

Once Bitten, Twice Shy
**Path Dependence, Power Resources and the
Magnitude of the Tax Burden in Latin America**

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Abstract

This paper explores the roots of the great differences in the magnitude of the tax burden among Latin American countries. It focuses on the cases of Brazil, Chile and Mexico, three relatively prosperous presidential democracies with starkly divergent levels of taxation. Natural resource revenues largely explain the gap between Mexico and Chile, but cannot account for the dramatic difference between these two countries and Brazil. The paper argues that the lower level of taxation in Mexico and Chile is a reflection of a balance of political power that tilts farther to the right than in Brazil. Ironically, this balance is in large measure the unintended product of earlier initiatives by leftist governments to implement major redistributive reforms, especially with regard to property rights. These reforms gave rise to an enduring anti-state ideology among key sectors of the economic elite, which was institutionalized in important political organizations and became a crucial impediment to heavier taxation. In contrast, Brazilian elites have never encountered a government both willing and able to implement such reforms and have thus remained lackadaisical in the face of sustained public sector expansion.

Once Bitten, Twice Shy: Path Dependence, Power Resources and the Magnitude of the Tax Burden in Latin America

Although there is little agreement on what constitutes an ideal level of taxation, it is hard to dispute the idea that the magnitude of the tax burden is an important characteristic of national states, affecting the amount of resources available for both good uses and bad ones. Within Latin America there are striking differences on this variable. Countries such as Argentina, Brazil and Uruguay have tax revenues equivalent to more than 30% of gross domestic product (GDP), a level exceeding that of wealthy countries like Australia, Japan and the United States, which theory suggests should tend to have heavier taxation. Meanwhile, other countries, such as Guatemala, Haiti and Mexico, subsist on barely a third of that level.

In this paper I explore the reasons behind these differences through a comparison of Brazil, Chile and Mexico. This set of countries offers wide variance on the dependent variable. Over the past five years Brazil's tax revenues have averaged 34% of GDP, Chile's 19% and Mexico's only 12% (CEPALSTAT). In addition, these countries are similar enough with regard to a number of standard explanations of taxation level, including economic development, regime type and presidentialism (versus parliamentarism), to ease the problem of "too few cases, too many variables" potentially encountered in small-N research (Goggin 1986).

Students of Latin American political economy may well perceive that there is an obvious solution to this empirical puzzle: natural resource wealth. An extensive literature suggests that, since taxation is technically and politically difficult, authorities with access to resource revenues tend to tax more lightly (Karl 1997; Ross 2001; Patrucchi and Grottola 2011). Furthermore, of this group of countries, Mexico has easily the largest non-tax revenues from natural resources, followed by Chile and then Brazil, exactly the ordering we would expect if the tax burden is an inverse function of resource revenues.

While valid to some extent, this answer is nevertheless quite incomplete. It does explain much of the difference between the Mexican and Chilean tax burdens, but falls far short of accounting for the yawning gap between those two countries and Brazil. If Brazil's heavy taxation were simply a substitute for a smaller flow of resource revenues, then its total fiscal resources (including tax- and non-tax sources) would be roughly in line with those of the other two countries. As explained below, however, they are in fact vastly greater.

Therefore, to complement the natural resource-based argument, I develop another account, one that melds two theoretical perspectives that are usually considered separate or (at least in stronger versions) even competing: power resources (Korpi 1978; Stephens 1979; Huber and Stephens 2012) and path dependence (North 1990; Mahoney 2000; Pierson 2004).

To begin with, I contend that a key variable explaining the huge difference in tax burdens between Mexico and Chile, on the one hand, and Brazil, on the other, is the relative influence of the political left and right, broadly defined to include both parties and actors in civil society. In the first two countries the combination of a cohesive conservative bloc and a weak labor movement has helped keep tax revenues low despite the democratizing trends of recent decades. In Brazil, in contrast, a weakly organized right and a solid alliance of unions, popular movements and left parties have supported the robust growth of spending and taxation.

Furthermore, I argue that, perhaps ironically, the superior force of the right in Chile and Mexico can be traced largely to the enduring impact of earlier episodes in which left-leaning governments implemented reforms that deeply threatened private property and employer control over the workforce. A crucial, if clearly unintended legacy of these episodes was to galvanize the political mobilization and organization of economic elites and their conservative allies. “Once bitten,” by state activism, Mexican and Chilean elites became “twice shy” about augmenting the state’s resources. In contrast, Brazilian capitalists have never faced a government willing and politically able to implement profound redistributive reforms. As a result they have remained relatively disorganized and lackadaisical in the face of public sector growth.

Comparing Tax Systems

Latin America has often been characterized as a low-tax region but, as Table 1 demonstrates, tax burdens (including all levels of government, as well as contributions to public social security programs) vary quite widely across the region. The three countries examined here reflect this diversity. They include the country with the heaviest tax burden, Brazil, the one with the lightest tax burden, Mexico, and one that is very close to the regional average, Chile.

Table 1. Average Tax Burden among Latin American Countries, 2009-2013

<i>Country</i>	<i>Tax Revenues/GDP (%)</i>	<i>Country</i>	<i>Tax Revenues/GDP (%)</i>
Brazil	34.4	*Panama	16.7
Uruguay	30.1	Honduras	16.6
Argentina	28.1	El Salvador	16.5
Costa Rica	21.9	Paraguay	14.1
Bolivia	21.8	Dominican Republic	13.9
Nicaragua	19.6	+Venezuela	13.4
Chile	19.1	Guatemala	12.6
Colombia	18.2	+Haiti	12.3
Peru	18.2	Mexico	11.5
Ecuador	17.8	Regional Average	18.8

Source: CEPALSTAT and CIAT-IADB
* 2008-2012; + Central government only

There are also substantial differences among these three countries with regard to the types of taxes they derive their revenue from, as can be seen in Table 2. Mexico relies most heavily on direct taxes, especially income taxes, followed by Chile.¹ Mexico is also exceptional in terms of its light use of indirect taxes, a category that includes value-added taxes, or VATs. Social security plays by far the largest role in Brazil, followed by Mexico. Brazil's tax system is also considerably more decentralized than the other two. It is hard to say which country's tax structure is most typical of Latin America, since each converges with the regional average in some ways and diverges in others, as the table indicates.

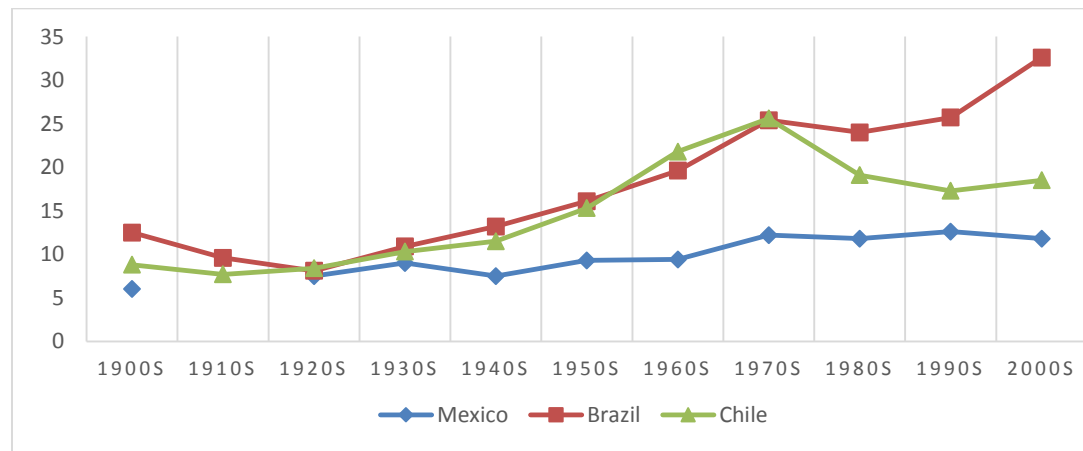
Table 2. Tax Structures in Brazil, Chile, Mexico and Latin America, 2009-2013 (%)

Country/Region	Type of Tax					Level of Collection		
	Direct	Indirect	Social Security	Other	Total	National	Sub-national	Total
Brazil	29.5	44.1	25.5	0.9	100.0	68.9	31.1	100.0
Chile	38.2	53.4	7.3	1.0	100.0	92.7	7.3	100.0
Mexico	52.2	32.2	13.9	1.7	100.0	93.9	6.1	100.0
*Latin America	31.1	51.9	15.3	1.7	100.0	89.4	10.6	100.0
<i>Sources:</i> CEPALSTAT and CIAT-IDB								
* Not including Haiti and Venezuela								

Figure 1 shows that the contemporary variance in the tax burden among my cases is not a historical constant. In the 1960s and 1970s Chile's tax burden was at least equal to Brazil's and possibly the heaviest in Latin America. However, reforms undertaken during the early 1980s, including privatization of the large social security system and reduced income taxation, led to a sharp decline. Brazil's tax load, which increased significantly during the late 1960s, clearly surpassed Chile's during the early 1980s. The gap widened into a chasm over the next two decades, as Brazilian revenues grew in a sustained fashion while Chile's did not. Mexico has seemingly always had a lighter tax burden, but the distance between it and Brazil and Chile widened after about World War II, when Mexico's revenues began to stagnate relative to GDP, while those of the other countries grew.

¹ However, given the magnitude of its tax burden, Brazil still has heavier direct taxation relative to GDP than either Chile or (by a wide margin) Mexico.

Figure 1. Evolution of the Tax Burden in Brazil, Chile and Mexico, 1900-2009 (decadal averages)*



* Data for Chile do not include social security prior to 1950.

Sources: For 1980-2009, ECLAC; for earlier decades: Brazil, IBGE (2006); Chile, Díaz et al (2010) and World Bank (1961, 1966, 1970, 1984); Mexico, Díaz-Cayeros (2006), p. 36.

Data limitations prohibit a systematic comparison of the historical evolution of the tax structure among these cases. Nevertheless, the available data seem consistent with the contemporary association between light taxation and relatively heavy reliance on direct taxes. Figures from 1950, 1960 and 1970 indicate that direct taxes consistently made up a larger share of tax revenues in Mexico than in Brazil or Chile, where the overall tax burden was heavier (Fitzgerald 1978, p. 132).² With regard to centralization, Chile's tax system has traditionally been centralized and Brazil's (with some fluctuations) decentralized, but Mexico's has evolved over time (Aboites Aguilar 2003). In the 1920s and 1930s Mexican subnational governments accounted for about a third of the total tax take (Diaz-Cayeros 2006, p. 36). Their share declined significantly in the 1940s, then plummeted in the 1980s with the introduction of the federal VAT, which replaced a number of subnational taxes.

Theories of the Tax Burden

The scholarship on taxation and public sector size offers a variety of potential solutions to the puzzle examined here. A central theme is that the magnitude of the state reflects economic conditions. Economic development, in particular, is widely viewed (albeit for varying reasons) as encouraging heavier taxation (Bird 1971; Cetrángolo and Gómez Sabaini 2007). Some scholars have also argued that involvement in international trade promotes heavier taxation because

² These data do not include social security, but since Mexico's social security revenues were modest (especially compared to Chile) including them would only reinforce the comparatively larger role of direct taxes in the Mexican case.

external trade shocks foment demands for social insurance (Rodrik 1998). In contrast, the size of the farm sector is said to impede taxation because agriculture is hard to tax (Pessino and Fenochietto 2010). Natural resource wealth controlled by the state is also believed to engender low taxation by allowing authorities to rely on resource rents, which are politically easier to exploit than taxation and require less bureaucratic capacity (Pessino and Fenochietto 2010; Patrucchi and Grottola 2011).

There is also a series of arguments that depict the magnitude of the tax burden as a product of domestic political institutions. At a macro level, democracy is widely hypothesized to promote heavier taxation, either because it increases the ability of poorer people to advance demands for redistribution, or because it enhances the legitimacy of the state's own demands for revenue (Lindert 2004; Cárdenas 2010; Besley and Persson 2013). A variant of this theory is that democracy promotes state growth only in the presence of pronounced income inequality, because in more equitable settings the median voter views redistribution as less desirable (Meltzer and Richard 1981). Although this perspective has been influential, some scholars have made largely the opposite claim: that inequality tends to discourage redistribution and taxation (Cárdenas 2010; Huber and Stephens 2012).

Other institutional arguments focus on more specific aspects of the institutional context. Scholars have argued that presidentialism discourages state growth by impeding rent extraction by politicians (Persson and Tabellini 2003). It has also been argued that federalism tends to keep the tax burden low, either by spurring subnational governments to compete for investment by lowering taxes or by enhancing accountability to citizens (Brennan and Buchanan 1980). However, one scholar has argued that in Latin America federalism tends to promote higher taxation, largely because it is characterized by "vertical fiscal imbalance," in which subnational authorities can spend heavily while relying on revenue transfers from the central government (Stein 1999). This finding was echoed by a broader, cross-regional study (Rodden 2003).

The abovementioned institutional perspectives emphasize the ongoing influence of formal institutional structures on tax policy, or what Stinchcombe (1968) called "constant causation." However, there is another perspective, referred to as "path dependence," that emphasizes the enduring influence of past institutional outcomes, both formal and informal (North 1990; Mahoney 2000; Pierson 2000). There is considerable disagreement over what exactly path dependence means (Bennett and Elman 2006; Mahoney and Shensul 2006). Scholars diverge in how they conceptualize both the origins of path-dependent processes and their mechanisms of reproduction. However, there seems to be broad agreement that the concept refers to instances in which historical events give rise to rules, organizations or informal understandings and traditions that are stubbornly resistant to subsequent changes in relevant contextual conditions. Whereas constant cause explanations implicitly assume that variables respond to each other relatively fluidly, path dependence underscores the rigidity or "stickiness" of political arrangements once established (Thelen 2003).

To my knowledge, there is no study that explicitly applies this notion to explain variance in contemporary tax burdens. Nevertheless, Kato's (2003) path-dependence-based analysis of the links between tax policy decisions and welfare spending is relevant to this question.³ Focusing mainly on the developed world, Kato argues that countries that adopted a VAT prior to the early 1970s, when global economic growth began to slow, were able to maintain or expand welfare spending in subsequent decades because the VAT was an efficient revenue-raising tool. In contrast, countries that did not adopt a VAT during this period found themselves politically unable to transform it into a major component of their tax system in later years, due to rising resistance to taxation (as a result of slower growth) and greater consciousness of the VAT's regressivity. Consequently, their revenues stagnated, limiting the resources available for social spending. In other words, Kato argues that welfare state magnitude is a path-dependent product of tax policy decisions during the post-war era of rapid growth. Kato's dependent variable is social spending, rather than the tax burden, but those two variables are closely related, since the ability to spend depends on taxation and in modern states social programs typically absorb a large proportion of revenue.

In addition to these economic and institutional perspectives, there are others that link the size of the tax burden to the influence of particular political actors. The most traditional emphasizes organizations, especially labor unions and leftist or populist parties, that represent the demands of non-elites for socioeconomic equality (Cameron 1978; Steinmo and Tolbert 1998; Stein and Caro 2013). Since meeting such demands requires revenues, a strong left tends to drive up the tax burden. Though focusing on taxation, these works are congruent with the "power resources" school of welfare state development, which identifies labor/left party influence as a key determinant of social spending, at least under democracy (Korpi 1978; Stephens 1979; Huber and Stephens 2012).

A more recent research current focuses not on labor, but on economic elites. These works, based mainly on the Latin American experience, have emphasized the importance of intra-elite political cohesion and the strength of elite ties to the state, especially in the form of pro-business conservative parties and mechanisms of consultation with executive branch officials. Ironically, however, they disagree about whether such conditions facilitate or impede revenue-raising tax reform.

On the one hand, Fairfield (2010, 2015) has argued that, since elites are inherently opposed to taxation (especially direct taxation), the more cohesive and politically connected the business class is, the harder it is to raise taxes. As she acknowledges, her thesis converges with the power resources perspective in the sense that both emphasize the balance of class power, although they focus on different actors (Fairfield 2015, p. 21). On the other hand, a number of

³ At first glance, Kurtz's (2013) study of enduring differences in state strength across Latin America could also be seen as relevant, since it portrays the ability to tax as a key component of the dependent variable. However, the author makes clear that today, unlike earlier eras, the magnitude of the tax burden is more accurately seen as a reflection of preferences than underlying state strength.

scholars have suggested in recent years that united and influential business elites can actually facilitate higher taxation, especially if pro-business parties control the government (Schneider 2012; Flores-Macias 2014). In such a setting, business elites may not resist higher taxation very strongly because they can feel confident that the resulting revenues will be used for purposes consistent with their own interests.

The Limits of Economic and Institutional Explanations

Having laid out various theoretical tools, I now proceed to assess their utility for explaining variation in contemporary tax burdens among my three cases, beginning with the economic and institutional explanations, which comprise the bulk of the literature in this area. Rather surprisingly, most of these perspectives provide little if any insight. The key exception is the work on the political economy of natural resources, which offers an important, but only partial solution.

Several of the major variables used to understand differences in taxation and public sector size can be dismissed more or less out of hand, either because there is little variation among my cases, or because the variation that exists clearly contradicts theoretical expectations. Among the economic variables, this is true of economic development, the size of the farm economy, and reliance on external trade. Despite being similarly developed in terms of per capita GDP, Brazil and Mexico have radically different tax burdens. Meanwhile, Chile's somewhat higher development level would be expected to give it the heaviest taxation, but it actually has a much lighter tax burden than Brazil.⁴ Similarly, the larger contribution of agriculture to Brazil's economy should tend to depress taxation relative to Chile and Mexico, but Brazil has easily the heaviest tax burden of the three.⁵ Finally, both Mexico and Chile are much more integrated into global trade than Brazil, which theoretically should tend to result in higher taxation.⁶ As we have seen, however, the reality is radically different.

Most of the institutional explanations also clearly fall short. All three countries have presidential forms of government, so the presidentialism-parliamentarism variable is irrelevant. With regard to federalism, the outcomes clearly contradict theoretical expectations. Brazil's decentralized federalism, in which state and local governments have considerable tax capacity, should depress taxation relative to Mexico and Chile, where taxation is currently much more centralized and there is, especially in the Mexican case, a far greater vertical fiscal imbalance (Corbacho et al 2013, p. 83).

⁴ In 2013, Brazil's per capita GDP (in current U.S. dollars) was \$11,961, Mexico's was \$10,553 and Chile's was \$15,718. Historically, Mexico has tended to be wealthier than Brazil but poorer than Chile (Astorga et al 2005).

⁵ Agriculture, forestry and fishing comprise 4.5% of GDP in Brazil, compared to 3.1% in Chile and 3.2% in Mexico (CEPALSTAT).

⁶ The share of exports and imports in Brazil's GDP is about half that of Chile and Mexico (CEPALSTAT).

The institution of democracy, often seen as encouraging heavier taxation, requires more careful consideration. All three countries are routinely viewed as electoral democracies today, but Mexico arguably has the shortest experience with this form of governance and Brazil the longest, with Chile falling in between. Brazil emerged from military rule in 1985 and Chile in 1990. Mexico's democratic transition is harder to date, since the old regime was not an outright dictatorship but rather a hegemonic party system led by the Institutional Revolutionary Party (*Partido Revolucionario Institucional*, PRI). However, most experts would probably view it as occurring mainly during the 1990s, when a series of electoral reforms set the stage for the PRI's loss of its legislative majority in 1997 and eventual defeat in the 2000 presidential election. Given that the variance in length of democratic experience parallels the variance in tax burdens, could the former help explain the latter?

I would argue against this interpretation. Unlike most other countries in the region, Mexico's tax burden has shown few signs of increasing significantly under democracy. Tax revenues as a percentage of GDP are lower today than in the early 1990s (CEPALSTAT). If authoritarianism were the key factor suppressing taxation, we should presumably have expected democratization to bring about a significant revenue boost. Chile's tax burden has also increased slowly since the democratic transition. A tax reform at the outset of democracy in 1990 raised tax revenues by about 2% of GDP but the tax burden remained virtually stagnant for a quarter century thereafter. In Brazil, in comparison, tax revenues have increased by some 10% of GDP under democracy (CEPALSTAT). Thus, while it is quite possible that democracy does, other things being equal, encourage higher taxation, there is little evidence that variation in years of democracy among these cases explains the difference in tax burdens.

The Meltzer-Richard variant of this perspective is on the surface more convincing. Given that Brazil has traditionally been the most inequitable of these countries, one might suspect that its taxation level has increased the most because the median Brazilian voter demands more redistribution. Yet, this interpretation faces important problems. To begin with, Chile's inequality spiked sharply upward during the military, so that by 1990 the country's Gini coefficient for income was similar to Brazil's at the time of its own transition.⁷ Of the three countries, only Mexico's inequality was significantly lower, though still high. In addition, the idea that poorer people tend to view redistribution more favorably is not clearly supported by public opinion data or voting patterns. For example, in Brazil, studies have shown that people of higher social status are more likely to embrace redistribution than those of low social status (Ondetti, forthcoming). Moreover, it is only relatively recently, and mainly in presidential elections, that Brazilian leftist parties have made major headway among the truly poor.

Likewise, Kato's theory based on the timing of VAT adoption is superficially appealing, but ultimately unconvincing. My cases accord with her argument in the sense that Brazil, which

⁷ Brazil's 1985 Gini was .552, while Chile's 1990 Gini was .572 (World Bank).

has much higher tax revenues and social spending than the other two countries,⁸ also introduced its VAT earlier. Brazil adopted a VAT in 1966, while Chile did so in 1974 and Mexico in 1980. However, contrary to Kato's expectation, the VAT has not been the dominant force behind Brazil's rising taxation in recent decades. Newer indirect taxes called "social contributions" have been more important (Afonso 2013) and their role was particularly crucial during the 1990s, a period of sluggish growth overall. Moreover, direct taxes, though still less significant than indirect ones, have actually increased their share of total tax revenue since the introduction of the VAT (Ondetti, forthcoming).

Of the theories that emphasize economic or institutional variables, easily the most useful for clarifying the variance among my cases is the idea that natural resource wealth controlled by the state depresses taxation. Mexico's extremely low tax burden can be explained in part by the fact that it is a major oil producer and roughly 40% of its fiscal revenues in recent years have come from the state oil company, Mexican Petroleum (*Petróleos Mexicanos*, PEMEX). In Chile a much smaller but still significant amount of revenue also comes from natural resources, especially copper. In contrast, the Brazilian state's resource revenues are of negligible importance. Brazilian authorities thus have little choice but to rely on taxation to provide fiscal resources.

Though compelling, resource wealth is by no means a complete account of the differences in taxation among my cases. The reason can be gleaned from Table 3, which compares tax revenues and total fiscal revenues as a percentage of GDP. The table shows that the difference in tax burdens between Chile and Mexico can largely be explained as a function of Mexico's larger flow of non-tax revenue, since the fiscal revenues of the two countries are similar. However, Brazil's total fiscal revenues are a whopping 65-75% greater.⁹ Thus, after taking account of resource revenues, what we have left is essentially a two-sided comparison between, on the one hand, two countries with relatively compact public sectors (even compared to the regional average) and, on the other, a country that by the standards of the developing world possesses vast fiscal resources.

⁸ For example, in 2009, Brazil's total social expenditures equaled 26.2% of GDP, compared to 15.7% in Chile and 11.2% in Mexico (CEPALSTAT).

⁹ Even if legally mandated contributions to private social security accounts are counted as part of Chile's fiscal revenues, the Brazilian figure is still almost 40% greater.

Table 3. Tax Burden v. Total Fiscal Revenues: Brazil, Chile and Mexico, 2009-2013 (% GDP)

<i>Country</i>	<i>Tax Burden</i>	<i>Total Fiscal Revenues</i>
Brazil	34.4	34.8
Chile	19.1	20.9
Mexico	11.5	19.9
Regional average	18.8	24.3

Sources: CEPALSTAT, CIAT-IDB

A Power Resources Interpretation

As discussed, a number of scholars have traced differences in taxation, as well as spending, to the relative power of left parties, labor unions and other groups representing non-elites (Stephens 1979; Cameron 1984; Huber and Stephens 2012; Stein and Caro 2013). Fairfield (2010, 2015) has essentially extended this “power resources” argument by emphasizing the effects of variation in the political resources of elites. This overall perspective, I argue below, rings true for the cases examined here.

The contrast is sharpest with regard to the class organization of economic elites. Schneider’s (2002, 2004) wide-ranging comparative work on Latin American business organization underscores both the unity of elites in Mexico and Chile and the marked disunity of their Brazilian counterparts. Both Mexico and Chile boast encompassing national associations that emerged from the business community itself and effectively represent business as a class. In both cases, moreover, business has close ties to electorally competitive, programmatic rightwing parties (Luna and Rovira Kaltwasser 2014). Mexico’s National Action Party (*Partido de Acción Nacional*, PAN) held the presidency from 2000 to 2012 and Chile’s two major conservative parties, the Independent Democratic Union (*Unión Demócrata Independiente*, UDI) and National Renovation (*Renovación Nacional*), have generally held about half the seats in Congress since 1990, as well as the presidency from 2010 to 2014.

In contrast, Brazil lacks encompassing national business associations (Schneider 2004). Although there are many entities representing business, even the broadest ones are limited to a particular sector and tend to be handicapped by internal divisions and lack of member engagement. Moreover, Brazil lacks a competitive party that is strongly pro-business. The party that seemed most likely to assume that role in the early years of democracy, the Party of the Liberal Front (*Partido da Frente Liberal*, PFL) (now called *Democratas*) has since been reduced to near irrelevance. The Party of Brazilian Social Democracy (*Partido da Social Democracia Brasileira*, PSDB) does represent business to some extent, but it is more a centrist party than a true programmatic conservative party.

On the left, the differences are also significant. Brazil's union density is about 50% higher than in Chile or Mexico.¹⁰ Brazilian labor also possesses encompassing organizations that more actively promote a progressive agenda. The Unified Workers' Central (*Central Única dos Trabalhadores*, CUT), easily the largest union confederation, is clearly leftist and an important political actor, and there are two research institutions directly controlled by the labor movement whose work is commonly cited in news coverage and legislative debates.¹¹ In comparison, at least in recent years, labor organizations in the other two countries have had a more corporatist orientation and limited technical capabilities.

Comparing the electoral strength of the left among these countries is somewhat more complex. On the surface, Chile has the strongest left, since a center-left coalition known as the Concertation (*Concertación*) and its successor, New Majority (*Nueva Mayoría*), have been in office for all but four years of democracy. However, these coalitions, especially the *Concertación*, were constrained by the combination of a cohesive rightwing bloc anchored by a business community committed to neoliberalism, electoral institutions favoring the right, and a popular sector lacking organizations capable of inducing or supporting a turn to the left (Posner 2008; Fairfield 2015). The result has been a brand of politics that, at least until recently, discouraged popular mobilization and demand-making.

Brazil's electoral left, led by the Workers' Party (*Partido dos Trabalhadores*, PT), has held the presidency for less time (2003-present) than Chile's center-left coalitions but its ties to civil society have remained stronger and its rhetoric more leftist. Although the labor movement has a significant centrist wing, most unions continue to sympathize with the PT or other leftist parties, as do national movement organizations like the Movement of Landless Rural Workers (*Movimento dos Trabalhadores Rurais Sem Terra*, MST) and National Union of Students (*União Nacional dos Estudantes*, UNE). The PT has attempted to make peace with the private sector, but it has never accepted market-oriented policies to the extent that, for example, Chile's Socialists have.

Mexico clearly has the weakest electoral left. The country's main leftist party, the Party of the Democratic Revolution (*Partido de la Revolución Democrática*, PRD), has never held more than about a quarter of the seats in either house of Congress and, more importantly, has never been able to capture the country's powerful presidency. A number of factors have thwarted the PRD's rise, including electoral fraud, internal factionalism and lack of labor support. Even

¹⁰ In 2006, the most recent year for which data are available for all three countries, union density was 17% of the employed labor force in Brazil, 11% of the employed labor force in Chile and 10% of the economically active population (EAP) in Mexico (Fundação Perseu Abramo 2013, p. 3; Bensusán and Middlebrook 2013, p. 54; Dirección del Trabajo 2014, p. 11). The Mexican figure would be somewhat higher if it were calculated based on the employed work force, since the EAP includes unemployed workers who are seeking employment.

¹¹ These are the Inter-Union Department for Statistics and Socioeconomic Studies (*Departamento Inter-Sindical de Estatística e Estudos Socioeconômicos*, DIEESE), which conducts socioeconomic research, and the Inter-Union Department for Parliamentary Advisory (*Departamento Intersindical de Assessoria Parlamentar*, DIAP), which monitors Congress.

among the small group of workers who are unionized, there is more support for the centrist PRI than the PRD (Bensusán and Middlebrook 2013).

These differences in the balance of left-right power have shaped the tax burden. In Chile, as mentioned, the *Concertación* was able to pass a much-needed 1990 tax reform that raised revenues significantly. However, as Fairfield (2010, 2015) has argued, the combined power of business and conservative parties played a crucial role in keeping the tax burden stagnant thereafter. Some potential reforms were not even presented because policymakers understood that they would be forcefully rejected. A combination of defeat in the 2010 presidential election and the massive student protests of 2011-2012 prompted *Concertación* leaders to expand their coalition to the left and to push for a more significant tax reform to fund the expected increase in educational spending. That reform, approved in 2014, will eventually raise the tax burden, but to nowhere near the current level in Brazil.¹²

Conservative dominance has also contributed to persistently light taxation in Mexico, despite the more democratic character of politics since the 1990s (Ondetti 2015). The PRI governments of that decade were committed to currying business confidence (damaged during previous decades, as discussed below) through liberalizing reforms, and business was equally committed to keeping taxation to a minimum. An implicit agreement resulted in which business accepted certain revenue-raising reforms in times of fiscal need, but on the condition that they not be used to fund major new spending commitments (Martínez-Vazquez 2001, pp. 4-5). Given the PAN's pro-market ideology and ties to business, its victories in the 2000 and 2006 presidential elections virtually ensured that the tax burden would not substantially increase. PAN governments did seek to boost revenues to some extent, but their insistence on doing so primarily through indirect taxation both limited the scope of the proposed reforms and made them vulnerable to accusations of regressivity. Not surprisingly, their efforts largely failed. In 2013 President Enrique Peña Nieto of the PRI allied with the PRD to gain approval of a more balanced proposal. However, that reform was energetically opposed by all major business associations, as well as the PAN. Concessions made to both business and the PRD (with regard to indirect taxes) resulted in a reform that has had little impact on Mexico's tax burden (Unda Gutiérrez 2015).

In contrast, business resistance to taxation in Brazil has been tepid and fragmented. The sharp increase in the tax burden during the 1990s and early 2000s did not provoke a strong, coordinated repudiation from business. A private sector umbrella organization called Business Action (*Ação Empresarial*) was created in the 1990s and came to focus much of its attention on tax issues. However, it was never more than a loose network and was abandoned several years ago. Moreover, it did not demand that the tax burden be reduced, only that its growth be controlled and its structure simplified (Ferreira 2002, ch. 2). In the last decade, given the extraordinary level reached by the tax burden and rising concerns about its effects on competitiveness, business associations have frequently complained about both the tax load itself

¹² Tax revenues are projected to increase by three percent of GDP by 2018.

and the enormous costs of compliance.¹³ While these complaints have contributed to some minor victories¹⁴ they have not translated into unified political action.

Meanwhile, unions, movements and left-leaning parties have played an important role in the growth of the Brazilian tax burden, not so much by championing higher taxation as through their strong defense of social spending, which has increased greatly since the democratic transition (Weyland 1997; Mendes 2014). Spending pressures, combined with the relative lack of counter-pressure from business and the right, compelled the governments of the PSDB (1995-2002) and PT (since 2003) to seek more revenue. The 1988 Constitution, which created important new social policy commitments, especially in the area of pensions, is an important institutional source of these pressures (Melo et al 2010). However, both the original design of the constitution and the way it has been implemented and amended reflect the strong support for generous social spending in civil society and the party system (Ondetti forthcoming).

A potential objection to this interpretation is that if labor and the partisan left were really more influential in Brazil than in Mexico or Chile, then Brazilian taxation would be more progressive. As noted earlier, direct taxes comprise a lower percentage of total tax revenues in Brazil than in other two countries, especially Mexico. However, this objection would be misguided. Scholars have frequently noted that the countries with the largest and most welfare-oriented public sectors tend to rely particularly heavily on regressive forms of taxation (Kato 2003; Timmons 2005; Beramendi and Rueda 2007). To the extent that redistribution occurs, it is mainly on the spending side (Mahon et al 2015, p. 12). I discuss the reasons for this correlation in the conclusion of the paper, but for now it will suffice to emphasize that my cases are consistent with broader international patterns.

Linking Power Resources to Path Dependence

Of course, this explanation begs the question of why the balance of political power in Mexico and Chile tilts more to the right than in Brazil. In addressing such differences, power resource oriented analyses tend to focus on socioeconomic structures, such as industrialization and urbanization (Stephens 1979; Huber and Stephens 2012). Such variables do play a role among these cases. Most significantly, the more sweeping character of economic liberalization in Chile and Mexico in recent decades helps to explain why labor is weaker in these countries than Brazil. Trade liberalization and privatization hit hard at workers in ISI firms and public enterprises, who were typically among the most unionized, contributing to declining union density. Brazil's more moderate approach to liberalization, in contrast, helped to preserve overall

¹³ This assertion is based on a series of field interviews conducted with leaders and top officials of major firms and business associations in June and July 2015.

¹⁴ Perhaps the most significant was the non-renewal of a federal financial transactions tax in 2007. However, much of the revenue lost was replaced by rate hikes on other taxes.

density despite important shifts in the rate of unionization among different categories of workers (Fundação Perseu Abramo 2013).

Nevertheless, the most important factor in shaping the contemporary balance of left-right power is the enduring impact of certain historical events on elite attitudes and political organization. Specifically, I argue that the superiority of the right in Chile and Mexico can be traced to episodes in which left-leaning governments implemented major reforms that deeply menaced, but ultimately did not destroy, the private sector. These instances inculcated in economic elites a deep-seated apprehension of the state that led them to organize politically to prevent future threats. In Brazil, in contrast, no such episode ever arose and, largely as a consequence, business has remained complacent about state intervention in the economy.

This argument is perhaps easier to make in the Chilean case, where the key historical episode, or “critical juncture,” is more recent and dramatic. In the early 1970s Chilean elites were alarmed by the election of Salvador Allende, a Marxist, to the presidency and Allende’s subsequent attempts to advance a transition to socialism amid intense popular mobilization (Valenzuela 1978). While the previous president, Eduardo Frei of the Christian Democratic Party (*Partido Demócrata Cristiano*, PDC), had initiated some notable redistributive programs, under Allende this reformist turn became a sharp veer to the left. His government expropriated numerous businesses and rural estates, boosted wages and social spending, imposed widespread price controls, and made friendly gestures toward socialist regimes elsewhere. The nearly three years under Allende’s Unidad Popular government were a time of intense polarization and, eventually, high inflation and deep recession. Many Chilean elites undoubtedly became convinced that their country was heading toward Soviet- or Cuban-style communism. Not surprisingly, many also supported the brutal 1973 coup that established a military dictatorship.

The Allende experience had a lasting impact on elite political attitudes, intensifying their rejection of the statism and leftism that had been staples of the Chile’s politics prior to the coup (Silva 1993; Silva 1995; Pollack 1999). This effect was compounded by the eventual success of the radical market reforms implemented by the subsequent military regime (1973-1990) led by Gen. Augusto Pinochet. Although Chile’s economy suffered through some difficult times under this regime, beginning in the mid-1980s it entered a period of rapid and sustained growth that would make it a darling of liberal economists.

Chilean business organizations reflected this transformation. Prior to the Allende period, many business people, especially in manufacturing, had been highly sympathetic to state intervention in the import-substitution industrialization (ISI) mold. Others, especially in agriculture, preferred a more liberal tack. This disagreement, as well as more specific conflicts, divided business and detracted from the influence of its nominal peak organization, the Confederation of Production and Commerce (*Confederación de la Producción y del Comercio*, CPC) (Schneider 2004). These divisions were also reflected to some degree in partisan loyalties. While some elites favored one of the two traditional conservative parties, others came in the

1960s to support the centrist PDC (Stallings 1978). These defections helped weaken the conservative parties, which merged in 1966 to form the National Party.

The experiences of the 1970s and 1980s ended up largely overcoming these divisions by unifying Chilean elites around an ideology that rejects state intervention in the economy (Silva 1995; Pollock 1999; Fairfield 2015). This relative consensus was expressed in the greater political weight achieved by the CPC, which emerged during the democratic transition as the mouthpiece of the business community as a whole (Fairfield 2015). Business also lent its support to the creation in the 1980s of the UDI and *Renovación Nacional*. While UDI differs from *Renovación Nacional* in being more socially conservative and *pinochetista*, both are viscerally committed to free markets and have strong business ties. Finally, elites backed the creation of conservative think tanks, including the Center of Public Studies (*Centro de Estudios Públicos*) and Freedom and Development (*Libertad y Desarrollo*), which became influential proponents of free-market policies.

In other words, the traumatic experience of the Allende government contributed to the subsequent rise of a cohesive, enduring conservative rightwing bloc anchored by a business community strongly committed to economic liberalism. To be sure, Pinochet's radical reformism also contributed to that consensus by demonstrating the growth potential of a ruggedly liberal development path. However, the radical swing to the market would have been quite impossible had Allende not swung Chile sharply in the opposite direction first, fomenting a willingness among the country's economic elites to accept sweeping change (Silva 1993; Silva 1995).

This conservative bloc has proved effective not only in holding the line against statist economic policies, but in preventing fundamental reform of the starkly anti-union labor code adopted under military rule (Posner 2008). As a result, it has also helped keep unions from recuperating the dynamism of the pre-1973 era and becoming a force capable of influencing party platforms and government policies.

In the Mexican case, path dependence is somewhat subtler but also more telling, given the persistence and gradual strengthening of business organization and anti-state feeling over a longer period and under more diverse conditions.

The impressive organization of Mexican business today is the fruit of recurrent business-state conflicts (Martínez Nava 1984; Schneider 2002). During the second half of the 20th century the private sector faced two governments, those of Adolfo López Mateos (1958-1964) and Luis Echeverría (1970-1976), that sought to push economic policymaking in a more statist, social democratic direction. The confrontation with López Mateos helped propel the 1962 creation of the Mexican Council of Businessmen (*Consejo Mexicano de Hombres de Negocio*, CMHN), an organization that brings together the leaders of the country's largest firms. Meanwhile, the more protracted struggle against Echeverría provoked the creation in 1975 of the Business Coordinating Council (*Consejo Coordinador Empresarial*, CCE), an entity that unites all the

major business associations and has become the most visible representative of Mexico's private sector. Business also confronted the state at the end of the presidency of José López Portillo (1976-1982), who nationalized the banking sector in an effort to contain the effects of the debt crisis. Alarm over this initiative encouraged business leaders to breathe new life into the PAN, which already existed but was of little electoral significance.

Nevertheless, business's role in these episodes cannot be adequately understood without reference to an earlier conflict that deeply influenced the ideological leanings and organizations of key sectors of Mexican business. That was the conflict with the immediate post-revolutionary governments, most particularly that of Lázaro Cárdenas (1934-1940).

The Cárdenas years were a watershed in Mexico's political development. The pioneering 1917 constitution, framed during the country's tumultuous revolution (1910-1920), promised progressive, nationalistic change. However, the immediate post-revolution governments pursued these changes only halfheartedly. Rather unexpectedly, Cárdenas struck out in a new direction, implementing easily the largest agrarian reform in Latin American history until that time, the first major expropriations of foreign oil companies in the region, and measures to encourage union membership and activism. He also moved to diminish Catholic Church influence, especially in education. Scholars have sometimes downplayed the significance of these changes, but by the standards of the time it is hard to deny that they were genuinely radical (Knight 1994; Gilly 2001).

Cárdenas also used state intervention to encourage private investment in industry, as was also being done in some other Latin American countries. However, for business owners, especially those of the larger and more established firms, these aspects were overshadowed by perceived threats to property rights and control over the labor force (Hamilton 1982; Martínez Nava 1984). For this reason, they joined Catholic activists and other conservatives in mobilizing to oppose the government, generating a rising tide of political conflict marked by occasional episodes of violence.

At the heart of this reaction were the industrialists of Monterrey, capital of the northern state of Nuevo León and Mexico's major manufacturing hub. Incensed by the government's assault on its established privileges, the *monterregiano* elite reacted with sharp public rebukes, street protests, lockouts and support for anti-labor thugs and fascist groups (Saragoza 1988). In their attempts to articulate broader business opposition to Cárdenas, they relied in part on the Confederation of Mexican Employers (*Confederación Patronal Mexicana*, COPARMEX), an association that had originally been created in 1929 to combat an (ultimately failed) attempt at progressive labor reform, but which came into its own under Cárdenas. In 1939, with the 1940 election looming on the horizon, business people from Monterrey and other regions joined forces with Catholic activists to back the formation of the PAN, a party created with the purpose of combatting *cardenismo* (Tirado 1985, p. 106-107).

In the face of rising conservative resistance, Cárdenas eventually backed off his reformism and engineered the selection of Manuel Avila Camacho, a moderate with close ties to the military, as the candidate of his National Revolutionary Party (*Partido Nacional Revolucionario*), which would be renamed PRI in 1946. Cárdenas may well have feared that continued insistence on reforms might lead to a civil war and possibly the rollback of his earlier achievements (Michaels 1970). During the 1940s and 1950s, Avila Camacho and his successors deepened this tentative turn to the right, discouraging strikes, holding down wage growth, sharply reducing land reform and compensating the owners of expropriated oil companies.

The apparent cooperation between the state and private sector during these decades (and, to a somewhat lesser extent, the 1960s) has led some analysts to embrace the notion of a symbiotic “alliance for profits,” in which business allowed the PRI to run the country relatively undisturbed and in return received ample opportunities for enrichment (Reynolds 1970; Thacker 2012). This perspective, however, risks obscuring the tensions that existed between the state and private sector, as well as the partly coerced nature of the PRI’s policy choices (Martínez Nava 1984; Tirado 1985; Gaus 2010). It was not easy for a party that framed itself as the embodiment of a social revolution and possessed strong ties to popular organizations to maintain probably the stingiest welfare state of any middle-income Latin American country, while restraining real wage growth and responding only selectively to peasant demands for land. Such an orientation required a difficult balancing act.

We can understand the course the PRI navigated only if we appreciate that it was striving mightily to regain the confidence of a private sector that had not forgotten the injuries and insults suffered under Cárdenas (Shafer 1973; Martínez Nava 1984). Owners of large, well-established businesses, in particular, had been traumatized by what they viewed as a struggle for the survival of capitalism. Even if they acquiesced to the PRI’s persistence in power, they were determined to prevent anything smacking of a return to *cardenismo*. Their “historical paranoia,” as one scholar put it, made them “hypersensitive to the least expansion of the state presence in economic activities, and even more so to reformist projects” (Martínez Nava 1984, p. 81).

The hard core of resistance to state intervention was the Monterrey elite, or “Monterrey Group,” as it came to be known. It was largely during the struggle against Cárdenas that this crucial faction of Mexican business would acquire its impressive political cohesion and well-known determination to fight against state economic intervention, even if that meant open confrontation with authorities (Saragoza 1988; Gaus 2010). The Monterrey Group’s blend of economic liberalism and Catholic social conservatism was also imprinted upon COPARMEX, which gradually became an association of national scope. Although the members of these groups were not above accepting special favors from the state, they were philosophically opposed to state intervention in almost every form.

COPARMEX and the Monterrey Group tended to be especially combative, but they were by no means isolated within the larger business community. Both had strong ties to other

associations, such as the corporatist entities representing commerce and industry (Shafer 1973; Gauss 2010). In the 1940s there emerged a faction of smaller industrial enterprises that, in sharp contrast to these groups, explicitly endorsed state intervention. Associated with a corporatist entity called the National Chamber of Manufacturing Industry (*Cámara Nacional de la Industria de Transformación*, CANACINTRA), they backed the PRI much more unconditionally than big business. However, CANACINTRA never became a truly major force. As an early student of Mexican business pointed out, CANACINTRA's perspective "has utterly 'failed' to win the hearts of Mexican business to it, and it has had no effect on private enterprise attitudes toward government intervention, except possibly to make them more suspicious of government" (Shafer 1973, p. 112). In contrast, the author argued, "the legendary business conservatism of Nuevo León has always had plenty of counterparts elsewhere" (Shafer 1973, p. 105).

During the 1940s and 1950s big business, while accepting the basic thrust of PRI's pro-industrialization policy, worked to circumscribe the scope of state intervention (Gaus 2010). Not only did it insist upon light taxation, snubbing attempts in both decades to increase the state's fiscal resources (Unda Gutierrez 2010, ch. 5), but it also sought to limit the state's role in other areas (Cypher 1990; Gauss 2010). Thus, although Mexico adopted the same basic ISI model that emerged elsewhere in Latin America during this period, its state enterprise sector remained smaller and its state development bank less active than in some other countries, including Brazil and Chile (Graham 1982; Etchemendy 2011, p. 293). Even Mexico's tariff protection tended to be lower than that of other large countries in the region (Graham 1982, p. 25; Ros 1993, pp. 8-9).

The anti-state mindset that grew out of the conflict with Cárdenas is crucial to comprehending subsequent developments in business-state relations and business organization. López Mateos and Echeverría proposed reforms that were not especially radical. If approved, they would simply have moved Mexico somewhat closer to countries like Chile (even pre-Allende) and Uruguay, where the state was far larger and social policies more developed.¹⁵ The reason that these episodes, especially the second, provoked large-scale business mobilization and lasting innovations in formal organization is because business leaders interpreted them through the enduring ideological prism arising from the conflict with Cárdenas. From this perspective, they became additional evidence confirming the *priista* state's dangerous expansive tendencies. This view, in turn, informed business's interpretation of the 1982 bank nationalization, which was seen as a further example of the PRI's hostility to private enterprise, rather than as a rational (if questionable) measure by an otherwise business-friendly president facing desperate circumstances.¹⁶

The dynamic described above exhibits the self-reinforcing quality underscored by path dependence theorists, especially those, like Mahoney (2000) and Pierson (2000, 2004), who

¹⁵ For example, in both Chile and Uruguay, during the 1960s social security revenues and expenditures were about four times larger than Mexico's as a share of GDP (Mesa-Lago 1978, Table 7-15).

¹⁶ Prior to the bank nationalization, López Portillo had worked assiduously to restore business confidence, shaken by the conflict with Echeverría (Luna 1992, ch. 3).

emphasize the crucial role that ideology and perceptions of legitimacy can play in such processes. The anti-state beliefs and sentiments that emerged from the conflicts of the 1930s became embedded in formal organizations and informal networks with great influence over the business community. They shaped Mexican business's perceptions of subsequent state actions and, in turn, were reinforced by those perceptions, hardening into a kind of orthodoxy. In other words, the 1930s were a "critical juncture" that led business along a self-reinforcing path of mistrust of the state and growing preparedness to resist it.

Brazil presents a sharp contrast to both cases. The private sector has never faced a government both willing and able to carry out major redistributive reforms. Getúlio Vargas, who led Brazil from 1930 to 1945 and 1950 to 1954 and is sometimes compared to Cárdenas and other "populists," was far more moderate than his Mexican counterpart (Collier and Collier 1990, ch. 5). He implemented no agrarian reform or high-profile expropriations of other businesses and his labor agenda was much more about controlling than mobilizing workers. The closest Brazilian analogue to Salvador Allende was João Goulart (1961-1964), who sought to implement rural land redistribution, progressive labor reforms and the enfranchisement of illiterates. However, Goulart was both more moderate than Allende and politically weaker, having arrived in his office as a result of the elected president's resignation and lacking either a legislative majority or a strongly organized support base. His reforms stalled in Congress and he was overthrown in a bloodless coup after having achieved none of his major objectives.

This more benign political environment aided, in turn, in the development of a private sector relatively unconcerned with, and sometimes actively supportive of, state intervention. Many scholars have remarked on this aspect of Brazilian politics. For example, a study of industrialists between the 1930s and the 1970s concluded that "our research did not reveal an industrial elite opposed to state intervention in the economy. In some cases [the elite] even justified that intervention by the necessity of the state filling gaps the private sector could not" (Diniz and Boschi 1978, p. 191). Similarly, in her book on developmentalism in Brazil and Argentina during the 1950s, Sikkink (1991) argues that Brazil's more consistent adherence to this approach reflected a greater elite consensus on the benefits of state intervention. Finally, in a wide-ranging analysis of Brazilian interest group politics, Schmitter remarks on the comparative lack of elite resistance to the expansion of the state under Vargas and subsequent presidents (Schmitter 1971, pp. 375-376).

In the 1970s some prominent business leaders did raise their voices against the growing presence of the state in the economy but this "movement" was mainly a media initiative and reflected discontent with the military's tight grip on policy more than it did a rejection of interventionism per se (Diniz and Boschi 1978; Schneider 2004). Graham (1982) develops a telling comparison between this *destestatização* campaign and business mobilization against Mexican president Echeverría during the same period. Despite the fact that Brazil's tax burden was more than double Mexico's and state firms played a larger role in the economy, the business reaction to Echeverría's reforms was far broader and its criticisms more sweeping. Graham

argues that "...in no way could either the criticism or the concessions be compared to the private sector offensive that had been launched in Mexico. The Brazilian private sector critics were weaker, more defensive in their posture and never went beyond the specifics of their complaints" (Graham 1982, p. 36).

Lacking an instinctive wariness about the state, Brazilian business also lacked a strong motivation to craft encompassing organizations capable of defending their general interests as a social class. Instead, they focused their energies on defending more specific interests. The current context of heavy taxation and spending is perceived negatively by Brazilian elites, but the buildup has been gradual and largely (although not exclusively) based on indirect taxes. The "Brazil cost" resulting from taxes and rigid labor laws undermines industrial competitiveness, but is partially offset by tariff protection and subsidized credit. Moreover, more than a dozen years of PT rule have not produced anything that could be perceived as an existential threat to business or the rich. Although they have engaged in considerable income redistribution, the PT-led coalitions have respected private property and left labor relations essentially intact. Consequently, there has been no major break in the Brazilian tradition of non-conflictual relations between the state and economic elites.

Concluding Remarks

In this paper I have explored the differences in the tax burden among Brazil, Chile and Mexico. While natural resource wealth offers the most obvious solution to this puzzle, it is an insufficient one, since it cannot explain the huge gap between, on the one hand, Mexico and Chile, and on the other, Brazil. To complement it, I have developed an explanation emphasizing power resources and how they have been shaped by path dependence. Specifically, I have argued that the lower tax burdens in Mexico and Chile reflect the greater strength of rightwing forces in these countries compared to Brazil. The superiority of the right in the former two countries reflects, in turn, the enduring impact of historical episodes in which leftist governments undertook major redistributive reforms that unwittingly pushed elites to embrace markedly rightwing attitudes and to organize themselves to combat state intervention of all kinds.

This account could potentially be faulted for inconsistency regarding the causal relationship between leftist strength and the tax burden. On the one hand, I have argued that a relatively strong left encourages taxation by pushing for more generous social spending and the revenues needed to fund it. On the other, I have contended that attempts to bring about major redistributive change can have the ultimate effect of impeding higher taxation by helping to give rise to a private sector ideologically committed to limiting the growth of the state. So, should this argument be taken to mean that that a strong left encourages or discourages taxation?

The answer is, unfortunately, not completely straightforward. The left must be strong enough to obligate the state to pay attention to social demands, at least from the best organized

non-elite groups. However, a strong left that uses control of the state to pursue redistribution very aggressively may ultimately alienate elites to such an extent that it is subsequently unable to gain their acquiescence to even modest attempts to raise more revenue. This would appear to be particularly true when the redistributive initiatives threaten core aspects of capitalism, especially property rights. While the passage of time may attenuate the anti-state sentiments thus created, my cases (especially Mexico) show that organizations and social networks may help extend them across generations.

In some ways this perspective dovetails with the interpretations that a number of scholars have given to the finding, mentioned earlier, that large welfare states tend to be funded predominantly through indirect taxes, which of course attenuates their redistributive character significantly. Albeit with somewhat different logics, both Timmons (2005, 2010) and Beramendi and Rueda (2007) suggest that the reliance on regressive taxation represents a concession to economic elites, who would otherwise not acquiesce to large-scale spending.

The views expressed by these scholars are consistent with the account developed here in the sense that they imply that the construction of a large, tax-funded public sector necessarily involves substantial compromise with the private sector. At least under capitalist systems, elites have resources that allow them to fight off fiscal arrangements they strenuously object to. Where the present study differs from these perspectives is in its suggestion that the willingness of elites to accept a large public sector is a function not only of the contemporary policy mix, but potentially also of temporally more remote events that impart enduring “lessons” about the character and reliability of the state.

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