The Political Economy of Taxation in Latin America

Paying taxes is one of the least popular activities worldwide. Latin America in particular is notorious for having low direct taxes, weak compliance and enforcement, and high levels of inequality. Although fiscal extraction has gained renewed interest among governments in recent years, with the end of the commodity boom adding special urgency, the successful adoption and implementation of tax reforms is easier said than done, even when tax policy prescriptions are widely shared. This volume provides the first comprehensive, region-wide assessment of the role of political factors, including public opinion, democratic institutions, natural resources, interest groups, political ideology, and state capacity.

What explains the region’s low levels of taxation? What explains the low progressivity in its tax structure? And what explains considerable differences across countries? In addressing these questions, each of the volume’s chapters makes original theoretical and empirical contributions toward understanding how to overcome the political challenges to taxation.

Gustavo A. Flores-Macías is Associate Professor of Government at Cornell University. He is the author of After Neoliberalism: The Left and Economic Reforms in Latin America (2012), which received the Latin American Studies Association Tomassini Book Award. He is a faculty fellow at Cornell’s Atkinson Center for a Sustainable Future and core faculty at the Cornell Institute for Public Affairs. In 2017–2018, he was the recipient of Princeton University’s Democracy and Development Fellowship.
The Political Economy of Taxation in Latin America

Edited by

GUSTAVO A. FLORES-MACÍAS
Associate Professor of Government
Cornell University
# Contents

**List of Figures**  
* page vii

**List of Tables**  
* viii

**List of Contributors**  
* ix

**Acknowledgments**  
* xii

1. Introduction: The Political Economy of Taxation in Latin America  
* Gustavo A. Flores-Macías  
* page 1

2. The Political Economy of Oil Taxation in Latin America: Policy Volatility and Untapped Potential  
* Francisco J. Monaldi  
* page 25

3. Economic Growth and Tax Compliance in Latin America: Did the “Good Times” Help to Reduce Tax Evasion?  
* Marcelo Bergman  
* page 53

4. Once Bitten, Twice Shy: Path Dependence, Power Resources, and the Magnitude of the Tax Burden in Latin America  
* Gabriel Ondetti  
* page 76

5. Federalism and Taxation: Periods of Brazilian International Insertion  
* Aaron Schneider  
* page 114

6. Particularistic Political Institutions and Tax Neutrality in Latin America  
* Mark Hallerberg and Carlos Scartascini  
* page 144

7. Taxing Latin America’s Economic Elites  
* Tasha Fairfield  
* page 172
Contents

8 Weak Liberalism and Weak Property Taxation in Latin America
  James E. Mahon, Jr. 193

9 Preferences for Redistribution and Tax Burdens in Latin America
  Juan A. Bogliaccini and Juan Pablo Luna 219

10 Conclusion: Addressing Taxation’s Political Challenges
  Gustavo A. Flores-Macías 242

Index 267
# Figures

1.1 Commodity prices and Latin America’s fiscal balance  

1.2 General government balance, selected countries (% of GDP)  

1.3 Tax-to-GDP ratio by income level (central government)  

1.4 Latin America income share by decile group (%)  

1.5 Change in inequality measured as Gini coefficient, ca. 2011  

1.6 Change in total tax revenue (% of GDP)  

2.1 Government-take and investor-take at different oil prices  

3.1 Personal income tax collection (as % of GDP)  

4.1 Evolution of the tax burden in Brazil, Chile, and Mexico, 1900–2009 (decadal averages)  

5.1 Brazil tax revenue as a % of GDP  

5.2 Central government share of total receipts and expenditures  

5.3 Tax revenue as a share of GDP by type and level of government, 2009  

8.1 Relationship between democracy and liberalism  

8.2 Real estate taxes as a percentage of GDP against the sum of Heritage business freedom and Heritage property rights (components of the Economic Freedom Index), averages for 2010–2012  

9.1 Dendogram for distributive preferences in Latin America  

9.2 VAT level and effective tax collection
## Tables

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Basic oil taxation regimes’ components in 2012</td>
<td>39</td>
</tr>
<tr>
<td>2.2</td>
<td>Fiscal take per barrel (% of international price)</td>
<td>40</td>
</tr>
<tr>
<td>2.3</td>
<td>Major fiscal changes for oil companies in Latin America: 2014–2017</td>
<td>44</td>
</tr>
<tr>
<td>3.1</td>
<td>Evolution of tax revenues (including social security contributions) as share of GDP</td>
<td>54</td>
</tr>
<tr>
<td>3.2</td>
<td>VAT yield</td>
<td>57</td>
</tr>
<tr>
<td>3.3</td>
<td>Share of informal employment (nonagricultural sector) as % of total</td>
<td>59</td>
</tr>
<tr>
<td>4.1</td>
<td>Average tax burden among Latin American countries, 2009–2013</td>
<td>78</td>
</tr>
<tr>
<td>4.2</td>
<td>Tax structures, tax burdens, and total fiscal revenues, 2009–2013</td>
<td>79</td>
</tr>
<tr>
<td>5.1</td>
<td>Four periods of international insertion, federalism, and tax</td>
<td>120</td>
</tr>
<tr>
<td>6.1</td>
<td>Tax reforms that change the neutrality of the tax system, 1990–2004</td>
<td>149</td>
</tr>
<tr>
<td>6.2</td>
<td>Increase neutrality?</td>
<td>163</td>
</tr>
<tr>
<td>8.1</td>
<td>Total revenue and tax revenue by type of tax (% of GDP), general government</td>
<td>197</td>
</tr>
<tr>
<td>8.2</td>
<td>Descriptive statistics and t-tests for global, Latin America, and Latin America minus the three most hydrocarbon-revenue-dependent countries (Venezuela, Bolivia, Ecuador) on measures of democracy and economic liberalism</td>
<td>203</td>
</tr>
<tr>
<td>9.1</td>
<td>Classification of countries by class, well-being, and ideology dimensions</td>
<td>231</td>
</tr>
<tr>
<td>9.2</td>
<td>Typology for redistributive preferences</td>
<td>234</td>
</tr>
<tr>
<td>9.3</td>
<td>Forbearance and predisposition to increase tax burden for redistribution</td>
<td>235</td>
</tr>
</tbody>
</table>
Contributors

Marcelo Bergman is a sociologist and a professor at Universidad Nacional Tres de Febrero in Buenos Aires, Argentina, and an affiliated professor at CIDE (Research Center for Teaching Economics) in Mexico City. He holds BA and MA degrees in Political Science from the Hebrew University of Jerusalem, and a PhD from the University of California at San Diego. His recent books include Tax Evasion and the Rule of Law in Latin America: The Political Culture of Cheating and Compliance in Argentina and Chile (2009) and More Money, More Crime: Prosperity and Rising Crime in Latin America (2018).

Juan A. Bogliaccini is Associate Professor of Political Science at the Department of Social and Political Sciences, Universidad Católica del Uruguay. He holds a PhD in Political Science from the University of North Carolina at Chapel Hill. His research focuses on the political economy of redistribution and inequality, in particular in the areas of comparative capitalism, skills formation, and welfare states.

Tasha Fairfield is Associate Professor of International Development at the London School of Economics, and 2017–2018 Mellon Foundation Fellow, Center for Advanced Study in Behavioral Sciences, Stanford University. She is the author of Private Wealth and Public Revenue in Latin America: Business Power and Tax Politics (Cambridge University Press, 2015; winner of the LASA Donna Lee Van Cott Award, 2016). Her recent articles include “Explicit Bayesian Analysis for Process Tracing” in Political Analysis (winner of the Sage Best Paper Award, APSA-QMMR 2017).

Gustavo A. Flores-Macías is Associate Professor of Government at Cornell University. He is the author of After Neoliberalism: The Left...
List of Contributors

and Economic Reforms in Latin America (2012), which received the Latin American Studies Association Tomassini Book Award in 2015. He is a member of the core faculty at the Cornell Institute for Public Affairs and a faculty fellow at Cornell’s Atkinson Center for a Sustainable Future. In 2017–2018 he was awarded Princeton University’s Democracy and Development Fellowship at the Princeton Institute for International and Regional Studies.

Mark Hallerberg is Professor of Public Management and Political Economy at the Hertie School of Governance in Germany and Director of Hertie’s Fiscal Governance Centre. He is the author of Domestic Budgets in a United Europe: Fiscal Governance from the End of Bretton Woods to EMU (2004), coauthor of Fiscal Governance in Europe (Cambridge University Press, 2009), and coeditor of Who Decides the Budget? A Political Economy Analysis of the Budget Process in Latin America (2009). He publishes articles and book chapters on fiscal governance, tax policy, and exchange-rate choice.

Juan Pablo Luna is Professor of Political Science at the Pontificia Universidad Católica de Chile (Instituto de Ciencia Política & Escuela de Gobierno) and Associate Researcher at the IMFD-Chile. He earned his PhD in Political Science from the University of North Carolina, Chapel Hill. He is the author of Segmented Representation: Political Party Strategies in Unequal Democracies (2014).

James E. Mahon, Jr. is Woodrow Wilson Professor of Political Science at Williams College. His recent work includes the codirection of a project with the Woodrow Wilson Center in Washington, DC, which produced the edited volume Progressive Tax Reform and Equality in Latin America (2015). He holds a BA from Dartmouth and a PhD from the University of California, Berkeley.

Francisco J. Monaldi is Fellow in Latin American Energy Policy at the Baker Institute for Public Policy; Lecturer in Energy Economics at Rice University; Fellow at the Center on Global Energy Policy at Columbia University; Visiting Professor at Tecnológico de Monterrey; and Founding Director of the Center on Energy and Professor at Instituto de Estudios Superiores de Administración (IESA).

Gabriel Ondetti is Associate Professor of Political Science at Missouri State University. He is the author of Land, Protest and Politics: The Landless Movement and the Struggle for Agrarian Reform in Brazil
List of Contributors

Carlos Scartascini is Principal Economist at the Research Department of the Inter-American Development Bank. His areas of expertise include political economy, public finance, and behavioral economics. He has published seven books and more than thirty articles in specialized journals and edited volumes. He is Associate Editor of the academic journal Economía. A native of Argentina, he holds a PhD in economics from George Mason University.

Aaron Schneider is Leo Block Associate Professor of International Studies at the University of Denver, where he also directs the Latin America Center and co-directs the International Development Degree Program. He is the author of State-building and Tax Regimes in Central America (Cambridge University Press, 2012). Previously, he served as advisor to the chief economist for Central America at the Inter-American Development Bank.
Acknowledgments

This book was born out of an effort to inform tax policy. It responds to the concern that the bulk of existing scholarship on the topic has focused on the design of the appropriate tax policies, but has neglected the political considerations that promote or hinder those policies. A central motivation for the project was the firm belief that the best economic reforms are doomed to failure in the absence of the right political conditions to adopt them and sustain them over time. Although its focus is on Latin America, the volume seeks to inform our understanding of common political challenges beyond the region.

This endeavor benefited from the generosity of several centers around Cornell. The Mario Einaudi Center for International Studies and the Institute for the Social Sciences contributed funds to hold in Ithaca the seminal conference on taxation that paved the way for this volume. The Latin American Studies Program provided support for the logistics of the conference. The Princeton Institute for International and Regional Studies at Princeton University provided a rich intellectual environment to work on the volume during my time as the 2017–2018 Democracy and Development Fellow.

I am especially grateful to Robert Kaufman, Kenneth Roberts, and Ben Ross Schneider. Their feedback at the taxation conference considerably improved the volume, and their encouragement throughout the project was key in turning it into a book. I am also grateful to Sarah Kreps, Jim Mahon, Mick Moore, Vicky Murillo, Gabriel Ondetti, Tom Pepinsky, Will Prichard, Nic van de Walle, and Deborah Yashar for helpful comments and discussion about the topics in this volume. David de Micheli, Whitney Taylor, and Jimena Valdez provided invaluable assistance with organizing the conference. Finally, I thank Sara Doskow and her team at Cambridge University Press for their enthusiasm and support for the project, and Richard and Maritza Williamson for their generosity.

xii