Review

Reviewed Work(s): Private Wealth and Public Revenue in Latin America: Business Power and Tax Politics by Tasha Fairfield

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Tasha Fairfield, ***Private Wealth and Public Revenue in Latin America: Business Power and Tax Politics***. New York: Cambridge University Press, 2015. Figures, tables, acronyms, appendixes, bibliography, index, 364 pp.; hardcover $99, ebook $79.

Taxation stands as a key component of state building as well as of economic development. Latin America has historically been and continues to be a region of the world that collects substantially less revenue than the global norm, given its level of income per capita (a gap that has narrowed but that stands at around three percentage points of GDP today).

Such revenue shortfalls have contributed to all manner of suboptimal economic policies and outcomes (not least, structural fiscal deficits and attendant risks, or money-printing inflationary spirals, to name just two). Shortfalls in revenue have also resulted in persistent deficits in public goods provision. It is therefore surprising that political scientists who study Latin America have not devoted much scholarly attention to taxation writ large, surely well short of what the subject matter deserves. If Joseph Schumpeter's dictum is anything to go by ("the national history of a country, stripped of rhetoric, is written in its fiscal history"), the lack of attention to taxation as a field of study has inevitably obscured important aspects of the region's political development that have yet to be illuminated. The political science literature on Latin America showcases few works on taxation, alongside a larger body of scholarship on economic reform areas that are not as pivotal; for example, trade liberalization or privatization. The upshot is that the analysis of tax policy and tax reform in Latin America continues to be dominated by economists, who bring their professional biases and blind spots to the subject matter. Tasha Fairfield's book, along with Aaron Schneider's recent *State-Building and Tax Regimes in Central America* (2012), begins to fill this significant vacuum in scholarship, which also exists in the study of taxation in other developing regions.

The Washington Consensus configured Latin American tax systems that became ever more regressive in their distributional effects, while direct taxation as a potential tool of both redistribution and revenue enhancement was bypassed. There is today increased acknowledgment among tax specialists and fiscal economists of the limitations and perils of neoliberal advice, and recognition that the region has much room to build tax capacity by directly taxing the incomes, profits, and assets of corporations and the wealthy. Fairfield's book focuses on precisely this particular subset of taxes within tax systems and sets out to understand how and when democracies are able to tax economic elites.

Departing from the institutionalist paradigm that dominates comparative politics, the author makes fruitful use of power resource theory to rescue and revive the classic concepts of instrumental and structural power as key explanatory variables. The argument, in brief, posits that when business elites wield high levels of structural or instrumental power, revenue-enhancing direct tax reforms are unlikely to be enacted or even formulated at the agenda-setting stage. Fairfield's multifaceted operationalization of instrumental (i.e., political) power includes relationships with policymakers (partisan linkages, institutionalized consultation, recruitment into government, election to public office, and informal ties), as well as political resources (including cohesion, expertise, media access, and money). All of these resources make policymakers more responsive to economic elites.

The author carefully operationalizes structural power as either a "disinvestment threat" (capital flight in search of higher returns elsewhere) or a "withholding threat" (the canceling or postponing of productive investment). In much of the literature, structural power is all too often held to be either constant or a variable that hinges only on asset mobility (the greater the mobility of business assets, the greater the degree of structural power). Fairfield's theoretical discussion departs from such simplifying assumptions and makes a convincing case that structural power varies across countries, policy areas, and even specific reform proposals.

Crucially, structural power influences agenda formulation, such that many tax reforms are never proposed or seriously considered because of the fear that they will lead to capital flight or to lower investment. Because this impact at the agenda-setting stage is not found in the written record, whether legislative records or newspaper accounts, only extensive triangulating of information via numerous interviews with top policymakers (the author carried out more than four hundred in the three countries under study) can fully uncover the enormous veto capacity of business's structural power. The empirical chapters starkly bring this veto power to light, particularly in the case of Chile. Structural and instrumental power resources are theorized to be interchangeable (the presence of either one can be effective in vetoing tax policy change), as well as mutually reinforcing (each may be stronger in the presence of the other). Consequently, the more power resource tools that elites bring to the table, the more immobility we can expect in the realm of direct taxation of corporations and wealthy individuals. When elites enjoy both types of power, "they can achieve more consistent and more substantial influence."

In Fairfield's theoretical account, business power is not all that matters. The author reasonably posits that taxation outcomes are also shaped by reform strategies. (What the study sacrifices in parsimony by adding this factor is more than compensated for by a more complete and nuanced understanding of tax policy outcomes.) That is, reformmongers can design reforms in ways that temper elite opposition, including taxes that are phased in gradually or that are temporary, obfuscating tax incidence by selecting taxes with low visibility, emphasizing public goods that appeal to elites (such as economic stabilization programs to escape economic crises or stave off crises that appear imminent), or compensation strategies, such as the provision of benefits ranging from subsidies to reforms elites favor in other policy areas.

There is another strategy that reformers can use to circumvent the power of elites: mobilizing the countervailing power of mass publics. Legitimating appeals such as nationalism can be effective and highly relevant for taxing extractive resources, as Bolivia's example (chapters 8 and 9) starkly illustrates. Appealing to horizontal equity (the notion that taxpayers of similar wealth should bear the same tax burden regardless of economic sector or sources of income) or vertical equity (the principle that wealthier individuals should bear a higher level of taxation) can also mobilize popular support and temper elite antagonism if framed astutely. (In fact, horizontal equity appeals can naturally enjoy the support of elite sectors subjected to discriminatory tax treatment in comparison to other elites).

This account of the role played by political agency comprises a practical toolbox that would-be reformers can fruitfully exploit to enhance the prospects of elite taxation. In any case, the author makes clear that such reform strategies constitute a second-order variable. The preponderance of weight in accounting for tax outcomes rests on the power tools at the disposal of elites. The book's well-constructed argument is shown to explain remarkably well the fate of an overwhelming number of the more than 50 tax proposals under examination.

The empirical chapters show that Chile's cohesive business community, well organized at the cross-sectoral level and endowed with linkages to the party system, has been able to stave off most revenue-enhancing direct tax reform initiatives. Argentina showcases the opposite pattern, because its business community is much more divided and bereft of natural allies in the party system. Bolivia stands as an intermediate case in terms of business power. One underlying lesson that emerges is that taxing elites is not as elusive an enterprise as it may seem, and that even when confronting elites endowed with formidable structural and political power resources, mobilized countervailing forces can overcome elite resistance to taxation. This is illustrated by the Chilean 2011 student movement, which proposed taxing business and the rich more heavily and led to President Piñera's 2012 corporate tax reform.

This book presents a challenge to political scientists who place institutions center stage in accounting for economic policy outcomes. And in many ways, it stands as a welcome corrective to standard accounts of policymaking that focus only on institutional variables. The predominance of institutionalism has meant that the field has largely neglected economic forces, as Kurt Weyland has rightly noted. The outcome this book tries to explain (the fate of proposals that target direct taxation), however, constitutes a limited component of tax state building. Fairfield has little to say on the intertemporal dimension of tax policy or on reform consolidation. Her account leaves out a number of important features of tax policymaking, not least the degree of volatility, policy cycling, or technical-economic coherence of tax proposals (to what extent do discrete tax initiatives cohere and align with the structure of tax system writ large?).

For illustration, the narrow focus on the success rate of elite taxation efforts in Argentina may leave among some readers the impression that this country is on its way to successfully building a tax state. However, the quality of tax policymaking in Argentina (in the dimensions, for instance, of policy coherence, public regardedness, or policy stability) continues to be fatally hampered by an inadequate policymaking process (PMP) environment. How many of the tax reforms in Argentina outlined by Fairfield shall be overturned or undermined in the future? Judging by its PMP and economic history, one would be wise to be skeptical about prospects for reform consolidation.

Difficulties in taxing elites notwithstanding, the quality of tax and economic policymaking in Chile remains far higher than that observed in Argentina or

Bolivia. The nature of the party system, legislature, civil society actors, and other components of the PMP is essential in accounting for this difference. The absence of truly encompassing peak business associations or institutionalized business representation in the party system (weak instrumental business power) may well facilitate the job of enacting discrete direct tax reform initiatives, as the book convincingly shows, but what is the effect of such institutional features on the intertemporal quality of tax policymaking? Standard accounts (see Mariano Tommasi's scholarship or the 2006 IDB Report *The Politics of Policy*) tell us that the quality of tax policymaking will suffer in many important dimensions in the absence of robust state institutions, organized civil society, and strong party systems. *Private Wealth and Public Revenue* does a formidable job in tackling an essential question that has been surprisingly underresearched: prospects for the taxation of elites in Latin America. But it is important to bear in mind that the research question it pursues, while very important, is narrow in scope. The scope for future research on Latin American taxation remains vast.

Beyond the important role it plays in explaining outcomes in the realm of direct taxation, there are strong reasons to think that Fairfield's theory can wield important explanatory leverage in other substantive areas of economic policy reform, as the author herself points out (but does not elaborate). It should also be able to travel across space to other developing regions with ease. In fact, one wishes the author had addressed in a separate chapter the question of the scope and plausibility of the argument with out-of-sample tests. But these are minor quibbles. This is an outstanding piece of scholarship, presenting a sophisticated theoretical framework and impressive field research that breaks new ground in an underexplored critical subject in Latin America.

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Eduardo Moncada, *Cities, Business, and the Politics of Urban Violence in Latin America*. Stanford: Stanford University Press, 2016. Bibliography, index, 248 pp.; hardcover $65, ebook.

The stubbornly high crime rate afflicting Latin America—where the homicide rate has been more than three times the global average since 2000, with over 40 percent of the world's annual murders—has been met with an equally frustrating inability to curb it. Assessing the range of actors and policies responsible for this failure in Colombia's three main cities, Eduardo Moncada's book zeroes in on the relationship between local government and business, creating an explanatory framework that is both clearly formulated and historically grounded.

Colombia is, of course, an exceptional case, both for its prolonged political violence and for the turnaround of security in its cities. But exploring how its local officials and businesses deal with a host of challenges and with each other helps disentangle the complex interactions that have obstructed efforts to curb crime throughout Latin America.