0		VR
MEX	1993	35.0	10.0		CITN, CIRD
MEX	1994	34.0	10.0		CIRD
MEX	1995	34.0	10.0		VATI, OT
MEX	1997	34.0	15.0		PITN
MEX	2002	35.0	15.0	Yes	CITB, CIRI, PITB, OT; New Income Tax Law: exemptions income tax
MEX	2003	34.0	15.0		PITB, PIRD, CIRD, DD, OT
MEX	2004	33.0	15.0	Yes	PIRD, CIRD, DD, OT; New federal tax code, tax on salary credits
NIC	1992	35.5	15.0		PIR
NIC	1993	30.0	15.0		VATE, CIRD, DD, OT
NIC	2001	25.0	15.0		PIRD, CIRD
PAN	1991	47.0	5.0		CIRD
PAN	1992	45.0	5.0		PIR, CIR
PAN	1993	42.0	5.0		CIRD
PAN	1994	34.0	5.0		CIRD, OT
PAN	1997	30.0	5.0		CIRD
PAN	2003	30.0	5.0		CIRD, OT
PRY	1991	30.0	4.0	Yes	DD
PRY	1992	30.0	4.0		VC, PIR, CIR
PRY	1993	30.0	4.0		OT
PRY	1994	30.0	4.0		DD
PER	1990	35.0	15.0		VATI
PER	1991	30.0	14.0		VATD, OT
PER	1992	30.0	16.0		VR, PIR, CI, CIR, O
PER	1993	30.0	18.0		DD, OT
PER	1994	30.0	18.0		PIRD, DD, OT
PER	1996	30.0	18.0		OT
PER	1997	30.0	18.0		OT
PER	1998	30.0	18.0		OT
PER	2001	20.0	18.0		PIRD, CIRD
PER	2002	27.0	18.0		PIRI, CIRI, OT
PER	2003	27.0	18.0		PIRI
PER	2004	30.0	19.0		VATI, CIRI, OT; financial transaction tax
SLV	1993	25.0	10.0		VAT, DD
SLV	1994	25.0	10.0		OT
SLV	1995	25.0	10.0		VATI, DD, OT
URU	1990	30.0	21.0		CIRI
URU	1993	30.0	22.0		OT
URU	1996	30.0	23.0		VATI, OT
URU	2003	35.0	23.0		CIRI, OT
VEN	1992	30.0			PIR, CIR
VEN	1993	30.0			VAT, OT
VEN	1994	30.0	15.0		VATE, CITB
VEN	1995	34.0	12.5		VATI, PIRI, CIRI
VEN	1997	34.0	12.5		VATN, VATI
VEN	1999	34.0	15.5	Yes	VATD, CITN, DD, OT; New VAT regulation and bank transaction tax
VEN	2000	34.0	15.5	Yes	VATD, CITN, DD, OT; New VAT regulation and bank

					transaction tax
VEN	2001	34.0	14.5	Yes	CITB
VEN	2002	34.0	16.0		VATI, OT; Value Added Tax Law: Increase VAT rate from 14.5% to 16%
VEN	2004	34.0	16.0		OT; Bank debit tax law

Source: Author's calculations based on PWC Corporate Taxes, Worldwide Summary; Scartascini/Hallerberg, Lora, Mahon (2004)

Notes:
VAT: VAT creation
VATE: VAT expansion
VATN: VAT narrowing
VATI: VAT rate decrease
VATD: VAT rate increase
DI: Duties and others increase
DD: Duties and others decrease
PITB: Broadening Personal Income Tax
PITN: Narrowing Personal Income Tax
PIRI: Personal Income Tax Rate Increase
PIRD: Personal Income Tax Rate Decrease
CITB: Broadening Corporate Income Tax
CITN: Narrowing Corporate Income Tax
CIRI: Corporate Income Tax Increase
CIRD: Corporate Income Tax Decrease
A: Comprehensive Administrative Reform
OT: Other taxes creation or increase

BIBLIOGRAPHY

Abascal, Maria, Luis Carranza, Mayte Ledo, and Arnoldo Lopez Marmolejo. 2011. *Impact of Financial Regulation on Emerging Countries*.

Abel, Andrew B. 2008. "Ricardian Equivalence Theorem." In *The New Palgrave Dictionary of Economics*, edited by Steven N. Durlauf and Lawrence E. Blume. Basingstoke: Palgrave Macmillan. http://www.dictionaryofeconomics.com/extract?id=pde2008_R000146.

Achen, Christopher. 2000. "Why Lagged Dependent Variables Can Supress the Explanatory Power of Other Independent Variables." In .

Acuna, Carlos. 1998. "Political Struggle and Business Peak Associations: Theoretical Reflection on the Argentinian Case." In *Organized Business, Economic Change, and Democracy in Latin America*, edited by Francisco Durand and Eduardo Silva. Miami: North-South Center Press at the University of Miami.

Aguilar, Tatiana, Sandra Cortés, and Mauricio Olivera. 2013. "Ingresos Fiscales Por Explotación de Recursos Naturales En Colombia", September. http://publications.iadb.org/handle/11319/1506.

Akard, Patrick J. 1992. "Corporate Mobilization and Political Power: The Transformation of U.S. Economic Policy in the 1970s." *American Sociological Review* 57 (5): 597–615.

Alesina, Alberto. 2005. *Institutional Reforms : The Case of Colombia*. Cambridge, Mass.: MIT Press.

Alesina, Alberto, and Allan Drazen. 1991. "Why Are Stabilizations Delayed?" *The American Economic Review* 81 (5): 1170–88.

Alesina, Alberto, Ricardo Hausmann, Rudolf Hommes, and Ernesto Stein. 1999. “Budget Institutions and Fiscal Performance in Latin America.” *Journal of Development Economics* 59 (2): 253–73. doi:10.1016/S0304-3878(99)00012-7.

Alesina, Alberto, and Roberto Perotti. 1995. “The Political Economy of Budget Deficits.” *Staff Papers - International Monetary Fund* 42 (1): 1–31.

Alesina, Alberto, and Howard Rosenthal. 1995. *Partisan Politics, Divided Government, and the Economy*. New York NY: Cambridge University Press.

Alesina, Alberto, and Nouriel Roubini. 1992. “Political Cycles in OECD Economies.” *The Review of Economic Studies* 59 (4): 663–88.

Alesina, Alberto, and Guido Tabellini. 1990. “A Positive Theory of Fiscal Deficits and Government Debt.” *The Review of Economic Studies* 57 (3): 403–14.

Alt, J.E., and R.C. Lowry. 1994. “Divided Government, Fiscal Institutions, and Budget Deficits: Evidence from the States.” *American Political Science Review* 88 (4): 811–28.

Alt, James, Ian Preston, and Luke Sibieta. 2010. “The Political Economy of Tax Policy.” In *Dimensions of Tax Design: The Mirrlees Review*, edited by James A. Mirrlees. Oxford: Oxford University Press.

Ames, Barry. 1987. *Political Survival: Politicians and Public Policy in Latin America*. 12. Berkeley CA: University of California Press.

Ames, Barry, Miguel Carreras, and Cassilde Schwartz. 2012. “What’s next? Reflections on the Future of Latin American Political Science.” In *Routledge Handbook of Latin American Politics*, edited by Peter R. Kingstone and Deborah J. Yashar. New York: Routledge.

Aninat, Cristobal, John Londregan, Patricio Navia, and Joaquin Vial. 2006. "Political Institutions, Policymaking Processes and Policy Outcomes in Chile." *IADB Research Department Working Paper Series*, no. 521.

Arce, Pia. 2013. *Ranking de Grupos Economicos*. Santiago, Chile: Universidad del Desarrollo.

Ardanaz, Martin, Carlos Scartascini, and Mariano Tommasi. 2010. "Political Institutions, Policymaking, and Economic Policy in Latin America." *IDB Working Paper Series*, no. 158.

Arellano, Manuel, and Stephen Bond. 1991. "Some Tests of Specification for Panel Data: Monte Carlo Evidence and an Application to Employment Equations." *The Review of Economic Studies* 58 (2): 277–97. doi:10.2307/2297968.

Austen-Smith, David. 1993. "Information and Influence: Lobbying for Agendas and Votes." *American Journal of Political Science* 37 (3): 799–833.

Azpiazu, Daniel, and Eduardo M. Basualdo. 1989. *Cara y contracara de los grupos económicos: estado y promoción industrial en la Argentina*. Cántaro Editores.

Azpiazu, Daniel, Eduardo M. Basualdo, and Miguel Khavisse. 2004. *Nuevo poder económico en la Argentina de los años 80*. Siglo Veintiuno Editores Argentina.

Baez, Javier E., Adriana Camacho, Emily Conover, and Roman A. Zarate. 2012. *Conditional Cash Transfers, Political Participation, and Voting Behavior*. Policy Research Working Paper Series 6215. The World Bank. http://ideas.repec.org/p/wbk/wbrwps/6215.html.

Ball, Alan R., and Frances Millard. 1987. *Pressure Politics in Industrial Societies: A Comparative Introduction*. Atlantic Highlands, NJ: Humanities Press International.

Barro, Robert J. 1979. "On the Determination of the Public Debt." *The Journal of Political Economy* 87 (5): 940–71.

Bartell, Ernest, and Leigh A. Payne. 1995. *Business and Democracy in Latin America*. University of Pittsburgh Pre.

Bartlett, Randall. 1973. *Economic Foundations of Political Power*. New York: Free Press.

Basualdo, Eduardo M. 2006. *Estudios de Historia Económica Argentina: Desde Mediados Del Siglo XX a la Actualidad*. FLACSO.

Basualdo, Eduardo M., Universidad Nacional de Quilmes, FLACSO (Organization), and Instituto de Estudios sobre Estado y Participación. 2000. *Concentración y centralización del capital en la Argentina durante la década de los noventa: una aproximación a través de la reestructuración económica y el comportamiento de los grupos económicos y los capitales extranjeros*. Universidad Nacional de Quilmes Ediciones.

Bates, Robert H. 1998. *Open-Economy Politics: The Political Economy of the World Coffee Trade*. New Ed edition. Princeton, N.J.: Princeton University Press.

Bauer, Raymond Augustine, Lewis Anthony Dexter, and Ithiel de Sola Pool. 1974. *American Business and Public Policy : The Politics of Foreign Trade*. Chicago: Aldine.

Baumgartner, Frank R., Jeffrey Berry, Marie Hojnacki, David Kimball, and Beth Leech. 2009. *Lobbying and Policy Change : Who Wins, Who Loses and Why*. Chigago: University of Chicago Press.

Beck, Nathaniel, and Jonathan N. Katz. 2011. "Modeling Dynamics in Time-Series-Cross-Section Political Economy Data." *Annual Review of Political Science* 14: 331–52.

Bird, Richard M. 1992. "Tax Reform in Latin America: A Review of Some Recent Experiences." *Latin American Research Review* 27 (1): 7–36.

Bird, Richard M., James M. Poterba, and Joel Slemrod. 2005. *Fiscal Reform in Colombia: Problems and Prospects*. Cambridge MA: MIT Press.

Bohórquez, Germán Orlando. 2013. “Evolución del régimen de regalías en Colombia a partir de la Constitución Política de 1991.” *Equidad & Desarrollo* 0 (19): 137–60.

Bonet, Jaime, Karelys Guzman, Joaquin Urrego, and Miguel Villa. 2014. “Efectos Del Nuevo Sistema General de Regalías Sobre El Desempeño Fiscal Municipal: Un Análisis Dosis-Respuesta.” *Documento de Trabajo Sobre Economia Regional*, no. 203. http://www.banrep.gov.co/es/dtser-203.

Bonvecchi, Alejandro. 2010. “The Political Economy of Fiscal Reform in Latin America: The Case of Argentina.” *IDB Working Paper Series*, no. 175.

Borensztein, Eduardo, Eduardo Levy Yeyati, and Ugo Panizza. 2006. *Living with Debt: How to Limit the Risks of Sovereign Finance*. Economic and Social Progress in Latin America 2007. Washington: Inter-American Development Bank.

Borges, André. 2011. “The Political Consequences of Center-Led Redistribution in Brazilian Federalism: The Fall of Subnational Party Machines.” *Latin American Research Review* 46 (3): 21–45. doi:10.1353/lar.2011.0047.

Boylan, Delia. 1996. “Taxation And Transition: The Politics Of The 1990 Chilean Tax Reform.” *Latin American Research Review* 31 (1): 7–32.

Buchanan, James M. 2008. “Public Debt.” In *The New Palgrave Dictionary of Economics*, edited by Steven N. Durlauf and Lawrence E. Blume. Basingstoke: Palgrave Macmillan. http://www.dictionaryofeconomics.com/extract?id=pde2008_P000241.

Buchanan, James M., and Richard E Wagner. 1973. *Democracy in Deficit : The Political Legacy of Lord Keynes*. New York: Academic Press.

Carey, John M., and Matthew Soberg Shugart. 1995. “Incentives to Cultivate a Personal Vote: A Rank Ordering of Electoral Formulas.” *Electoral Studies* 14 (4): 417–39. doi:10.1016/0261-3794(94)00035-2.

Carstens, Agustin, and Luis I. Jacome. 2005. “The 1990s Institutional Reform of Monetary Policy in Latin America.” *Working Papers Central Bank of Chile* December (343).

Casas-Zamora, Kevin. 2005. *Paying for Democracy: Political Finance and State Funding for Parties*. ECPR Press.

Castaneda-Angarita, Nestor. 2013. “Party System Nationalization, Presidential Coalitions, and Government Spending.” *Electoral Studies* 32 (4): 783–94.

Cetrángolo, Oscar. 2012. “Evolución Reciente, Raíces Pasadas Y Principales Problemas de Las Cuentas Públicas Argentinas.” *Boletín Informativo Techint*, 13–31.

CNI. 2013. *AGENDA LEGISLATIVA 2013*. Brasilia: CNI.

Coen, David, Wyn Grant, and Graham Wilson. 2010. “Political Science Perspectives on Business and Government.” In *The Oxford Handbook of Business and Government*, edited by David Coen, Wyn Grant, and Graham Wilson. New York: Oxford University Press.

Conaghan, Catherine M., and James Malloy. 1995. *Unsettling Statecraft: Democracy and Neoliberalism in the Central Andes*. University of Pittsburgh Pre.

Coppedge, Michael. 1997. “A Classification of Latin American Political Parties.” Edited by The Helen Kellogg Institute for International Studies.

Corbacho, Ana, Vicente Fretes, and Eduardo Lora, eds. 2013. *Recaudar No Basta: Los Impuestos Como Instrumento de Desarrollo*. New York: Banco Interamericano de Desarrollo.

Corrales, Javier. 2002. *Presidents Without Parties: The Politics of Economic Reform in Argentina and Venezuela in the 1990s*. University Park, Pa.: Pennsylvania State University Press.

Crisp, Brian, and Rachael E. Ingall. 2002. "Institutional Engineering and the Nature of Representation: Mapping the Effects of Electoral Reform in Colombia." *American Journal of Political Science* 46 (4): 733–48.

Cukierman, Alex, and Allan H. Meltzer. 1989. "A Political Theory of Government Debt and Deficits in a Neo-Ricardian Framework." *The American Economic Review* 79 (4): 713–32.

Culpepper, Pepper. 2011. *Quiet Politics and Business Power: Corporate Control in Europe and Japan*. New York NY: Cambridge University Press.

Dargent, Eduardo, and Paula Muñoz. 2011. "Democracy Against Parties? Party System Deinstitutionalization in Colombia." *Journal of Politics in Latin America* 3 (2): 43–71.

De Figueiredo, John M., and Brian Ritcher. 2013. "Advancing the Empririical Research on Lobbying." *NBER Working Papers* 19698.

Devlin, Robert, Antoni Estevadeordal, Andrés Rodríguez, and David Rockefeller Center for Latin American Studies. 2006. *The Emergence of China: Opportunities and Challenges for Latin America and the Caribbean*. IDB.

Di Gioacchino, Debora, Sergio Ginebri, and Laura Sabani. 2004. *The Role of Organized Interest Groups in Policy Making*. Central Issues in Contemporary Economic Theory and Policy; Variation: Central Issues in Contemporary Economic Theory and Policy. New York. http://catdir.loc.gov/catdir/enhancements/fy0615/2003066659-t.html Materials specified: Table of contents http://catdir.loc.gov/catdir/enhancements/fy0615/2003066659-t.html.

Diaz-Cayeros, Alberto. 2006. *Federalism, Fiscal Authority, and Centralization in Latin America*. New York NY: Cambridge University Press.

DiJohn, Jonathan. 2010. *From Windfall to Curse?: Oil and Industrialization in Venezuela, 1920 to the Present*. Penn State Press.

Drazen, Allan. 2000. *Political Economy in Macroeconomics*. Princeton NJ: Princeton University Press.

Drazen, Allan, and Vittorio Grilli. 1993. "The Benefit of Crises for Economic Reforms." *The American Economic Review* 83 (3): 598–607.

Durand, Francisco, and Eduardo Silva. 1998. *Organized Business, Economic Change, and Democracy in Latin America*. Coral Gables, Fl.: North-South Center Press.

ECLAC. 2013. *Fiscal Panorama of Latin America and the Caribbean: Tax Reform and Renewal of the Fiscal Covenant*. Santiago, Chile: ECLAC.

Fairfield, Tasha. 2010a. "Business Power and Tax Reform: Taxing Income and Profits in Chile and Argentina." *Latin American Politics and Society* 52 (2): 37–71. doi:10.1111/j.1548-2456.2010.00081.x.

———. 2010b. "The Politics of Revenue-Raising Tax Reform in Latin America". University of California, Berkeley. http://www.escholarship.org/uc/item/86h499nj.

———. 2010c. "The Politics of Revenue-Raising Tax Reform in Latin America". University of California, Berkeley. http://www.escholarship.org/uc/item/86h499nj.

———. 2011. "Business Power and Protest: Argentina's Agricultural Producers Protest in Comparative Context." *Studies in Comparative International Development (SCID)* 46 (4): 424–53. doi:10.1007/s12116-011-9094-z.

Falleti, Tulia Gabriela. 2010. *Decentralization and Subnational Politics in Latin America*. New York NY: Cambridge University Press.

Feenstra, Robert, Robert Inklaar, and Marcel Timmer. 2013. "The Next Generation of the Penn World Table."

Fenno, Richard F. 1973. *Congressmen in Committees*. [1st]. The Study of Congress Series; Boston: Little, Brown.

Ferreira, Francisco H. G., Julian Messina, Jamele Rigolini, Luis-Felipe Lopez-Calva, Maria Ana Lugo, Renos Vakis, Luis Felipe Ló, and pez-Calva. 2012. *Economic Mobility and the Rise of the Latin American Middle Class*. World Bank Publications.

Ffrench-Davis, Ricardo. 2005. *Reforming Latin America's Economies : After Market Fundamentalism*. Basingstoke [England]: New York : Palgrave Macmillan.

Fiess, Norbert. 2005. "Chile's Fiscal Rule." In *Fiscal Sustainability in Theory and Practice: A Handbook*, edited by Craig Burnside. Washington DC: The World Bank.

Figari, Francesco, and Luca Gandullia. 2008. "An Outline of Tax Systems and Tax Reforms." In *Tax Systems and Tax Reforms in Latin America*, edited by Luigi Bernardi, Alberto Barreix, Anna Marenzi, and Paola Profeta. New York: Routledge.

Figueiredo, Argelina Cheibub, and Fernando Limongi. 2000. "Presidential Power, Legislative Organization, and Party Behavior in Brazil." *Comparative Politics* 32 (2): 151–70.

Fisher, Patrick. 2009. *The Politics of Taxing and Spending*. Boulder CO: Lynne Rienner Publishers.

Floria, Carlos, and Cesar Garcia. 1992. *Historia Politica de La Argentina Contemporanea, 1880-1983*. 4th ed. Buenos Aires: Alianza Editorial.

Fontaine, Bernardo, and Rodrigo Vergara. 2000. “Analisis Del Proyecto Contra La Evasion Tributaria.” *Estudios Publicos* 79: 173–97.

Forte, Francesco. 2010. *Principles of Public Economics : A Public Choice Approach*. Cheltenham; Northampton, MA: Edward Elgar.

Friedman, Benjamin M. 2008. “Money Supply.” In *The New Palgrave Dictionary of Economics*, edited by Steven N. Durlauf and Lawrence E. Blume. Basingstoke: Palgrave Macmillan. http://www.dictionaryofeconomics.com/extract?id=pde2008_M000236.

Fuchs, Doris A. 2007. *Business Power in Global Governance*. Boulder: Lynne Rienner Publishers.

Funk, Robert L. 2013. “CHILE EN 2012: LA CAMPAÑA PERMANENTE.” *Revista de Ciencia Política (Santiago)* 33 (1): 83–99. doi:10.4067/S0718-090X2013000100004.

Garay Salamanca, Luis Jorge. 1998. *Colombia, Estructura Industrial E Internacionalización, 1967-1996*. Industria de América Latina Ante La Globalización Económica. Santafé de Bogotá, Colombia: Departamento Nacional de Planeación. http://catalog.hathitrust.org/Record/007238922.

Gerring, John. 2004. “What Is a Case Study and What Is It Good For?” *American Political Science Review* 98 (02): 341–54. doi:10.1017/S0003055404001182.

———. 2007. *Case Study Research: Principles and Practices*. Cambridge UK: Cambridge University Press.

Giugale, Marcelo Lafourcade O. Luff Connie. 2003. *Colombia : The Economic Foundation of Peace*. Washington, DC: World Bank.

González, Mónica Barrios. 2011. “Clientelismo y Familias en Acción: una mirada desde lo local.” *Revista Opera*, no. 11: 147–64.

Grilli, Vittorio, Donato Masciandaro, Guido Tabellini, Edmond Malinvaud, and Marco Pagano. 1991. "Political and Monetary Institutions and Public Financial Policies in the Industrial Countries." *Economic Policy* 6 (13): 342–92.

Guevara, Carlos Dávila L. de. 2003. *Empresas y empresarios en la historia de Colombia: siglos XIX-XX : una colección de estudios recientes*. Norma.

Hacker, Jacob S., and Paul Pierson. 2002. "Business Power and Social Policy: Employers and the Formation of the American Welfare State." *Politics & Society* 30 (2): 277–325. doi:10.1177/0032329202030002004.

Haggard, Stephan, and Mathew D. McCubbins. 2000. *Presidents, Parliaments, and Policy*. New York: Cambridge University Press.

Hall, Peter A., and David W. Soskice. 2001. *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford UK: Oxford University Press.

Hall, Richard L., and Frank W. Wayman. 1990. "Buying Time: Moneyed Interests and the Mobilization of Bias in Congressional Committees." *The American Political Science Review* 84 (3): 797–820.

Hallerberg, Mark, Carlos Scartascini, and Ernesto Stein. 2009. "The Budget Process as a Political Arena." In *Who Decides the Budget? : A Political Economy Analysis of the Budget Process in Latin America*, edited by Mark Hallerberg, Carlos Scartascini, and Ernesto Stein. Washington DC: David Rockefeller Center for Latin American Studies - Harvard University Press - Inter-American Development Bank.

Hallerberg, Mark, Rolf Strauch, and Jürgen Von Hagen. 2009. *Fiscal Governance in Europe*. New York: Cambridge University Press.

Hartlyn, Jonathan. 1993. *La política del régimen de coalición : la experiencia del Frente Nacional en Colombia*. 1. ed. Santafé de Bogotá, Colombia: CEI : Ediciones Uniandes : Tercer Mundo Editores.

Hernandez, Isidro. 2004. "Las Privatizaciones En Colombia." *APUNTES DEL CENES* 24 (37). http://virtual.uptc.edu.co/revistas2013f/index.php/cenes/article/view/153.

Hirschman, Albert O. 1970. *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States*. Harvard University Press.

Hojnacki, Marie, and David C. Kimball. 1998. "Organized Interests and the Decision of Whom to Lobby in Congress." *The American Political Science Review* 92 (4): 775–90.

———. 1999. "The Who and How of Organizations' Lobbying Strategies in Committee." *The Journal of Politics* 61 (04): 999–1024. doi:10.2307/2647551.

Huber, Evelyne, John Stephens, Thomas Mustillo, and Jennifer Pribble. 2012. "Latin America and the Caribbean Political Dataset 1945-2008". University of North Carolina.

Huneeus, Carlos. 2001. "El Comportamiento Politico de Los Empresarios En Chile." *Revista Perspectivas* 4 (2): 315–37.

International Monetary Fund. 2010. "Government Finance Statistics". International Monetary Fund. http://dx.doi.org/10.3886/ICPSR08624.v2.

Isaza, José Guillermo García. 2005. *Liberalización y transformación en la industria colombiana*. Universidad Autónoma de Colombia, Facultad de Ciencias Económicas Administrativas y Contables, Sistema Universitario de Investigación.

Iversen, Torben. 1999. *Contested Economic Institutions: The Politics of Macroeconomics and Wage Bargaining in Advanced Democracies*. Cambridge MA: Cambridge University Press.

Jacobs, David. 1988. “Corporate Economic Power and the State: A Longitudinal Assessment of Two Explanations.” *American Journal of Sociology* 93 (4): 852–81.

Jaramillo, Alberto Jaramillo. 2012. “¿Reconversión industrial o reconversión empresarial?” *Revista Universidad EAFIT* 30 (96): 55–64.

Jaramillo, Juliana, and Julieth Parra. 2012. *Evolución de La Concentración Y Especialización Industrial En Colombia, 1975-2005*. ENSAYOS DE ECONOMÍA 009809. UNIVERSIDAD NACIONAL DE COLOMBIA SEDE MEDELLIN. http://ideas.repec.org/p/col/000418/009809.html.

Jones, Mark. 2013. “Presidentialism and Legislatures.” In *Routledge Handbook of Latin American Politics*, edited by Peter R. Kingstone and Deborah J. Yashar. New York: Routledge.

Junguito, Roberto, and Hernán Rincón. 2004. *La Política Fiscal En El Siglo XX En Colombia*. Borradores de Economia 318. Banco de la Republica de Colombia. http://ideas.repec.org/p/bdr/borrec/318.html.

Keele, Luke, and Nathan J. Kelly. 2006. “Dynamic Models for Dynamic Theories: The Ins and Outs of Lagged Dependent Variables.” *Political Analysis* 14 (2): 186–205. doi:10.1093/pan/mpj006.

Kingstone, Peter R. 1999. *Crafting Coalitions for Reform: Business Preferences, Political Institutions, and Neoliberal Reform in Brazil*. University Park, Pa.: Pennsylvania State University Press.

Kose, M. Ayhan. 2011. *Emerging Markets: Resilience and Growth Amid Global Turmoil*. Brookings Institution Press.

Lehoucq, Fabrice. 2010. “Political Competition, Constitutional Arrangements, and the Quality of Public Policies in Costa Rica.” *Latin American Politics and Society* 52 (4): 53–77. doi:10.1111/j.1548-2456.2010.00098.x.

Levitsky, Steven. 2005. “Argentina: Democratic Survival.” In *The Third Wave of Democratization in Latin America: Advances and Setbacks*, edited by Frances Hagopian and Scott Mainwaring. New York: Cambridge University Press.

Lewin, Esteban. 2014. “Las Sorpresas de Los Que Le Donaron a La Campaña Presidencial de Santos.” *La Silla Vacía*. Accessed March 19. http://lasillavacia.com/content/las-sorpresas-de-los-que-le-donaron-la-campana-presidencial-de-santos-45016.

Lindblom, Charles Edward. 1977. *Politics and Markets : The World’s Political Economic Systems*. New York: Basic Books.

Luna, Juan Pablo, and Rodrigo Mardones. 2010. “Chile: Are the Parties Over?” *Journal of Democracy* 21 (3): 107–21. doi:10.1353/jod.0.0180.

Mahon, James E. 1996. *Mobile Capital and Latin American Development*. University Park, Pa.: Pennsylvania State University Press.

Mahon, James E., Jr. 2004. “Causes of Tax Reform in Latin America, 1977-95.” *Latin American Research Review* 39 (1): 3–30.

Mahoney, Christine. 2007. “Lobbying Success in the United States and the European Union.” *Journal of Public Policy* 27 (01): 35–56. doi:10.1017/S0143814X07000608.

Mainwaring, Scott, and Timothy Scully. 1995. *Building Democratic Institutions: Party Systems in Latin America*. Stanford CA: Stanford University Press.

Mainwaring, Scott, and Matthew Soberg Shugart. 1997. *Presidentialism and Democracy in Latin America*. Reprint. Cambridge UK: Cambridge University Press.

Malamud, Andres, and Miguel De Luca, eds. 2011. *La Politica En Tiempos de Los Kirchner*. Buenos Aires: Eudeba.

Malloy, James, ed. 1977. *Authoritarianism and Corporatism in Latin America*. Pittsburgh PA: University of Pittsburgh Press.

Mancuso, Wagner Pralon. 2007. *O lobby da indústria no Congresso Nacional : empresariado e política no Brasil contemporâneo*. São Paulo: EDUSP : Humanitas : FAPESP.

Mancuso, WP. 2004. "O Lobby Da Indústria No Congresso Nacional: Empresariado E Política No Brasil Contemporâneo." *Dados* 47 (3): 505–47.

———. 2008. "O Empresariado Como Ator Político No Brasil: Balanço Da Literatura E Agenda de Pesquisa." *Revista de Sociologia E Política* 28 (0).

Marcel, Mario. 2002. "Building a Consensus for Fiscal Reform: The Chilean Case."

———. 2013. "The Structural Balance Rule in Chile: Ten Years, Ten Lessons." *IADB Discussion Paper*, no. IDB-DP-289.

Martin, Cathie J. 1991. *Shifting the Burden: The Struggle over Growth and Corporate Taxation*. Chicago: University of Chicago Press.

Martin, Cathie J., and Duane Swank. 2012. *The Political Construction of Business Interests: Coordination, Growth, and Equality*. New York: Cambridge Unversity Press.

Martin, Cathie Jo, and Duane Swank. 2004. "Does the Organization of Capital Matter? Employers and Active Labor Market Policy at the National and Firm Levels." *The American Political Science Review* 98 (4): 593–611.

———. 2008. "The Political Origins of Coordinated Capitalism: Business Organizations, Party Systems, and State Structure in the Age of Innocence." *American Political Science Review* 102 (2): 181–98.

Mejía Acosta, Andrés. 2009. *Informal Coalitions and Policymaking in Latin America: Ecuador in Comparative Perspective*. New York: Routledge. http://catdir.loc.gov/catdir/enhancements/fy0917/2008044862-d.html Materials specified: Publisher descriptionhttp://catdir.loc.gov/catdir/enhancements/fy0917/2008044862-d.html.

Miliband, Ralph. 1969. *The State in Capitalist Society*. New York: Basic Books.

Misas, Gabriel. 2002. *La ruptura de los 90 del gradualismo al colapso*. Univ. Nacional de Colombia.

Moe, Terry M. 1980. *The Organization of Interests: Iincentives and the Internal Dynamics of Political Interest Groups*. Chicago: University of Chicago Press.

Morgenstern, Scott, and Benito Nacif. 2002. *Legislative Politics in Latin America*. New York, NY: Cambridge University Press.

Murillo, Victoria, Virginia Oliveros, and Milan Vaishnav. 2010. "Dataset on Political Ideology of Presidents and Parties in Latin America". Columbia University.

Musgrave, R. A. 1992. "Schumpeter's Crisis of the Tax State: An Essay in Fiscal Sociology." *Journal of Evolutionary Economics* 2 (2): 89–113.

Musgrave, Richard. 1969. *Bases de Una Reforma Tributaria Para Colombia*. Bogota: Ediciones Tercer Mundo.

Navia, Patricio. 2006. "Three's Company: Old and New Alignments in Chile's Party System." In *After Pinochet: The Chilean Road to Democracy and the Market*, edited by Silvia Borzutzky and Lois Oppenheim. Gainsville FL: University Press of Florida.

OECD. 2011. "Revenue Statistics: Comparative Tables." /content/data/data-00262-en http://dx.doi.org/10.1787/data-00262-en.

Olivera, Mauricio, Monica Pachon, and Guillermo E. Perry. 2010. “The Political Economy of Fiscal Reform: The Case of Colombia, 1986-2006.” *IDB Working Paper Series*, no. 57.

Oscar Cetrángolo, and Juan Pablo Gomez. 2006. *Tributacion En America Latina: En Busca de Una Nueva Agenda de Reformas*. Santiago, Chile: CEPAL.

Parra, Bernardo. 2004. *Los negocios de Mingo: efectos de la apertura y la globalización en los grupos Bavaria y Valores Bavaria*. Univ. Nacional de Colombia.

Peltzman, Sam. 1992. “Voters as Fiscal Conservatives.” *The Quarterly Journal of Economics* 107 (2): 327–61.

Pereira, Carlos, and Bernardo Mueller. 2004. “The Cost of Governing.” *Comparative Political Studies* 37 (7): 781–815. doi:10.1177/0010414004266866.

Peres, Wilson, ed. 1998. *Grandes empresas y grupos indstriales Latinoamericanos: expansión y desafíos en la era de la apertura y la globalización*. Siglo XXI.

Persson, Torsten, and Guido Tabellini. 2002. *Political Economics: Explaining Economic Policy*. Cambridge MA: The MIT Press.

Peters, B. Guy. 1991. *The Politics of Taxation: A Comparative Perspective*. Cambridge MA: Basil Blackwell.

Plumper, Thomas, Vera E. Troeger, and Philip Manow. 2005. “Panel Data Analysis in Comparitive Politics: Linking Method to Theory.” *European Journal of Political Research* 44 (2): 327–54.

Poterba, James M., and Jurgen Von Hagen. 1999. *Fiscal Institutions and Fiscal Performance*. Chicago IL: University of Chicago Press.

Potters, Jan, and Randolph Sloof. 1996. “Interest Groups: A Survey of Empirical Models That Try to Assess Their Influence.” *European Journal of Political Economy* 12 (3): 403–42. doi:10.1016/s0176-2680(96)00008-0.

Power, Timothy J. 2010. “Brazilian Democracy as a Late Bloomer: Reevaluating the Regime in the Cardoso-Lula Era.” *Latin American Research Review* 45 (4): 218–47. doi:10.1353/lar.2010.0034.

Price Waterhouse Coopers. 1980. *Corporate Taxes, Worldwide Summaries*. New York, NY: Wiley.

Profeta, Paola, and Simona Scabrosetti. 2008. “Political Economy Issues of Taxation.” In *Tax Systems and Tax Reforms in Latin America*, edited by Luigi Bernardi, Alberto Barreix, Anna Marenzi, and Paola Profeta. New York: Routledge.

Przeworski, Adam, and Michael Wallerstein. 1988. “Structural Dependence of the State on Capital.” *The American Political Science Review* 82 (1): 11–29.

Ramírez, Juan Carlos. 2005. *Las negociaciones comerciales de Colombia: del Área de Libre Comercio de las Américas (ALCA) a un tratado de Libre Comerico (TLC) con Estados Unidos*. United Nations Publications.

Rettberg, Angelika. 2005. “Business versus Business? Grupos and Organized Business in Colombia.” *Latin American Politics and Society* 47 (1): 31–54.

Rettberg, Angélika. 2003. *Cacaos y tigres de papel : el gobierno de Samper y los empresarios colombianos*. Bogotá, Colombia: Ediciones UniAndes : CESO.

Ricardo, David. 1820. *Works and Correspondence*. Vol. 4. Cambridge: Cambridge University Press for the Royal Economic Society.

Richter, Brian Kelleher, Krislert Samphantharak, and Jeffrey F. Timmons. 2009. "Lobbying and Taxes." *American Journal of Political Science* 53 (4): 893–909.

Rodden, Jonathan. 2006. *Hamilton's Paradox: The Promise and Peril of Fiscal Federalism*. New York: Cambridge University Press.

Romero, Luis Alberto. 2001. *Breve Historia Contemporanea de La Argentina, 1916-1999*. Segunda edicion. Buenos Aires: Fondo de Cultura Economica.

Roubini, Nouriel, and Jeffrey Sachs. 1989. "Political and Economic Determinants of Budget Deficits in the Industrial Democracies." *European Economic Review* 33 (5): 903–33.

Rueda, David. 2007. *Social Democracy inside out: Partisanship and Labor Market Policy in Industrialized Democracies*. Oxford; New York: Oxford University Press.

Rueda, David, and Jonas Pontusson. 2000. "Wage Inequality and Varieties of Capitalism." *World Politics* 52 (03): 350–83. doi:10.1017/S0043887100016579.

Salamon, Lester M., and John J. Siegfried. 1977. "Economic Power and Political Influence: The Impact of Industry Structure on Public Policy." *The American Political Science Review* 71 (3): 1026–43.

Samuels, D. J. 2000. "The Gubernatorial Coattails Effect: Federalism and Congressional Elections in Brazil." *Journal of Politics* 62 (1): 240–53. doi:10.1111/0022-3816.00012.

Sanchez, Fabio, and Silvia Espinosa. 2005. "Impuestos Y Reformas Tributarias En Colombia, 1980-2003." *Documentos CEDE* 2005 (11).

Scartascini, Carlos, Ernesto Stein, and Mariano Tommasi. 2010. *How Democracy Works: Political Institutions, Actors, and Arenas in Latin American Policymaking*. Cambridge MA: Inter-American Development Bank.

Schamis, Hector. 1999. “Distributional Coalitions and the Politics of Economic Reform in Latin America.” *World Politics* 51 (2): 236–68.

Schick, Allen. 1980. *Congress and Money: Budgeting, Spending, and Taxing*. Washington DC: The Urban Institute.

Schmitter, Philippe C., and Wolfgang Streeck. 1999. *The Organization of Business Interests : Studying the Associative Action of Business in Advanced Industrial Societies*. Köln: MPIFG.

Schneider, Ben Ross. 2004. *Business Politics and the State in Twentieth-Century Latin America*. New York NY: Cambridge University Press.

———. 2010a. “Business Politics in Latin America: Patterns of Fragmentation and Centralization.” In *The Oxford Handbook of Business and Government*, edited by David Coen, Wyn Grant, and Graham Wilson. New York: Oxford University Press.

———. 2010b. “Business Politics and Policymaking in Contemporary Latin America.” In *How Democracy Works: Political Institutions, Actors, and Arenas in Latin American Policymaking*, edited by Carlos Scartascini, Ernesto Stein, and Mariano Tommasi. Cambridge MA: Inter-American Development Bank.

Seawright, Jason, and John Gerring. 2008a. “Case Selection Techniques in Case Study Research A Menu of Qualitative and Quantitative Options.” *Political Research Quarterly* 61 (2): 294–308. doi:10.1177/1065912907313077.

———. 2008b. “Case Selection Techniques in Case Study Research A Menu of Qualitative and Quantitative Options.” *Political Research Quarterly* 61 (2): 294–308. doi:10.1177/1065912907313077.

Shome, Parthasarathi. 1999. *Taxation in Latin America: Structural Trends and Impact of Administration*. Washington, D.C.: International Monetary Fund, Fiscal Affairs Department.

Shugart, Matthew Soberg, and John M. Carey. 1992. *Presidents and Assemblies: Constitutional Design and Electoral Dynamics*. New York: Cambridge University Press.

Siavelis, Peter. 2000. *The President and Congress in Postauthoritarian Chile: Institutional Constraints to Democratic Consolidation*. University Park PA: Pennsylvania State University Press.

Silva, Eduardo. 2002. "Capital and the Lagos Presidency: Business as Usual?" *Bulletin of Latin American Research* 21 (3): 339–57. doi:10.1111/1470-9856.00047.

"Sin Llegar Al Congreso, Reforma Tributaria Ya Se Discute." 2014. *Portafolio.com.co*. Accessed March 20. http://www.portafolio.co/economia/llegar-al-congreso-reforma-tributaria-ya-se-discute.

Slemrod, Joel. 2008. "Is Tax Reform Good for Business? Is a Pro-Business Tax Policy Good for America?" In *Fundamental Tax Reform*, edited by John Diamond and George Zodrow. Cambridge MA: The MIT Press.

Smith, Mark A. 2000. *American Business and Political Power: Public Opinion, Elections, and Democracy*. Chicago: University of Chicago Press.

Smith, William C., Juan Pablo Luna, M. Victoria Murillo, Andrew Schrank, Evelyne Huber, John D. Stephens, Fernando Limongi, et al. 2014. "Special Section: Political Economy and the Future of Latin American Politics." *Latin American Politics and Society* 56 (1): 1–33. doi:10.1111/j.1548-2456.2014.00219.x.

Soares, Márcia Miranda, and Pedro Neiva. 2012. "Federalism and Public Resources in Brazil: Federal Discretionary Transfers to States." *Brazilian Political Science Review* 5 (2). http://bpsr.org.br/index.php/bpsr/article/view/127.

Sovey, Allison J., and Donald P. Green. 2011. "Instrumental Variables Estimation in Political Science: A Readers' Guide." *American Journal of Political Science* 55 (1): 188–200. doi:10.1111/j.1540-5907.2010.00477.x.

Spiller, Pablo, and Mariano Tommasi. 2007. *The Institutional Foundations of Public Policy in Argentina*. New York NY: Cambridge University Press.

Spolaore, Enrico. 1993. "Adjustments in Different Government Systems." *Economics & Politics* 16 (2): 117–46.

Stallings, Barbara, and Wilson Peres. 2000. *Growth, Employment, and Equity: The Impact of the Economic Reforms in Latin America and the Caribbean*. Brookings Institution Press.

Stein, Ernesto, and Mariano Tomassi. 2008. *Policymaking in Latin America: How Politics Shapes Policies*. New York: Inter-American Development Bank.

Tanzi, Vito. 2003. "Taxation Reform in Latin America in Last Decade." In *Latin American Macroeconomic Reforms: The Second Stage*, edited by José Antonio González Anaya, Vittorio Corbo, Anne Krueger, and Aaron Tornell. Chicago: University of Chicago Press.

Terza, Joseph V., Anirban Basu, and Paul J. Rathouz. 2008. "Two-Stage Residual Inclusion Estimation: Addressing Endogeneity in Health Econometric Modeling." *Journal of Health Economics* 27 (3): 531–43. doi:10.1016/j.jhealeco.2007.09.009.

Thelen, Kathleen. 2012. "Varieties of Capitalism: Trajectories of Liberalization and the New Politics of Social Solidarity." *Annual Review of Political Science* 15 (1): 137–59. doi:10.1146/annurev-polisci-070110-122959.

Thomas, Clive. 2009. "Understanding the Development and Operation of Latin American Interests, Power Groups, and Interest Groups." In *Interest Groups and Lobbying in Latin America, Africa, the Middle East, and Asia*, edited by Conor McGrath. New York NY: The Edwin Mellen Press.

Thorp, Rosemary, and Francisco Durand. 1997. "A Historical View of Business-State Relations: Colombia, Peru, and Venezuela Compared." In *Business and the State in Developing Countries*, edited by Sylvia Maxfield and Francisco Durand. Ithaca: Cornell University Press.

Vogel, David. 1989. *Fluctuating Fortunes: The Political Power of Business in America*. New York: Basic Books.

Von Hagen, Jurgen. 2008. "Political Economy of Fiscal Institutions." In *The Oxford Handbook of Political Economy*, edited by Barry R. Weingast and Donald Wittman. Oxford: Oxford University Press.

Wallerstein, Michael, Miriam Golden, and Peter Lange. 1997. "Unions, Employers' Associations, and Wage-Setting Institutions in Northern and Central Europe, 1950-1992." *Industrial and Labor Relations Review* 50 (3): 379–401.

Wawro, Gregory. 2002. "Estimating Dynamic Panel Data Models in Political Science." *Political Analysis* 10 (1): 25–48. doi:10.1093/pan/10.1.25.

Weyland, Kurt Gerhard. 2002. *The Politics of Market Reform in Fragile Democracies: Argentina, Brazil, Peru, and Venezuela*. Princeton NJ: Princeton University Press.

Weyland, Kurt Gerhard, Raúl L. Madrid, and Wendy Hunter. 2010. *Leftist Governments in Latin America : Successes and Shortcomings*. New York: Cambridge University Press.

Williams, John T., and Brian K. Collins. 1997. "The Political Economy of Corporate Taxation." *American Journal of Political Science* 41 (1): 208–44.