

Perceived structural power, at least partially enhanced by instrumental power, contributed to dissent within the governing coalition. Sustained conflict and extended debate over the reform in the context of deepening economic slowdown helped compel the administration to prioritize compromise, not only to secure votes in the senate, but also to improve the investment climate.

Whereas the Finance Ministry maintained that Chile's integrated income tax stimulated evasion and avoidance, prominent economists associated with prior center-left administrations embraced the alternative view that this system, with its large gap between the corporate and personal income tax rates and deferred taxation of capital income, was in fact critical for promoting investment (Figure 4B: T₂). Three former finance ministers publicly expressed concern over the reform's impact on investment, criticizing the imputed profits tax regime and arguing that if the integrated income tax system were eliminated, creating alternative investment incentives was imperative.⁶⁸ In essence, these economists perceived strong structural power with respect to the government's proposal, given the way that they modeled investor responses. Although which view is "objectively" correct is a matter of debate, studies conducted by the Chilean tax agency and research on capital taxation in the US supported the Finance Ministry's original position that the imputed profits regime would have had only modest, short-term effects on investment.⁶⁹ However, dissent from these prominent center-left economists undermined the Finance Ministry's position and helped sow concern among the more conservative wing of the governing center-left coalition (primarily Christian Democrats).⁷⁰

Business advanced similar structural-power arguments against the imputed profits regime, which they adamantly opposed. The tone, intensity, and centrality of these arguments varied over time and across sectors as business tried to refine its opposition strategy. Early during the debate, the head of the industrial association (SOFOFA⁷¹) issued a strident warning: "If the projects businesses are evaluating become unprofitable because of tax increases, they will be carried out without doubt – in other countries."⁷² These words reflected business's defensive position following the right parties' electoral demise and widespread concern within the business sector that the peak associations had lost their capacity to

⁶⁸ Aninat, Marfán, and Velasco; www.senado.cl/appsenado/templates/tramitacion/index.php?boletin_ini=9290-05#.

⁶⁹ Yagan (2014); www.senado.cl/appsenado/templates/tramitacion/index.php?boletin_ini=9290-05#.

⁷⁰ Interview E.

⁷¹ Sociedad de Fomento Fabril.

⁷² *El Mercurio*, March 21, 2014.

influence public policy.⁷³ However, SOFOFA's declarations were not only received poorly by the government and the public but were also interpreted by many business leaders as unnecessarily confrontational and counterproductive given the new political context.⁷⁴ One informant explained: "If we oppose the reform, saying it will damage the economy and hurt jobs, we will hurt ourselves because the reform will pass, and business will be accused of protecting its own interests – wanting to pay less taxes, refusing to contribute to education, and trying to maintain inequality."⁷⁵ Business opposition subsequently shifted to impugning the imputed profits regime as unconstitutional and too complex to implement – strategies for reframing a salient redistributive debate as a technical issue beyond the grasp of voters.

Once the reform entered the senate, however, structural-power arguments resumed a prominent place in business' counteroffensive. The president of Chile's encompassing peak association (CPC⁷⁶) opened his remarks to the senate finance committee by highlighting the tax system's importance for promoting investment and warning that the reform's "radical changes" would affect "economic growth, employment, and salaries."⁷⁷ SOFOFA, the mining sector, and the trade and commerce association focused their extensive Senate presentations on the reform's purportedly adverse effects on investment and growth. SOFOFA's presentation was reminiscent of its president's early outspoken assertions. After attributing Chile's three decades of progress to the integrated tax system, the presentation concluded: "it is difficult to think that a [proposed] tax system that has created such profound concern could foster growth and form the basis for economic and social development over the next 30 years."⁷⁸

Privileged media access stemming from ownership of the major media outlets helped business instrumentally enhance structural power. Chile's newspaper market is a duopoly controlled by *El Mercurio*, owned by the Edwards family, and the conglomerate Copesa, owned by Álvaro Saieh.⁷⁹ The press reiterated and amplified business's warnings of reduced growth and investment, along with multiple other arguments against the reform including its purported

73 Interview A.

74 Interview E.

75 Interview B.

76 Confederación de la Producción y del Comercio.

77 Andrés Santa Cruz, June 16, 2014. www.senado.cl/appsenado/templates/tramitacion/index.php?boletin_ini=9290-05#.

78 July 2, 2014, www.senado.cl/appsenado/templates/tramitacion/index.php?boletin_ini=9290-05#.

79 Becerra and Mastrini (2009); Schneider (2013); Boas (2013).

negative impact on small business and the middle class. Favorable commentaries were published, but negative coverage was more extensive and more prominently placed in Chile's major newspapers. Opinion polls suggest that the media campaign achieved results. In early June when the senate was beginning its hearings, a widely publicized CADEM poll reported 49% of respondents identifying the reform's primary effect as raising consumer prices (26%), increasing unemployment (14%), or slowing growth (9%).⁸⁰ Adimark likewise reported that 47% believed the tax reform would reduce employment and affect growth.⁸¹ Public opinion would have at most an indirect affect on legislators. However, these figures likely strengthened the position of dissenters within the center-left and gave the government cause for concern in conjunction with signs that the administration was loosing the broader battle for public support on the reform.⁸²

Chile's economic slowdown also fostered structural power concerns. The Bachelet administration initially projected growth of at least 4.9% for 2014, but in mid-June while the tax reform was in the senate, the Central Bank released reports anticipating growth of only 3%.⁸³ Firms interviewed for the Central Bank's Business Perceptions Report indicated that the tax initiative was among the factors motivating them to refrain from undertaking new investments and/or postpone planned projects.⁸⁴ Business association leaders reinforced the message that the tax initiative was exacerbating the slowdown, although they were careful to acknowledge that multiple factors were depressing investment.⁸⁵

Economists with ties to business and the right were less circumspect in their claims, aiming to instrumentally enhance structural power by linking the economic slowdown directly to the tax reform and thereby shaping how policymakers interpreted the disinvestment signal. For example, Piñera's former economy minister declared: "This new [tax] regime ... is causing paralysis in investment and employment decisions... the effect will be between 2% and 4% of GDP in

80 Cadem No 21, June 9, 2014. "Track seminal de Opinión Pública."

81 *El Mercurio* June 18, 2014.

82 *Tercera*, July 13, 2014. Widely reported, inaccurate charges that the reform would affect a wide swath of Chileans also took hold among the public. CEP (July 2014) found 29% of respondents believed the reform would worsen their economic situation; CADEM (June 9, 2014) reported that fully 68% believed the reform would hurt the "middle class."

83 *El Mercurio*, June 23, 2014.

84 Informe de Percepciones de Negocios (August 2014), based on 100 interviews between June 30 and July 29. <http://www.bcentral.cl/publicaciones/otras/otras48.htm>.

85 CPC senate presentation, June 16; *El Mercurio*, June 11, 2014; *Diario Financiero* June 19, 2014.

reduced investment.”⁸⁶ These arguments probably did not alter the executive branch’s assessment of the tax reform’s medium- to long-term impact on investment, especially considering that many independent economists attributed the investment slowdown primarily to international factors, reduced mining activity due to falling copper prices and rising energy costs, and completion of large-scale construction projects initiated after the 2010 earthquake.⁸⁷ However, designing new measures to stimulate investment became a central issue in discussions between the Finance Ministry and senators from both the opposition and governing coalitions.⁸⁸

Press accounts suggested that concern over growth and investment ultimately motivated President Bachelet to mandate a negotiated agreement across the political spectrum.⁸⁹ In the weeks following the agreement, the Finance Minister publicly acknowledged that protracted debate on the reform was contributing to the environment of investment uncertainty.⁹⁰ Similarly, Socialist Senator Montes recounted: “the economic deceleration made the negotiated agreement necessary” for the sake of improving the investment climate.⁹¹

Readers might find it surprising that projected growth of 3% stimulated such concern among Chilean policymakers, considering the international context. Many OECD countries were struggling to recover from recession; growth in the UK and US was just under 2% in 2013. Leading Latin American economies also experienced sluggish growth: 2.5% in Brazil, 3% in Argentina, and 1.1% in Mexico. Yet the Chilean slowdown motivated a shift in government priorities and renewed attention to business interests. This case highlights the context sensitivity of structural power and its frequent relationship to economic cycles. Chilean policymakers are acutely attuned to changes in growth rates, and structural power in Chile tends to be stronger not only during recessions, but also during mere slowdowns, or even periods when growth fails to match expectations or desired targets.

86 Juan Andrés Fontaine, quoted in *Diario Financiero* July 3, 2014. Fontaine was a longtime member of right-wing think tank Libertad y Desarrollo which has close ties to big business. Observers on the left directly accused business and the right of “taking advantage of the poor economic indicators to reinforce the idea that the [tax] reform must be halted” (*Mostrador*, September 8, 2014).

87 *Mostrador*, September 8, 2014; Socialist Party informant, September 27, 2014 personal communication. Meanwhile, among governing-coalition legislators, structural-power concerns voiced by former center-left finance ministers probably carried more weight than the right’s arguments.

88 E.g. *Diario Financiero* June 25, 2014.

89 *Tercera*, July 13, 2014.

90 *Ibid.*

91 *El Mercurio*, August 16, 2014.

Structural power was by no means the only factor contributing to the negotiated compromise. Instrumental power based on technical expertise also helped business gain ground against the reform. Business associations marshaled an army of tax consultants and sympathetic technical advisors from their studies departments and the professional community more broadly to argue against the reform's legality and administrative feasibility. The barrage of criticism on these fronts overwhelmed governing-coalition senators and elicited serious concerns.⁹² The tax agency director subsequently defended the reform's feasibility in an extensive presentation to the senate, emphasizing that the new system would actually be administratively simpler, but by then substantial damage had already been done. Moreover, the government failed to assuage concerns regarding constitutionality. In an effort to shift to a non-majoritarian venue, the right threatened to take the reform to the constitutional court, which could have seriously delayed implementation even if the ruling favored the government.⁹³ This factor likely weighed heavily, given the administration's express goal of enacting the reform in time for the new revenue estimates to be included in the 2014 budget law.

Had civil society actively mobilized to support Bachelet's original proposal, the administration might have been in a stronger position to defend the reform. However, the student movement focused on education reform – which was being drafted while the tax reform was debated – in contrast to its more expansive agenda in 2011–2012. The labor unions, which had mobilized alongside the student movement, supported the tax proposal.⁹⁴ Yet like the students, the unions were more active on the issue most directly affecting their members: reform of Chile's highly-restrictive labor code.

While the mass mobilizations of 2011 and 2012 counterbalanced business power and dramatically shifted the policy agenda away from business preferences towards more equity-enhancing, statist reforms, demobilization on the issue of taxation opened space for business to make gains at the margins during later stages of policymaking.⁹⁵ Yet even though the reform ultimately signed into

⁹² Interview C.

⁹³ Socialist Party informant, September 27, 2014 personal communication. A governing-coalition legislator (C) expressed the following concerns: "I could be convinced that the reform is constitutional. But there is a Constitutional Tribunal, and if it thinks differently, we have a serious problem, and the reform falls. That has a big political cost for the government."

⁹⁴ CUT in Finance Committee; interview D.

⁹⁵ A union informant noted this effect with regard to the student movement as follows: "they have been absent in this [tax] debate, even though they were the first ones to instigate the issue... without doubt this is an element that has allowed the most retrograde politicians and especially the business sector to carry out a very aggressive offensive against the reform."

law did not achieve the highly progressive structural overhaul of the tax system original proposed by the government, the compromise legislation nevertheless significantly altered the integrated tax system that business had long defended as sacrosanct.

6 Conclusion

Chile's 2014 tax reform illustrates several important points about structural power. First, policymakers' perceptions matter. Projecting how market actors will respond to policy change and/or ascertaining why they have reacted in a particular way is not an exact science. Experts may disagree on how significantly a reform will affect investment and how that in turn will affect growth and development, even if they have similar technical training, belong to the same political coalition, and share similar goals.

Second, the Chilean case illustrates the potential for instrumental power to enhance structural power. In some instances business may be able to deliberately foster or augment concern over the market response to policies they dislike through the sheer persuasiveness of their arguments. Yet concrete sources of instrumental power like privileged media access, technical expertise, or ties to important political parties make structural-power arguments more likely to take hold.

Third, structural power need not operate exclusively at the agenda formulation stage. In the Chilean case, structural power acted much later in the policy process because policymakers who were not involved in drafting the legislation but who were relevant for enacting the legislation anticipated that the reform would hurt investment. Moreover, as the economy became more sluggish, concern regarding the reform's contribution to low investor spirits spread.

Relatedly, structural power in some cases can play a secondary role to instrumental power in protecting business interests. In Chile, structural power became more salient after business's instrumental power declined (due to the right parties' loss of seats in congress). Weakened instrumental power allowed more radical policy changes to emerge on the agenda – changes that precisely by virtue of being more radical were more likely to stimulate concerns over market responses, or in others words, reforms inherently more likely to encounter strong structural power.

Finally, the Chilean case illustrates the importance of analyzing electoral incentives and popular mobilization in conjunction with business power. High issue salience occasionally facilitated enactment of reforms that otherwise were

not feasible given strong business power through 2010, yet those reforms remained modest. In contrast, popular mobilization effected a major shift in Chilean politics that dramatically expanded the tax agenda and created an opportunity for progressive policymakers to initiate major policy change. While structural power helped slow the pace of change, it certainly did not prevent change. In other cases where mobilized popular sectors continue to actively demand reforms, structural power may have little effect; even if policymakers anticipate a negative investment response, satisfying other constituencies may take precedence.

Analyzing structural power can be labor-intensive, particularly when information about agenda formulation and subsequent government-business negotiations is not a matter of public record. And it may not always be possible to uncover evidence allowing definitive adjudication regarding the relative importance of instrumental power vs. structural power in a given case – business often has multiple sources of power that may act simultaneously, especially in Latin America’s highly unequal market democracies where large business groups are both politically connected and economically dominant. However, endeavoring to ascertain which mechanisms of influence operate is an important aspect of comparative analysis – as social scientist studying the convoluted and often opaque world of business and politics, we must come to grips with multiple, complex causality. Moreover, so-doing can lead to insights on opportunities and strategies for promoting equity-enhancing development.

Acknowledgments: I thank Pepper Culpepper, two *BAP* reviews, Rawi Abdelal, Taylor Boas, Adam Cohon, Ruth Collier, Kent Eaton, Patrick Emmenegger, Henry Farrell, Peter Hall, Jessica Rich, Ben Ross Schneider, David Soskice, Steven Vogel, Nicholas Ziegler, and participants in a UC Berkeley business power workshop.

Author’s interviews, Santiago, Chile

A: Business informant, May 28, 2014.

B: Business informant, June 4, 2014.

C: Finance committee member, June 13, 2014.

D: Labor union informant, June 13, 2014.

E: Government informant, June 12, 2014.

References

- Avelino, George, David Brown, and Wendy Hunter. 2005. “The Effects of Capital Mobility, Trade Openness, and Democracy on Social Spending in Latin America, 1980-1999.” *American Journal of Political Science* 49 (3): 625–641.

- Becerra, Martín, and Guillermo Mastrini. 2009. *Los Dueños de la Palabra*. Buenos Aires: Prometeo.
- Bennett, Andrew, and Jeffrey Checkel. 2015. *Process Tracing: From Metaphor to Analytic Tool*. New York: Cambridge University Press.
- Block, Fred. 1977. "The Ruling Class Does Not Rule." *Socialist Revolution* 33: 6–27.
- Boas, Taylor. 2013. "Mass Media and Politics in Latin America." In *Constructing Democratic Governance in Latin America*, edited by Jorge Domínguez and Michael Shifter, 4th ed. Baltimore: Johns Hopkins University Press.
- Campello, Daniela. 2015. *The Politics of Market Discipline in Latin America*. New York: Cambridge University Press.
- Charman, Andrew, and Tasha Fairfield. 2015. "Bayesian Probability: The Logic of (Political) Science." Prepared for the Annual Meeting of the American Political Science Association, San Francisco, September 3–6.
- Conaghan, Catherine, and James Malloy. 1994. *Unsettling Statecraft: Democracy and Neoliberalism in the Central Andes*. Pittsburgh: University of Pittsburgh Press.
- Culpepper, Pepper. 2011. *Quiet Politics and Business Power*. New York: Cambridge University Press.
- Culpepper, Pepper, and Raphael Reinke. 2014. "Structural Power and Bank Bailouts in the United Kingdom and the United States." *Politics and Society* 42 (4): 427–454.
- Etchemendy, Sebastián. 2011. *Models of Economic Liberalization*. New York: Cambridge University Press.
- Fairfield, Tasha. 2010. "Business Power and Tax Reform." *Latin American Politics and Society* 52 (2): 51–71.
- Fairfield, Tasha. 2011. "Business Power and Protest." *Studies in Comparative International Development* 46: 424–453.
- Fairfield, Tasha. 2015. *Private Wealth and Public Revenue in Latin America: Business Power and Tax Politics*. New York: Cambridge University Press.
- Fairfield, Tasha, and Candelaria Garay. 2013. "The Politics of Redistribution in Unequal Democracies: Unexpected Reforms under the Right in Chile." American Political Science Association, Chicago, August 29–September.
- Fairfield, Tasha, and Michel Jorratt. 2015. "Top Income Shares, Business Profits, and Effective Tax Rates in Contemporary Chile." *Review of Income and Wealth*, doi: 10.1111/roiw.12196.
- Feldstein, Martin. 1995. "The Effect of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform Act." *Journal of Political Economy* 103 (3): 551–572.
- Garay, Candelaria. Accepted for publication. *Including Outsiders: Social Mobilization, Electoral Competition, and Social Policy Expansion in Latin America*. New York: Cambridge University Press.
- Garrett, Geoffrey and Deborah Mitchell. 2001. "Globalization, Government Spending, and Taxation in the OECD." *European Journal of Political Research* 39: 145–177.
- Gelleny, Ronald, and Matthew McCoy. 2001. "Globalization and Government Policy Independence: The Issue of Taxation." *Political Research Quarterly* 54, 3: 509–529.
- Gibson, Edward. 1996. *Class and Conservative Parties*. Baltimore: Johns Hopkins University Press.
- Gruber, Jon, and Emmanuel Saez. 2000. "The Elasticity of Taxable Income." NBER working paper 7512.
- Hacker, Jacob, and Paul Pierson. 2002. "Business Power and Social Policy: Employers and the Formation of the American Welfare State." *Politics and Society* 30: 277–325.

- Hacker, Jacob, Paul Pierson, and Kathleen Thelen. 2013. "Drift and Conversion: Hidden faces of Institutional Change." American Political Science Association conference, Chicago, August 29-September 1.
- Haggard, Stephan, Sylvia Maxfield, and Ben Ross Schneider. 1997. "Theories of Business and Business-State Relations." In *Business and the State in Developing Countries*, edited by Sylvia Maxfield and Ben Ross Schneider, Ithaca: Cornell University Press.
- Handley, Antoinette. 2008. *Business and the State in Africa*. New York: Cambridge University Press.
- Hart, Austin. 2009. "Death of the Partisan? Globalization and Taxation in South America, 1990-2006." *Comparative Political Studies* 43 (3): 1-25.
- Hirschman, Albert. 1970. *Exit, Voice, and Loyalty*. Cambridge: Harvard University Press.
- Jacobs, Lawrence, and Robert Shapiro. 2000. *Politicians Don't Pander*. University of Chicago Press.
- Kaplan, Stephen. 2013. *Globalization and Austerity Politics in Latin America*. New York: Cambridge University Press.
- Kaufman, Robert, and Alex Segura-Ubiergo. 2001. "Globalization, Domestic Politics, and Social Spending in Latin America." *World Politics* 53 (4): 553-587.
- Lindblom, Charles. 1977. *Politics and Markets*. New York: Basic Books.
- Luger, Stan. 2000. *Corporate Power, American Democracy, and the Automobile Industry*. New York: Cambridge University Press.
- Luna, Juan Pablo. 2014. *Segmented Representation: Political Party Strategies in Unequal Democracies*. Oxford University Press.
- Mahon, James. 1996. *Mobile Capital and Latin American Development*. University Park, PA: Pennsylvania State University Press.
- Maxfield, Sylvia. 1990. *Governing Capital: International Finance and Mexican Politics*. Cornell University Press.
- Offe, Claus, and Helmut Wisenthal. 1980. "Two Logics of Collective Action." *Political Power and Social Theory* 1: 67-115.
- Piketty, Thomas, Emmanuel Saez, and Stefanie Stantcheva. 2011. "Taxing the 1%: Why the top tax rate could be over 80%." voxeu.org.
- Piketty, Thomas, Emmanuel Saez, and Stefanie Stantcheva. 2014. "Optimal Taxation of Top Labor Incomes." *American Economic Journal: Economic Policy* 6 (1): 230-271.
- Przeworski, Adam, and Michael Wallerstein. 1988. "Structural Dependence of the State on Capital." *The American Political Science Review* 82 (1): 11-29.
- Schneider, Ben Ross. 2013. *Hierarchical Capitalism in Latin America*. New York: Cambridge University Press.
- Shadlen, Kenneth. Accepted for publication. *Global Change, National Responses: The New Politics of Pharmaceutical Patents in Latin America*. Oxford University Press.
- Smith, Mark. 2000. *American Business and Political Power*. University of Chicago Press.
- Thacker, Strom. 2000. *Big Business, the State, and Free Trade*. New York: Cambridge University Press.
- Vogel, David. 1987. "Political Science and the Study of Corporate Power: A Dissent from the New Conventional Wisdom." *British Journal of Political Science* 17 (4): 385-408.
- Weyland, Kurt. 2007. *Bounded Rationality and Policy Diffusion: Social Sector Reform in Latin America*. Princeton: Princeton University Press.
- Wibbels, Erik, and Moisés Arce. 2003. "Globalization, Taxation, and Burden-Shifting in Latin America." *International Organization* 57: 111-136.

Winters, Jeffrey. 1996. *Power in Motion*. Ithaca: Cornell University Press.

Woll, Cornelia. 2014. *The Power of Inaction: Bank Bailouts in Comparison*. Ithaca: Cornell University Press.

Yagan, Danny. 2014. "The Effects of the 2003 Dividend Tax Cut." <http://eml.berkeley.edu/~yagan/DividendTax.pdf>.

Ziegler, Nicholas. 1997. *Governing Ideas*. Ithaca: Cornell University Press.