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Latin American Public Finance and Taxes in the Digital Era

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There is now widespread recognition that taxation plays a key role in economic and social development. In recent years, several international organizations, experts, as well as social and political leaders have emphasized, especially after the financial crisis of 2008, that taxes are an important instrument of public policy, particularly to address large income inequalities and to encourage economic growth in Latin America.

However, this view can be complemented by another perspective, which extends the relevance of taxation. Taxes not only play a central role in revenue collection and income redistribution, but also crystallize the contribution that citizens make to the common good, laying the foundations for the distribution of obligations and rights in contemporary societies. This second vision allows for a broader analysis of social development, attending to both growth and redistribution, as well as the search for common solutions to collective problems. Likewise, this second vision attaches importance to state legitimation processes via taxation.

Together, both visions highlight the centrality of taxation for the social, civic, and

economic prosperity of countries. From the perspective of social sciences and in line with the approach of Joseph Schumpeter and other classic authors linked to fiscal sociology, this implies understanding taxes as a cause and a symptom of social change (Schumpeter [1918] 1991), which represents a convenient starting point to address different research topics related to taxation and citizenship, among others. In fact, development and inequality cannot be discussed without considering taxation. Likewise, the importance of taxes is not fully understood until the wealth of their economic, political, and social meanings is taken into account.

However, although this understanding of taxes suggests the need for different methodological and empirical approaches, research and debates on taxation are biased towards what might be called an arithmetic perspective, i.e. a view that examines taxes only in conformity with their technical and economic aspects. This has consequences on academic research and public policy: on the one hand, tax research is usually limited to a narrow focus and determined by very specific methodologies and empirical analyses. This leads to a bias in tax

debates and neglects aspects of great social relevance. On the other hand, public discussion, driven by the same approach or representing particular interests, often invokes the technical difficulty of taxation in circumscribing the discussion to an exchange among experts. This hinders citizens from actively participating in a sphere in which they are key actors.

This issue of CROLAR presents reviews of publications that offer alternative approaches to various topics related to public finances in Latin America. Many of these publications go beyond traditional economic approaches and apply new perspectives to understand the characteristics of the fiscal systems in the region and the challenges they face. This approach seems necessary if we consider that even after a decade of economic growth supported by the boom in commodity prices and the consequent increase in tax revenues, Latin American tax systems continue to face long-term challenges, such as high evasion and avoidance, volatile and weak tax bases, and regressive collection. Along with the recent economic contraction, this causes Latin American states to face strong budgetary constraints and state financing challenges in the near future. Paradoxically, this desert landscape of resources and theoretical proposals often coexists with abundant and fertile tax havens, which shelter resources to escape more demanding taxation.

The publications reviewed in this issue touch upon three different aspects of

taxation: the relational, historical, and transnational dimensions. The relational dimension understands taxation as a strategic link between state and society. That is, on the one hand, tax systems are influenced by social conflicts, beliefs, and collective norms, as well as by the asymmetries and hierarchies between social groups. On the other hand, it is through the analysis of taxation that we can understand the state's ability to extract fiscal resources, its way of intervening and gaining legitimacy in society, and the development of a particular notion of citizenship.

In this issue of CROLAR, several publications address this dimension of taxation. The clearest case is the book by Jorge Atria (ed.): *Tributación en Sociedad: Impuestos y Redistribución en el Chile del Siglo XXI*, reviewed by Juan Esteban Zorzín, which via several articles explores how taxes are understood in Chile. It is also the case of the book by German philosopher Peter Sloterdijk: *Fiscalidad Voluntaria y Responsabilidad Ciudadana*, reviewed by Jorge Atria, which discusses the rationale behind payment of taxes from a philosophical perspective. This debate is taken up from a legal perspective in the interview with law professor Francisco Saffie: *Derecho y tributación en América Latina: entre problemas persistentes y nuevos desafíos*. Saffie analyzes taxation in the region considering, among other aspects, the idea of obligation that underlies payment of taxes. This implies going beyond ethical questioning and the challenges of a global coordination

to reduce the problems of evasion and avoidance.

Two publications specifically address the relationship between taxation and inequality. The book by María Fernanda Valdés: *Reducing Inequality in Latin America: The Role of Tax Policy*, reviewed by Andrés Castro Araújo, explores this link in the past two decades in Latin America in order to revalue the use of taxation for social policy. For its part, the publication by Juan Pablo Jiménez (ed.): *Desigualdad, concentración del ingreso y tributación sobre las altas rentas en América Latina*, reviewed by Samara Pascual Gomez, focuses on taxation of high incomes. Both reviews show that tax policy can play an important role in leveling up the extreme socio-economic inequalities in Latin America, although this contribution remains underutilized at present and low levels of redistribution via taxation are still the norm in most of the region.

The historical perspective also offers relevant explanations for the challenges in tax systems. The historical dimension of taxation allows for the identification of common trajectories and critical junctures that determined a certain development of tax systems with effects that endure to the present. This dimension encompasses the book by Ryan Saylor: *State Building in Boom Times: Commodities and Coalitions in Latin America and Africa*, reviewed by Emilia Seissus Ercilla, which explores the development of the state's capacity to extract fiscal resources. By means of a comparative analysis of four countries

in Latin America and Africa, the book explores the circumstances in which states could increase their fiscal capacity, emphasizing relations and alliances in the ruling classes. This analysis shows that historical trajectories contain crucial information to understand the social and institutional dynamics that shape modern taxation.

A particular interest of this issue has been the exploration of Latin American public finances in light of the contemporary processes of digitalization. Recently, big scandals – such as the disclosure of the Panama Papers – highlighted the magnitude of evasion, transnational coordination of tax and financial operations, and the adverse effects of tax havens for sustainable development. At the same time, different national and international initiatives turned towards greater government transparency, openness, and accessibility of information have gained major importance in the governmental agendas of the region.

In the tax field, this digital dynamic is linked to the transnational dimension of taxation, which explores the links between global processes and the permanent re-negotiation of tax systems by social and political actors, challenging the interpretations in the current literature dominated by a perspective of methodological nationalism. These two aspects are addressed in the review essay by Constantin Groll: *Global and local approaches to tax justice in digital times*, where digital and traditional publications

seeking tax justice in the region are discussed and evaluated. This dimension is also present in the interview with Jorge Coronado Marroquin: *La lucha por la justicia fiscal en América Latina y más allá*, which addresses the influence of the digital for social movements in their struggle for fiscal justice. Both contributions shed light on the growing re-interpretation of taxation – often via digital means –, overcoming the pre-eminence of a purely technical approach to economic policy and public finances, as well as reclaiming a view that places individuals and their fundamental needs and rights at the center.

Finally, this issue ends with a review essay in the section of current debates. Here, Marco Just's essay, *Reformas y Desarrollo en Bolivia: retos analíticos de evaluaciones empíricas* reviews publications that help to understand the recent processes of change in Bolivia, emphasizing the methodological and analytical aspects of current research on this country.

The contributions of this issue of CROLAR show that multiple alternative and complementary perspectives to an arithmetic understanding of taxation exist. The contributions presented in this issue apply these approaches and provide valuable insights to understand tax systems in the region and help to meet the challenges ahead. We hope that in the current times of economic and political uncertainty in Latin America this research will be enriched by additional points of

view, expanding and making the demands for a fairer tax system more effective.

Bibliography

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