

Omar Sanchez:

Mobilizing Resources in Latin America: The Political Economy of Tax Reform in Chile and Argentina

New York: Palgrave Macmillan, 2011, 258 p.

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◆ Even after a decade of outstanding economic growth and the political shift to the left in most countries, socio-economic inequality remains stunningly persistent in Latin America. However, while the majority of research in political science has focused on social or economic policies to explain this phenomenon, fiscal policy as a first step of private wealth distribution is much less studied. Of course there is widespread knowledge on the regressive, inequality enhancing effect of the countries' fiscal systems, but studies that shed light on the political economy of fiscal policy and particularly of tax reform are hard to find. This is why the book *Mobilizing Resources in Latin America* by Omar Sanchez deserves attention as it could enrich the discussion on inequality and redistribution in Latin America. And although Sanchez, a political scientist from Texas State University, doesn't originally peg his analysis to the question of inequalities, his two case studies of tax reform history in Argentina and Chile in the 1990's give great insight into the actor constellations and context variables that led to the neglect of inequality reducing tax reforms in both countries. Moreover, his description of the political economy of tax policy responds to the question why in the long run some developing

countries are able to enhance their revenue collection efforts, while others fail to do so (2).

Via an institutional approach, which combines the analysis of formal and informal institutions, Sanchez chronologically tracks the evolution of tax policy in Argentina (Chapter 1 and 2) and Chile (Chapter 3 and 4) in the 1990s. His main goal is to explain the different development paths in tax policy, with Chile being labeled as a successful and Argentina as a "failed" case. To explain this variation, he stresses the concept of institutional strength, that is "the ability of a country's formal and informal institutions to aggregate and mediate conflicting societal interests" (4). Sanchez explicitly takes a couple of variables into account, which add up to this concept. May these be formal, as for example state strength (degree of stateness), the party system, civil society actors, institutions that foster macroeconomic and fiscal discipline or informal, such as the presence of "políticas de estado" (a form of overarching common sense politics), clientelism and specific patterns of decision-making. In sum, these variables are not only relevant via their design but also due to their influence to explain variation in tax policy. Sanchez recapitulates his empirical findings and compares the two cases in more detail at the end of the book (Chapters 5 and 6).

One important conclusion Sanchez draws from his analysis is that the consolidation of a national tax system depends less on the technical expertise than on the quality of the political institutional endowment. This is where he detects the major difference between Argentina and Chile. While in Chile, as he argues, there was a unwritten consent of maintaining fiscal discipline among social and political actors, which was crucial for the great policy convergence in the political bargaining processes, in Argentina such a consent has been absent, even in the heydays of neoliberal reform. Another core institutional variable Sanchez emphasizes is the level of party system institutionalization. As he rightly observes, political parties can serve as arenas of mediation and, if institutionalized, make policies more sustainable. Thus, for him the institutionalized party system can explain much of the process of tax reform and outcome in Chile, while its absence can explain part of the triumph of special and corporative interest in Argentina.

In describing the Chilean experience, Sanchez divides the period between 1989 to 2001 into two phases: One period in which the *Concertación* government sought to use fiscal policy to contribute to the irreversibility of the still fragile democratic project by allocating more funding for social projects. This period was marked by cooperative consensus-seeking politics, which allowed the government to pursue some revenue enhancing tax reforms. In the second period, lower economic growth, tensions inside the government coalition and more aggressive opposition parties made intends for progressive, socio-economic equality enhancing, tax reforms unfeasible. During this time, the governments of *Eduardo Frei* and

later *Ricardo Lagos* were merely able to enact a number of supply-side tax reductions always assuring their revenue-neutrality. In addition, they shifted their attention to the struggle against tax evasion to fuel state coffers. Nevertheless this anti evasion policy, albeit successful, was less planned than “by default” (86), given the fact that “the political climate was still infertile for revenue enhancing tax reform”.

For the Argentinean case, Sanchez tells a completely different tax story. Argentina serves Sanchez as a prime example for the weak quality of public institutions, which explains great part of the stop and go in fiscal policy and the inefficient tax code and administration. In his view tax policy of the first Menem government was highly influenced by the institutional legacy from the dictatorship and the troubling Alfonsín years, which resulted in a chaotic legal tax code and poor overall tax collection. Against this background, the first Menem government enacted an aggressive program of free market policies, within which tax policy had to “rapidly yield the greatest amount of additional resources, regardless of the sectorial or household income distribution” (95). Moreover, tax policy was regularly planned and executed top-down via presidential decree without the participation of Congress. With the implementation of the currency board the situation got even worse, because thereafter the primary goal was to constantly upraise the overall tax burden and to restructure the tax system. It gets quite clear that socio-economic equality has never even considered as a goal in tax policy. Sanchez describes the second term of the Menem government and the following *Alianza* government as much more marked by political conflicts. These conflicts

arose due to the worsening external economic environment, pushing the government to extract new fiscal resources via tax hikes and the rising opposition inside the government, the *Peronist* party and social actors. Sanchez assesses the *Alianza* administration as even less successful, as it failed to contain declining revenues.

Although Sanchez analysis is impressive because of its dense empirical description and clear structuring, the presentation of the study is less convincing. It remains unclear why no reference to fiscal data is made. Diagrams, charts or other statistics are painfully missing. Furthermore, some doubts about Sanchez' theoretical and methodological approach remain. Sanchez is certainly right in stressing the importance of informal institutions in tax policy reform and he can convincingly show their importance, but a clear theorizing about the interplay of formal and informal institutions is missing. Likewise, given the fact that Sanchez assembles his explanatory variable 'institutional strength' with different variables in the two cases, the concept appears somehow arbitrary and may be difficult to generalize.

Moreover, given the recent development of the tax systems in both countries, it would be necessary to incorporate possible ways of institutional change into the analysis. Which conditions would really have to change in order for tax policy making to become sustainable and equality enhancing? Nonetheless, Sanchez' contribution deserves attention because of his dense empirical description and his focus on societal and political conditions for tax reforms. Further research should expand and specify the presented arguments and case selection, as

well as entail other methodological approaches. This would certainly enrich the discussion on inequality decreasing tax reforms, which seem to be so difficult to achieve in Latin America. ♦