THE POLITICS OF TAXATION IN ARGENTINA AND BRAZIL IN THE LAST TWENTY YEARS OF THE 20TH CENTURY

DISSERTATION

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By

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ABSTRACT

What explains changes in tax policy and its direction and magnitude? More specifically, what explains changes in taxation centralization, progressivity, and level? This dissertation addresses these questions in a comparative way, by studying Argentina and Brazil’s taxation experiences during the 1980s and 1990s. The main reason for choosing these two cases derives from the occurrence of tax policy reforms in both cases, but different in extent and nature, which is the central explanatory concern of this dissertation.

Throughout the literature, explanations of change have had a focus on crisis environments, crisis events, and/or agency. Although all of them present some truth and leverage in order to gain an understanding of change taking place, some middle-range explanation is lacking. By this I mean, crises based explanations remain at a high structural level of explanation, while agency based explanations become extremely micro-focused. Though crises present windows of opportunity for changes to take place, they do not guarantee them. Furthermore, changes still have taken place without crises. Thus, crises-based explanations are not necessary or sufficient type of explanations of
change. They mainly present a possibility that could be taken advantage of by the relevant actors.

On the other extreme, without an adequate account of actions, nothing can be explained, since any type of social scientific explanation should be agency grounded. Nevertheless, agency or will of actors (individual or collective) need to be structured or processed through existing institutions, since doing otherwise would portray an atomic individualistic interaction, which besides not being representative of reality, does not help us explain real changes.

A combination of macro and micro-concerns are then crucial in order to understand and be able to explain change. This is why middle-range or institutionally based explanations, which contain generalizable qualities without being aloof to contingent and contextual characteristics, are best suited for explaining change. Throughout this dissertation, I present a contingent application of *veto players theory* in order to explain changes in taxation. It gives importance to strategic actors’ interactions and their institutional realities.

I put forth the necessity of a reduction of effective veto players in order for change to take place within a realm of multiple veto players. Furthermore, I argue that without a reduction in the effective number of veto players, change cannot take place; this is an explanation taking into consideration structural and agency considerations. It is not a sufficiency argument because in the end, purposive action is required and agency
becomes relevant in order to supply this information. Even more, sufficiency is only achieved contingently and contextually. A low number of veto players, present a higher probability of change taking place, at least structurally, but these veto players’ interests need to be taken into consideration in order to understand change or its absence (i.e. agency).

This dissertation undertakes a detailed comparative qualitative analysis of taxation’s behavior during the 1980s and 1990s in Argentina and Brazil. I argue that due to a reduction of veto players during the late 1980s, change took place in both cases, but to different extent and nature. The reason for their divergences, I argue, is the different nature of the respective veto players’ reductions and the prevailing interests after these temporary reductions.

The result of the analysis is that Argentina and Brazil decreased the progressive capacity of their taxation. This was so because they increased their total taxing capacity without improvements (even worsening) of their distributive justice taxing qualities, since their increased taxing capacities were based on an increased reliance on taxes with less insurmountable solutions for collective action dilemmas (indirect or consumption taxes). Furthermore, Argentina and Brazil decreased the progressive relevance of their taxation because they decreased (or maintained) their central governments’ relevance based on a relative increase of the ratio of consumption to income taxation.
In terms of cross-sectional comparisons, Brazil had a less progressive taxation level than Argentina throughout these two decades. Brazil had a greater taxing capacity than Argentina based on worse distributive justice qualities, since the relative distance between income and consumption taxation was greater in Brazil and toward the consumption side. There was no significant identifiable difference in progressive taxation relevance between Argentina and Brazil but Brazil has consistently given more relevance to income and consumption taxation than Argentina when analyzed them individually.

An important question of interest that remains open is what explains differences in absolute values of taxation outcomes. This question was relevant throughout the analysis presented, but not addressed since further research was needed. I propose ways of how to undertake such research with respect to Argentina and Brazil.

In addition, I propose a quantitative cross-sectional time series analysis to extrapolate and generalize the undertaken Argentine and Brazilian taxation analysis. It is a statistical analysis, which would be essential for properly testing hypotheses of change, direction, and magnitude of the dependent variables: tax policy centralization, progressivity, and level.

Even though I addressed several questions, I close this dissertation with another set of questions. The empirical and theoretical puzzle with which I close this dissertation is: Argentina and Brazil do not deviate from the accepted taxation literature of a positive
correlation between development level and taxation level, but the same relation cannot be
used to differentiate Argentina and Brazil; Brazil should have had a lower taxation level
than Argentina, but this has not been the case throughout history. Why? What explains
this partial deviation? Nevertheless, this remains another project!
¡Para mi hermano Javier!

Por los viejos tiempos, el tiempo transcurrido y el poder seguir disfrutando y compartiendo nuestro decorrer de vida a pesar de la distancia geográfica, que ha bifurcado y bifurca nuestros respectivos decorreres vivenciales.
ACKNOWLEDGEMENTS

What about hope, faith, and love?

Nothing worth doing can be accomplished in one lifetime, therefore, we must be saved by hope. And, nothing that is true or good or beautiful makes complete sense in any immediate context of history, therefore, we must be saved by faith. And, no act, however virtuous, can be accomplished alone, therefore, we must be saved by love. (Theologian Reinhol Niebuhr quoted in Franklin (2003))

What about sacrifice and happiness? What about self-interest and altruism?

In order to increase the satisfaction for the mass of our people and all people, someone must sacrifice something of his own happiness. This is a duty only to those who recognize it as a duty. It is silly to tell intelligent human beings, be good and you will be happy. The truth is today, be good, be decent, be honorable, and self-sacrificing and you will not always be happy. You will often be desperately unhappy. You may even be crucified, dead, and buried. And the third day, you will be just as dead as the first. But, with the death of your happiness, may easily come increased happiness, and satisfaction, and fulfillment for other people...strangers, unborn babes, uncreated worlds. If this is not sufficient incentive, never try it and remain among the hogs. (W.E.B. Du Bois quoted in Franklin (2003))

Without hope, faith, and sacrifice you would not be reading this document. Nevertheless, that hope, faith, and sacrifice, although individual, was only possible because of the love I got, received, and found from a variety of sources that provided the energy, happiness,
and enthusiasm for going on and culminating this project. To these sources of love and support I proceed now in order to acknowledge them and show appreciation.

I need to start thanking my family in general for their concern and support throughout the long years of graduate work: my sister Ednita and my brother Javier José, for their constant preoccupation and interest in my Ph.D. status; my father’s, Hiram José Irizarry Colón, overall concern in my well-being and specially in any financial necessities that could arise; my brother Daniel who collaborated in my teaching by sharing his time and talent as an actor by performing short political plays in my courses and interacting with students afterwards; and my mother, Edna Osorio Vélez, for her constant support, understanding, and love throughout this long journey. And to all of them, and the rest of my family, for constantly demonstrating their care and underscoring how proud they are of me.

Your constant cheering has meant a lot for me and served as fuel in order to keep on going. That fuel consisted of hope, faith, and love as beautifully stated in the opening quote, which served to energize me along the process in order to make sense of the sacrifice I was incurring. This sacrifice should not be perceived as a dichotomy: self-interest vis-à-vis altruism. We should think broader than these restrictive and limiting conceptualized possibilities. A unifying and transcending conceptualization arises from Unger (2001) when he states,

The ultimate ideal of social cohesion, as of the moral life, is not altruism – the willingness to limit self-interest, with or without insight into the other person. It
is love – the capacity to imagine and to accept the other, lifting, haltingly, the wall of defense with which we protect ourselves against him. (xcvii)

Thus, through the continuous giving and taking of love throughout my lifetime from and toward a plethora of sources and receivers we can better explain and understand the process and experience of constructing this document, which culminates with obtaining that craved trophy labeled or known as a Ph.D.

Another group of people that merit mentioning in this section are my partners. I start with my committed partner of seven years and wife for five and half years, Militza Manzano Miranda. Even though our lives undertook divergent paths at the end of 2001, it would be ungrateful from my part to forget her constant support, understanding, and encouragement during my final undergraduate years, the transitioning period to graduate school and the United States, and my first five years of graduate work. In addition to my mother, Militza was the other constant long-distance companion during my dissertation field work in Curitiba, Brasil, Buenos Aires, Argentina, and Brasília, Brasil. I shall never forget her and shall always be grateful for those well-lived years of my life together with her: ¡Gracias!

The other partner that merits mentioning here is Johanna Maria Margarethe Goertz. She provided joy, support, encouragement, and love during a very difficult and transitioning period of my life. And as Unger (ibid) underscored, I do not know if I can qualify as an authentic love giver, but I do not have any doubt in my mind of Johanna fulfilling that transcending quality that love entails. Maybe love is the capacity to
imagine and accept the other, I am not sure, but at least I think that if love is something and could be defined, it needs to come close to what Unger describes as an intersubjective relational empathy. Nonetheless, the intellectual encouragement and support Johanna provided me with was immeasurable. On September 26, 2004 I called it quits. No more dissertation or Ph.D.! Nevertheless, Johanna paid attention to what I had to say and then made her case of why I should continue on this pursuit. And for these and many other things, I say Vielen Dank!

I am also grateful to the many people that helped or supported my research agenda. To those Argentines and Brazilians that provided me with information, guidance, company, or simply a smile during those exiting, but at several times lonely and frightening moments, I say ¡Gracias!/Obrigado!

I need to include here the Department of Political Science at The Ohio State University for providing me with the opportunity of pursuing a Ph.D. in Political Science and a suitable environment for intellectual and integral growth. And this institutional abstraction becomes concrete in the person of Professor Paul Allen Beck, the department’s chairperson throughout my years of study at The Ohio State University. The several grants and fellowships that made this dissertation possible, at different stages, were: the Program for the Enhancement of Graduate Studies travel grant, Program for the Enhancement of Graduate Studies dissertation writing grant, Graduate Student Alumni Research Award, Tinker Field Research Grant, Mershon Center Dissertation
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Furthermore, I need to thank my dissertation committee members for their support, guidance, and suggestions throughout this long journey: R. William Liddle, Richard P. Gunther, and Marcus Kurtz. I will always remember my conversations with Bill Liddle because they were intellectually uplifting. Richard P. Gunther is responsible, for better or for worse, for pushing me in the direction of the study of taxation after my prospectus defense. I am grateful for having shared his insights about why political scientists everywhere should care about studying taxation. I worked closer to Marcus Kurtz and he gave me important research, methodology, and theoretical advice during this long journey. My dissertation committee members in general have prevented me from making many errors, but whatever flaws remain in this dissertation that you are going to read are my responsibility and not anybody else’s.
During the spring of 2004 I was haunted by the reality of lack of financial support. Thus, I needed to secure funding for the coming summer and beyond. I was fortunate enough to attain a research assistant position at the Kirwan Institute for the Study of Race and Ethnicity. This fortune was furthered at the end of the summer when I was offered a permanent position as a research associate. Beyond the pecuniary benefits that these opportunities provided me with, there were tremendous intellectual rewards. The Kirwan Institute provided a low-key, flexible, and intellectually motivating environment, which helped me to cope and balance my financial and dissertation needs and provided stimulus for intellectual growth. I need to thank the staff at the Kirwan Institute, but I need to underscore its Executive Director, Prof. john a. powell. Prof. powell has provided me with intellectual encouragement and empowerment since day one. And for these opportunities and environment during the final stage of my dissertation writing I will always be grateful.

Many other individuals have not been mentioned, but I think I need to say thanks. These are individuals that for a short or long time were part of my life and they might remain ghosts of the past if I do not mention them. It is still an anonymous mentioning, but who I am today, has been constructed by an enormous amount of direct and indirect, conscious and sub-conscious interactions. Hence, to every formal teacher, every classmate, every neighbor, every passer-by, and every human being I have been in contact with throughout my life, I say thanks. To those disparate and presumably random
interactions among us, humans, at least I give to them a lax, but still mentioned node of coalescence here, recognizing their existence and relevance even though we cannot completely assess their extent and implications.

It has been a long journey, which, like always, it is easier to take advantage of with the benefit of the hindsight. Nonetheless, that hindsight should not be confused with “reality,” doing so would truncate instead of enriching or living life. It would have been fantasy, perfection, but not human history. Thus, beyond the usual complaints along the way, I am thankful for all of it because it has made me who I am now, and has given me the opportunities and experiences to rely on in order to keep on walking, living, being, becoming more authentic; and being able to enjoy and savor humanity in an integral way.

And as T.S Elliot wrote (Four Quartets 4: Little Gidding),

“We shall not cease from exploration
And at the end of all our exploring
Will be to arrive where we started
And know the place for the first time.”

Looking back at that summer of 1996 raises a storm of feelings, but with the passage of time, re-thinking, pondering, and the effort to put that period of time in its just perspective, my individuality and surroundings shall help me deepen that exploration, with the hope of getting to the essence of that “metaphorical place:” my life.
VITA

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CHAPTER 1

INTRODUCTION

The answers to [questions about financial resources] provide the best possible general insight into the direct or indirect leverage a state is likely to have for realizing any sort of goal it may pursue. For a state’s means of raising and deploying financial resources tell us more than could any other single factor about its existing (and its immediately potential) capacities to create or strengthen state organizations, to employ personnel, to co-opt political support, to subsidize economic enterprises, and to fund social programs\(^1\). (Skocpol 1982; 6)

As a matter of fact, it should be underscored that the fiscal variables’ interaction did not operate in a vacuum. The institutional dimensions and complexities of the public sector per se, established limits of operational possibilities. And, within a proximate realm of the aforementioned, it is not less true to indicate that more than dependent on the will of its proponents, economic policy trials needed to abide to the established margins of political acceptability\(^2\). (Carciofi, Barris, and Cetrángolo, 1994; 327)

The state and taxation, neither of these is a new concept. A plethora of writing has been done about each of them individually throughout history. When combined, the amount of writing drops, but is still substantial. Therefore, why write about them?

---

\(^1\) Cited from Meredith Woo-Cumings (1999).

\(^2\) Translated by author: “Por cierto, no debe omitirse que la reacción de las variables fiscales no operó en vacío. Las dimensiones y complejidades institucionales propias del sector público, establecieron límites a la posibilidad de operar sobre ellos. Y, en un territorio próximo al anterior, no es menos cierto señalar que los ensayos de política económica, más allá de la voluntad propia de quienes los impulsaron, debieron sujetarse a los márgenes fijados por la aceptabilidad política de las mismas.” (Carciofi, Barris, and Cetrángolo, 1994; 327)
In first place, I would say, because they are important subject matters and recurrent writing about issues, at least underscores their empirical, if not theoretical, relevance. And as underscored by Skocpol’s (1982) quote, states’ finances provide relevant information about their capacities to pursue objectives. In second place, because even though there has been plenty of writing about the state and taxation, this does not necessarily exhaust the multiplicity of possible analytical angles. Therefore, pursuing a research agenda within the state and taxation realm provides the possibility of uncovering unexpected analytical dimensions not realized in previous writings. And borrowing from Carciofi, Barris, and Cetrángolo (1994) quote, a political institutional analytical angle would provide relevant contextual information of state actions in regard to taxation.

It is never too early in a writing to underscore its objective in order to clarify for the readers what they are going to be reading and what they are not going to be reading. This is especially important in subject matters where pre-conceived analytical angles are well established. I think that taxation is one of those topics of analysis where pre-conceived analytical notions exist: law, economics, and public administration. I discuss this issue in further detail, but as experienced during my field research for this dissertation, there is not a clear connection between political science and taxation matters, at least not a popular recognized one.

Furthermore, this is a study about the direction and magnitude of changes in taxation matters. It is not a study for determining why a certain amount of taxes is collected. This last question is an important and interesting one, but it is not the one I pursue throughout this dissertation work. I proposed a research project regarding this type of question at the end of this dissertation (see Chapter 8). The reason for clarifying
and differentiating between these two types of questions is because their respective explanatory factors differ. The amount of taxes collected is taken as a given, as our analytical departing point, and we pay attention and dedicate our analytical efforts in order to understand and explain the direction and magnitude of changes (or lack of) in tax collection.

Keeping this in mind, I invite you to accompany me in an analytical voyage of the Latin America state and taxation during the last twenty years of twentieth century using Argentina and Brazil’s experiences as our main cases of study. Throughout this chapter I first introduce the empirical and theoretical puzzle driving this dissertation project. Secondly, I present some remarks underscoring the relevance of tax policy analysis. I follow with a justification of the cases of studies’ selection and their empirical and theoretical relevance. Before closing this chapter, I embed my argument within the rationality and reform literature. I end with an outline of how the dissertation’s discussion proceeds chapter- and content-wise.

**Empirical-Theoretical Puzzles**

There are different degrees of tax collection success across time and regions. The referred-to success (or lack of) has different explanatory factors: wealth of the country, health of the economy, bureaucratic capacity, and nature of the economy among others. Nevertheless, an important factor of explanation also lies in the structure of taxation itself, in its interaction with the mentioned factors and domestic actors affected by taxation, which create incentive structures for action.

In general, Latin American taxation has been portrayed and considered as highly centralized, regressive, and of a low level. It can be argued that part of the explanation
lies on the historical undemocratic and elitist (i.e., referring to the centralized and regressive qualities) politico-economic nature of the region. In addition, the level of wealth of the region can partly account for its low tax collecting capacity. Nevertheless, such generalizations have exceptions within the region and elsewhere. By this I mean that the three qualifications do not have any theoretical justification or obligation of going together. We have empirical examples of decentralized and progressive taxation (e.g., The United States), centralized and progressive taxation (e.g., South Africa), decentralized and regressive taxation (e.g., Brazil), and centralized and regressive taxation (e.g., France).

How centralized, progressive, and high is Latin American taxation? Did the wave of democratic transitions that took place throughout the region during the 1980s make any difference regarding taxation? In other words, what explains Latin American taxation success and change (or lack of)? Hence, let us take a look at how Argentina and Brazil compare between each other, and among the world, regarding development and taxation matters.

Tables 1.1, 1.3, 1.5, 1.7, and 1.9 present the values that Argentina and Brazil attained in: GDP per capita; total tax revenue; income, profit, and capital gain taxes; goods and services taxes; and total expenditures as percentages of GDP throughout several decades, respectively. Tables 1.2, 1.4, 1.6, 1.8, and 1.10 rank our cases with respect to the world (i.e., limited to the data available). These tables show that Argentina has always been more developed than Brazil (Table 1.1), but taxed and spent less than Brazil (Tables 1.3, 1.5, 1.7, and 1.9). In addition, when we focus our attention in the
1980s and 1990s we observe an increased trend in taxation capacity in both of our cases, but a decrease in spending capacity in Argentina.

Furthermore, if we pay attention to the different rankings presented in Tables 1.2, 1.4, 1.6, 1.8, and 1.10, we can identify the previously underscored disconnect of the Latin American cases regarding development and taxation. This has been a recurrent topic, the mismatch between Latin American development and taxation levels. Assuming an exaggerated one-to-one relation between economic development (Table 1.2) and taxation levels (Tables 1.4, 1.6, 1.8, and 1.10), the rankings should coincide. Nevertheless, we see a constant “worst” ranking in taxation levels compared to the development levels. Although the data I am commenting here about is for the Argentine and Brazilian cases, but this is also true for Latin America as a region as I comment later and as it has been commented throughout the literature on development and taxation. These are interesting questions and puzzles, but I do not address them in this dissertation. I have some working hypotheses for making sense of this mismatch between Latin American development and taxation levels based on the historical formation of the modern tax state, which I advance in Chapter 8 as a future research project.
### Table 1.1: Gross Domestic Product per Capita (constant 1995 US$): Argentina and Brazil

<table>
<thead>
<tr>
<th></th>
<th>1960s</th>
<th>1970s</th>
<th>1980s</th>
<th>1990s</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Argentina</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>$5,806.90</td>
<td>$7,194.53</td>
<td>$6,818.90</td>
<td>$7,483.76</td>
</tr>
<tr>
<td>Median</td>
<td>$5,763.60</td>
<td>$7,123.70</td>
<td>$6,805.65</td>
<td>$7,731.20</td>
</tr>
<tr>
<td><strong>Brazil</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>$1,932.46</td>
<td>$3,317.33</td>
<td>$4,094.69</td>
<td>$4,326.57</td>
</tr>
<tr>
<td>Median</td>
<td>$1,887.70</td>
<td>$3,419.50</td>
<td>$4,148.05</td>
<td>$4,415.40</td>
</tr>
</tbody>
</table>

**SOURCE:** World Bank (2002)

### Table 1.2: Gross Domestic Product per Capita (constant 1995 US$) Rankings (207 countries): Argentina and Brazil

<table>
<thead>
<tr>
<th></th>
<th>1960s</th>
<th>1970s</th>
<th>1980s</th>
<th>1990s</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Argentina</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>26</td>
<td>33</td>
<td>38</td>
<td>41</td>
</tr>
<tr>
<td>Median</td>
<td>26</td>
<td>33</td>
<td>38</td>
<td>41</td>
</tr>
<tr>
<td><strong>Brazil</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>44</td>
<td>47</td>
<td>51</td>
<td>55</td>
</tr>
<tr>
<td>Median</td>
<td>45</td>
<td>45</td>
<td>51</td>
<td>53</td>
</tr>
</tbody>
</table>

**SOURCE:** World Bank (2002); 1960s (112 cases); 1970s (129 cases); 1980s (167 cases); 1990s (181 cases)
### Table 1.3: Total Tax Revenue as a percentage of Gross Domestic Product: Argentina and Brazil

<table>
<thead>
<tr>
<th></th>
<th>1980s</th>
<th>1990s</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Argentina</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>10.35%</td>
<td>12.12%</td>
</tr>
<tr>
<td>Median</td>
<td>9.14%</td>
<td>12.49%</td>
</tr>
<tr>
<td><strong>Brazil</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>16.76%</td>
<td>18.63%</td>
</tr>
<tr>
<td>Median</td>
<td>16.49%</td>
<td>19.03%</td>
</tr>
</tbody>
</table>

**SOURCE:** World Bank (2002)

### Table 1.4: Total Tax Revenue as a percentage of Gross Domestic Product Rankings (207 countries): Argentina and Brazil

<table>
<thead>
<tr>
<th></th>
<th>1980s</th>
<th>1990s</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Argentina</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>106</td>
<td>105</td>
</tr>
<tr>
<td>Median</td>
<td>111</td>
<td>103</td>
</tr>
<tr>
<td><strong>Brazil</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>78</td>
<td>71</td>
</tr>
<tr>
<td>Median</td>
<td>76</td>
<td>66</td>
</tr>
</tbody>
</table>

**SOURCE:** World Bank (2002); 1980s (128 cases); 1990s (134 cases)
### Table 1.5: Taxes on Income, Profits, and Capital Gains as a percentage of Gross Domestic Product: Argentina and Brazil

<table>
<thead>
<tr>
<th></th>
<th>1980s</th>
<th>1990s</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Argentina</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>0.63%</td>
<td>1.41%</td>
</tr>
<tr>
<td>Median</td>
<td>0.50%</td>
<td>1.58%</td>
</tr>
<tr>
<td><strong>Brazil</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>3.91%</td>
<td>4.09%</td>
</tr>
<tr>
<td>Median</td>
<td>4.06%</td>
<td>3.89%</td>
</tr>
</tbody>
</table>

**SOURCE:** World Bank (2002)

### Table 1.6: Taxes on Income, Profits, and Capital Gains as a percentage of Gross Domestic Product Rankings (207 countries): Argentina and Brazil

<table>
<thead>
<tr>
<th></th>
<th>1980s</th>
<th>1990s</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Argentina</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>119</td>
<td>115</td>
</tr>
<tr>
<td>Median</td>
<td>120</td>
<td>111</td>
</tr>
<tr>
<td><strong>Brazil</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>74</td>
<td>76</td>
</tr>
<tr>
<td>Median</td>
<td>73</td>
<td>79</td>
</tr>
</tbody>
</table>

**SOURCE:** World Bank (2002); 1980s (123 cases); 1990s (131 cases)
### Table 1.7: Taxes on Goods and Services as a percentage of Gross Domestic Product: Argentina and Brazil

<table>
<thead>
<tr>
<th></th>
<th>1980s</th>
<th>1990s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>3.99%</td>
<td>4.70%</td>
</tr>
<tr>
<td>Median</td>
<td>4.15%</td>
<td>5.12%</td>
</tr>
<tr>
<td>Brazil</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>5.26%</td>
<td>5.17%</td>
</tr>
<tr>
<td>Median</td>
<td>4.59%</td>
<td>5.28%</td>
</tr>
</tbody>
</table>

**SOURCE:** World Bank (2002)

### Table 1.8: Taxes on Goods and Services as a percentage of Gross Domestic Product Rankings (207 countries): Argentina and Brazil

<table>
<thead>
<tr>
<th></th>
<th>1980s</th>
<th>1990s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>66</td>
<td>90</td>
</tr>
<tr>
<td>Median</td>
<td>61</td>
<td>82</td>
</tr>
<tr>
<td>Brazil</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>49</td>
<td>80</td>
</tr>
<tr>
<td>Median</td>
<td>56</td>
<td>79</td>
</tr>
</tbody>
</table>

**SOURCE:** World Bank (2002); 1980s (126 cases); 1990s (133 cases)
<table>
<thead>
<tr>
<th>Country</th>
<th>Mean</th>
<th>Median</th>
<th>Mean</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>14.82%</td>
<td>14.82%</td>
<td>14.20%</td>
<td>14.48%</td>
</tr>
<tr>
<td>Brazil</td>
<td>24.70%</td>
<td>24.70%</td>
<td>24.78%</td>
<td>23.06%</td>
</tr>
</tbody>
</table>

Table 1.9: Total Expenditures as a percentage of Gross Domestic Product: Argentina and Brazil


<table>
<thead>
<tr>
<th>Country</th>
<th>1970s</th>
<th>1980s</th>
<th>1990s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>76</td>
<td>101</td>
<td>98</td>
</tr>
<tr>
<td>Brazil</td>
<td>42</td>
<td>70</td>
<td>43</td>
</tr>
</tbody>
</table>

Table 1.10: Total Expenditures as a percentage of Gross Domestic Product Rankings (212 countries): Argentina and Brazil

SOURCE: IMF (1999); 1970s (89 cases); 1980s (105 cases); 1990s (100 cases)
Having presented a snap-shot embedding of our cases of analysis world-wide regarding several taxation development measures, we can proceed with this dissertation’s analytical goal of examining the causes of tax policy reforms in fragmented polities (i.e., multiple veto players). The analytical puzzle is the occurrence of tax policy reforms where the structural conditions\(^3\) point toward its grave difficulty. The cases of study are the Argentine and Brazilian tax policy experiences during the 1980s and 1990s. I make use of \textit{veto players theory}, which states that a reduction in the number of veto players increases the probability of a status quo change, in order to explain the Argentine and Brazilian tax policy reforms by studying their tax policy-making, centralization, progressivity, and level dimensions during the 1980s and 1990s.

I demonstrate that a reduction in the number of veto players occurred in Argentina (1989) and Brazil (1986-88), which partly helps us explain and understand the occurrence of tax policy reforms in both cases. Furthermore, by underscoring the interests that prevailed during the tax policy reforms, I am able to explain the direction and magnitude of changes of their respective tax policies regarding the centralization, progressivity, and level of taxation dimensions by undertaking a comparative analysis of these cases. The explanation is based upon a contingent application of \textit{veto players theory}.

\textbf{Why Tax Policy?}

The state finances itself through taxation (and borrowing). Thus, by studying the policy instruments related to taxation, we can begin to uncover and understand taxation’s determinants and their interrelations. Furthermore, I argue that taxation’s relevance

\(^3\) i.e., polity fragmentation or multiple veto players
surpasses a mere functionalist and instrumental importance, because it can be considered as a constitutive element of the state.

Tax policy is an outcome of a political system and its policy-making process. Beyond this non-controversial fact, a tax policy’s construction is a process rich in controversy, debates, and conflicts. This is so because of a tax policy’s tendency (if not nature) of creating winners and losers. Those winners and/or losers can be different social groups/classes, regions, industrial sectors, ethnicities, among others. This is why from studying a state’s tax policy the power leverage among any of the mentioned categorizations can be deduced; but this power leverage deduction should not be simplistic or directly derived. This is so because a state’s tax policy is an accumulation of decisions taken over time.

Nevertheless, there are certain points in time that become especially relevant in giving shape or transforming a state’s tax policy: tax policy reforms\textsuperscript{4}. Tax policy reforms represent important crystallization of interests’ moments, which need to be embedded into the whole tax system, in order to take into consideration the weight of history\textsuperscript{5}.

An additional aspect that needs to be taken into consideration and that underscores the relevance of tax policy is the functions that it serves. We can state at least three main functions that a tax policy serves: redistributing wealth, promoting economic growth, and generating state’s revenues. Nonetheless, the basic one would be generating state’s revenues. The interesting and problematic aspect of this last function is

\textsuperscript{4} E.g., a shift in income vis-à-vis consumption weight of taxation; shift in taxation of imports vis-à-vis exports.

\textsuperscript{5} i.e., from the tax policy point of view in our case
that it cannot be disentangled from the other two. In other words, it is a given that a tax system generates revenues for the state, which makes possible the state’s functioning. At the same time, the structure of the tax system still has distributive and economic growth implications, which underscores the logic behind the mentioned controversies, debates, and conflicts in the construction of a state’s tax policy.

Tax policy analyses have emphasized everything from partisan composition of the government, to exposure to international trade, to bargaining power of major economic actors. This study underscores the relevance of political institutions because this type of explanation provides a more complete picture of political reality. Here I propose that political institutions affect state policy in the creation of incentive structures affecting the organization of interests⁶ and affecting the linkage to and of decision-makers⁷. In a nutshell, they create a polity’s veto players.

Concepts like “state autonomy” and “state capacity” have been used for explaining state behavior, but they have been either too abstract, not helping to account for particular policy choices, or too functionalist due to some extent to the level generality, respectively. As Peter Hall argues, “the state appears as a network of institutions, deeply embedded within a constellation of ancillary institutions associated with society and the economic system…We must be careful not to search for, and even postulate autonomy, when we should be sketching the institutional outlines and limits of societal influence…” (Hall, 1986)

---

⁶ e.g., electoral laws and laws defining organization of sectoral interests

⁷ e.g., executive-legislative relations, legislative committee system, and center-sub-units relations
The degree of institutional fragmentation\(^8\) (or amount of veto players) helps us understand the amount, nature, and manner of the tax policy changes that take place. In order to understand the chosen tax policy dimensions, it is important to know when and how the tax policy was adopted, implemented, and the actors involved. The adopted and implemented tax policy and actors’ actions are best understood with knowledge of the institutional environment within which the policy-making process takes place. Therefore, in this way the institutional fragmentation of a polity gives us an important piece of information for understanding the decision made and its implications.

An exact explanation of the tax policy outcome does not arise from a simplistic knowledge of the institutional milieu, but from a synergetic account of the institutional milieu and the power and interest interactions among the identified veto players. Throughout this dissertation I address three central enigmas: how and why tax policy reforms occur, what explains the reform derived tax policy structural changes, and what explains the non-occurring of further tax policy reforms’ attempts. In more specific terms, the central analytical query I address in this study is: what the causes and characteristics are of tax policy reform by studying changes in tax policy centralization, progressivity, and level.

The study of taxation or tax policy is of tremendous relevance for political science because it analyzes the premier instrument\(^9\) states use to generate the necessary revenue

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\(^8\) “Institutions are the humanly devised constraints that structure political, economic, and social interaction...Throughout history, institutions have been devised by human beings to create order and reduce uncertainty in exchange. Together with the standard constraints of economics they define the choice set and therefore determine transaction and production costs and hence the profitability and feasibility of engaging in economic activity.” (North, 1991; 97)

\(^9\) Other sources or instruments states use for financing itself are public-sector profits, mineral royalties, net revenues of marketing boards, domestic or international borrowing, and/or printing money. Nevertheless,
in order to function or even exist (see Levi, 1998). Furthermore, although not in a
deterministic way, democratic, equality, and taxation issues could go together in reality
and their interrelations remain important veins of inquiry and theorizing\textsuperscript{10}.

Political scientists have in general been discouraged in pursuing taxation studies\textsuperscript{11}, in part because of the highly technical knowledge and language associated with
tax policy. Furthermore, politicians in general tend not to run their campaigns on tax
policy issues, due for the most part to this required technical knowledge\textsuperscript{12}. In addition,
because of the explicit or implicit distributive implications of tax policy with winners and
losers, in part due because of stigmatic or objective interpretations attached to a certain
tax policy structure, it tends not to be such an attractive vote-getting strategy.

Even though I do not argue that tax policy does not requires any technical
knowledge, I do not think that it requires any more technical knowledge than any other
public policy. It is from these two stigmas I want to depart and embed the present study.
These are the mentioned stigmas of tax policy’s \textit{required technical knowledge} and its

\textsuperscript{10} Some examples of this provocative combination are Huntington (1991) when he states, “[t]he lower the
level of taxation, the less reason for publics to demand representation. ‘No taxation without representation’
was a political demand; ‘no representation without taxation’ is a political reality.” (65) In addition Levi
(1999) argued, “[t]his analysis raises questions about the emergence and maintenance of democratic
institutions, both formal and informal. It suggests the beginning of an answer grounded in pre-existing
institutional arrangements, relative bargaining power, and institutional change. It stresses the importance
of norms in the determination of the extractive capacities of the state and the importance of the extractive
requirements of certain government actors under certain conditions in generating a relative equality among
the citizenry. The link between extraction, relative equality, and democracy exists neither everywhere nor
at all times, but where it exists it can be a potent stimulus to democratic norms and practice.” (128)

\textsuperscript{11} I refer the reader to Lieberman (2002) for a good overview of political scientists’ taxation works.

\textsuperscript{12} See Guy Peters (1991) for more details on this subject.
implications of winners and losers. In regard to the former stigma, I treat and analyze tax policy as an outcome of the decision-making process of a state, where political structural considerations become essential in order to understand the outcome under study. In regard to the latter stigma, here I study the empirical overall distributive effects of tax policy.

The tax policy literature underscores socioeconomic factors as determinants of the taxation scheme in place. This is especially true in regard to the usage of level of socioeconomic development in order to predict the structural components of the taxation scheme. Nevertheless, the standard emphasis within the tax policy literature has been to gain an understanding of how to craft an optimal tax policy structure. Enormous debates have existed through time regarding what optimality should consist of: should it pay attention to economic efficiency, revenue generating capability, or distributive justice? Different combinations regarding the optimality goals for tax policy exist in the literature,

Furthermore, relying on just technical knowledge for justifying policy-making becomes troublesome in a democratic regime as Robert Dahl argues,

“Decisions about crucial public policies rarely, if ever, require knowledge only of the technically most efficient means to ends that can be taken as given because they are self-evidently right or universally accepted. Because ‘scientific’ knowledge about the empirical world cannot be a sufficient qualification for ruling, pure empirical ‘science’ is not and cannot be enough to constitute a ‘royal science’ of ruling.” (Dahl 1989; 68-69)

“Because both moral understanding and instrumental knowledge are always necessary for policy judgments, neither alone can ever be sufficient. It is precisely here that any argument for rule by a purely technocratic elite must fail…technocrats are no more qualified than others to make essential moral judgments. They may be less so. For technocrats suffer from at least three other defects that are probably irremediable in a world where knowledge is as complex as it is ours. In the first place, the specialization required in order to acquire a high degree of expert knowledge is today inherently limiting: one becomes a specialist in something, that is, in one thing, and by necessity remains ignorant of other things.

Second, Plato’s royal science simply does not exist, and therefore its practitioners cannot exist…there is no single art or science that can satisfactorily demonstrate a claim to unite in itself the moral and instrumental understanding required for intelligent policymaking in today’s world…The third weakness of technocrats as policymakers is that, on a great many questions of policy, instrumental judgments depend on assumptions that are not strictly technical, scientific, or even very rigorous.” (ibid 69)
and according to the emphasis given to each of the mentioned goals; a recommended tax policy structure follows\(^{14}\).

Even though the mentioned types of studies are important, here I concentrate on the study of adopted tax policy structures, which I treat as political outcomes from established decision-making processes\(^{15}\). The selection of this line of inquiry is not only because of my training as a political scientist, but also because there is a gain of relevant information in order to understand a tax policy outcome. Barbara Geddes (1994) presents a similar argument, but with respect to economic policy in general, where she gives prevalence to political constraints rather than technical issues in order to gain an understanding of policy difficulties within the "developing world."\(^{16}\)

\(^{14}\) "The main purpose of taxation is to raise resources to finance government expenditure [footnote #1: Other important objectives are redistribution and the control of externalities or other market imperfections…The main purpose of negative taxes [subsidies] is to redistribute or to encourage certain activities.]. We may see the problem of tax design as one of finding a way of raising these resources which is administratively and politically feasible and which promotes equity and efficiency as far as is possible. There must clearly be some trade-offs among revenue, administration, political acceptability, equity, and efficiency. The problem of tax reform is to find an improvement, with respect to these criteria, of an existing system.” Burgess and Stern (1993; 762)

\(^{15}\) “Collecting government revenue is not a simple task, and making choices about how to do it involves weighing a number of criteria. Criteria from economics are most often cited in academic circles as means of assessing taxation, but there are numerous others which can be invoked. Political and administrative criteria may be as dominant in the real world as those from economics are in the academic world. Politics, with its imperative to make benefits visible and direct and to make cost invisible and indirect, appears to run almost directly counter to economic criteria. While economists might want to make tax systems as neutral as possible, politicians attempt to hang as many benefits on a tax bill (the ‘Christmas tree’ approach) as they can. We must remember, however, that tax laws are made and implemented in a real world, not the more abstract world of economic dogma.” (Guy Peters, 1991; 58)

\(^{16}\) Geddes (1994) states, “[m]uch of the literature has treated the development of expertise and the creation of more effective government instruments for managing the economy as primarily technical problems — a matter of setting up schools to teach skills and figuring out which devices work. But an examination of the history of such innovations shows that political constraints, rather than lack of resources or knowledge, have often hindered the development of these apparently neutral capacities. These political constraints…are intelligible in light of the political costs and benefits of potential innovations to the politicians who must initiate them.” (1994; 16-17)
I also do not imply that a focus on the mentioned goals of tax policy (i.e., economic efficiency, revenue generating capability, or distributive justice) is irrelevant. Nevertheless, those goals are not going to be imposed by the researcher, but interpreted from the studied tax policies, since the final adopted structure will have an impact on economic efficiency, revenue generating capability, and distributive justice. Those impacts could be positive or negative on each of the mentioned goals. This is why trade-offs should be taken into consideration by the responsible decision-makers.

As Fritz W. Scharpf (1997) states, “…our task as policy researchers is not to take over [the] job [of working out normatively defensible solutions to difficult problems of distributive justice] and to announce, as it were, ‘scientifically’ validated value judgments on specific distributional issues. What we can and should do, however, is to assess the extent to which different institutional arrangements, and in particular different modes of interactions, are conducive to the settlement of distributive issues in the light of considered criteria of distributive justice. Exactly the same is of course our job with regard to welfare-theoretic criteria…” (92-93)

Therefore, the focus of study here is tax policy, understood as an outcome from a decision-making process and with consequences on economic efficiency, the state’s ability to raise revenue, and distributive justice. I study tax policy reforms and their ongoing implementation in Argentina and Brazil during the 1980s and 1990s. Furthermore, I analyze three dimensions of tax policy: centralization, progressivity, and level.

The tax policy centralization dimension refers to the share of the total revenue collected and utilized by the central government, which is related to the question of who
collects what and to the goal of economic efficiency. The tax policy progressive dimension refers to the share of the taxation that takes into consideration socioeconomic characteristics for its collection\textsuperscript{17}, which is related to the question of who pays what and to the goal of distributive justice. Finally, the level of taxation dimension refers to the share of the economy that is taxed, which is related to the question of how much it is paid and to the goal of revenue generating capacity. I have to underscore that even though I listed the tax policy centralization dimension as being related to the goal of economic efficiency, the other two dimensions also have implications on this economic efficiency goal and this is a central aspect that I elaborate more throughout this dissertation work.

In the simplest way, tax policy reform is an event in time where action is taken with respect to a current tax policy and major changes are adopted that affect its structure. Studying tax policy reforms present the comparative analytical leverage of permitting variation in the object of study (i.e., tax policy), while holding constant many other possible influencing factors, which is part of the reason for selecting such an episode for study. Thus, changes in the tax policy structure can be analyzed within the same unit of analysis (i.e., in this case, Argentina and Brazil). The tax policy dimensions were chosen since they pertain to the three goals usually debated in the tax policy literature and because they illustrate relevant aspects and impacts of the structure of the tax policy under study.

Another important justification, before presenting some justifications for the chosen cases of study, derives from two comments by Richard M Bird, a scholar on Latin

\textsuperscript{17} An example of this would be income taxation with several brackets of due deductions.
American tax policy (see Bird and Oldman, 1968 and Bird, 1992)\textsuperscript{18}. The curiosity of these comments is their time separation (i.e., 1968 vis-à-vis 1992), but in both he underscores the importance of politics and a political science perspective (i.e., in my view) in order to contribute to our understanding of tax policy reforms. Furthermore, this curiosity derives from the time lapsed between the two comments and the apparent lack of detail and clear understanding of policy-making processes and their needed analytical connections with tax policy-making and reforms. This is exactly where I am interested in contributing.

**Tax Policy in Argentina and Brazil during the 1980s and 1990s**

What can be said about tax policy in Argentina and Brazil during the 1980s and 1990s? In other words, why study Argentina and Brazil’s tax policies at all and particularly, why during the 1980s and 1990s? The empirical reason for choosing to study the tax policy experiences of Argentina and Brazil throughout the 1980s and 1990s is because of the enormous amount of debate regarding the topic of tax policy reform throughout the specified time period of analysis. Furthermore, tax policy reforms did

\textsuperscript{18} I am referring to the following two excerpts,

“The principal problems we see in tax research in Latin America are often simply reflections of those of development at large. There are, of course, some inherent conflicts of value judgments and special interests. These can only be resolved through the political process, not by legal or economic analysis. What is needed to clarify the issues in this area is more study of the decision-making process. No such studies now exist in the tax policy field – even though one would think the naked play of vested interests in tax policy decisions would make this a particularly attractive subject for interdisciplinary study by social scientists.” (Bird and Oldman, 1968; 14)

“…two kinds of lessons seem to emerge fairly clearly from these experiences and from more general experience with tax reform in developing countries over the last thirty years. The first type of lesson relates to the substance of tax reform and the second to the process of tax reform. At first glance, lessons about the substance – what was done – may seem more applicable, while process – how it was done – may appear to be more abstract and less useful to would-be reformers in the short term. In fact, however, the reverse seems likely to be true: clear understanding of the process by which reform is accomplished seems critical
take place in both cases but with outcomes differing in extent and nature, which are central explanatory concerns of this dissertation.

These empirical justifications translate into theoretical ones: what explains the difference in extent and nature of the tax policy reforms and policy-making in Argentina and Brazil during the 1980s and 1990s? The departing points of comparison are the 1989-1990 tax policy reform in Argentina and the 1988 Constitution in the case of Brazil. The essential tax policy dimensions that are analyzed are: its centralization, progressive quality, and level of taxation. Particular attention is given to the evolution of income and consumption taxation collection, governing rules of revenue transfers, and administrative capacities to collect revenues.

With the risk of oversimplifying, a revamping and strengthening of the value-added tax and an inconclusive agreement of a revenue-transfer mechanism characterized the Argentine tax policy reform. On the other hand, a settling of a revenue-transfer mechanism characterized the Brazilian reform. These differing revenue-transfer mechanisms’ outcomes, still haunts both states to this day and have important ramifications that transcend a simplistic discussion about the degree of tax policy centralization. I argue and demonstrate that it goes to the core of a discussion in regard to the progressive quality of the overall tax system, since the relevant revenue-transfer mechanism generates varied tax-collecting incentives, which also affects the overall revenue collecting capacity (see Chapter 2).

to success, while the substance of reform, which often seems to reflect what may prove to be passing intellectual fashions, may hold only transitory interest.” (Bird, 1992; 29)
What becomes cumbersome then is how to categorize the extent and nature of these tax policy reforms’ outcomes. I state “cumbersome” because of the relative characteristic of such evaluative labels. The Argentine reform could be considered more drastic than the Brazilian one in terms of the VAT changes, but not so in terms of the revenue-transfer mechanism. At the same time the Argentine reform could be considered more successful than the Brazilian one if we take into consideration income tax revenue increases, but not so in regard to sub-units’ deficit spending, which is directly linked to the revenue-transfer mechanism. Thus, what do Argentina and Brazil’s tax policy-making experiences provide besides important and interesting knowledge regarding these two cases?

I think that they provide the opportunity of testing and uncovering the determinants of a tax policy reform. In addition, both cases present the over-arching importance of increasing the state’s revenue rather than the economic neutrality or redistribution of wealth interests of tax policy. I argue that this is an important finding when the debates of state’s autonomy and capacity are taken into consideration. The increasing state’s revenue interest prevalence is further underscored when analyzing the different impacts different types of taxes have on the progressive quality of the tax system. I argue that is not that a state would necessarily avoid certain types of taxes due to their progressive or regressive quality, but based on their ability to generate revenue for the state.

An example of this would be income taxation, which has the potential of being the most progressive tax. Argentina showed a greater willingness of collecting them than Brazil during the 1990s and even surpassed Brazil in regard to the importance of that tax
with respect to total taxation. Among other possible explanations, I think that the way the taxing responsibilities and revenue-transfer mechanism are structured in Argentina present an important insight regarding this outcome as opposed to the progressive nature of the respective administrations in power.

In comparative analysis the usage of the method of difference presents analytical leverage when applied to cases with similar explanatory variables, with the exception of one, and these cases differ with respect to the outcome wanting to be explained. In the reality of the social sciences, exact equality on every single relevant independent variable with the exception of only one is not possible. Nevertheless, for the purposes of this study, enough commonality exists between the chosen cases of analysis in order to be able to coherently present a discussion in regard to tax policy reform and the three chosen dimensions. Furthermore, because I also undertake within-case comparisons across time, I increase the analytical leverage of my conclusions.

Additional methodological and theoretical reasons why I chose Argentina and Brazil as cases of analysis are because they are part of the same geopolitical region known as “Latin America;” both are “developing countries,” but placed in the upper end of an industrialization continuum; they have experienced tax policy reforms\(^{19}\), and a continuous debate in regard to this issue is still present at this time; and a very important variable for this study, degree of political power centralization (i.e., a very decentralized and fragmented polity), is present in both cases. Nevertheless, a case can be raised for

\(^{19}\) Although reform was clearer in the Argentine case, which is part of the driven interest in this comparison.
including Mexico and Venezuela, which are the other Latin American federations and heavily industrialized cases (i.e., especially Mexico).

The first facile answer I present is that I recommend in Chapter 8 the broadening of this analysis in order to include these cases and expand the scope of applicability of the theoretical argument presented throughout this work. Nevertheless, a further *Socratic apology* for the chosen two cases of analysis are other more common experiences between Argentina and Brazil, which have political and economic impact and reinforces their selection. On the politico-historical side, these two cases have suffered from far more political instability, which has been connected with problems of controlling the military\(^{20}\). Furthermore, Argentina and Brazil experienced democratic transitions that were closer in their reality and effects than those of Mexico or Venezuela. In addition, Argentina and Brazil experienced grave inflationary difficulties before the occurrence of tax reform.

There are several reasons for selecting the 1980s and 1990s as the time period of analysis. First of all, the mentioned tax reforms took place in the late 1980s. Secondly, while the reforms of interest took place during the late 1980s, debates about undertaking such tax policy reforms covered the two chosen decades and are still taking place. In other words, tax policy reform has been an issue of controversy before and after the reforms under study throughout this dissertation. Lastly, their democratic transitions took place during the 1980s; thus, studying the 1990s presents the opportunity to evaluate the functioning of the established democratic regimes and evaluate the effects of the adopted tax policy reforms.

\(^{20}\) i.e., the military intervention in politics
Over and above these justifications, I also want to underscore an interesting puzzle that a comparison between Argentina and Brazil underscores. It is accepted that economic development\textsuperscript{21} is positively correlated with the level of taxation. Furthermore, economic development is positively correlated with a heavier relative weight on income rather than consumption taxation\textsuperscript{22}. As high-middle level countries, Argentina and Brazil do not contradict the accepted knowledge of economic development by having a greater relative weight of consumption than income taxation.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Argentina</th>
<th>Brazil</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>$5,763.60</td>
<td>$7,123.70</td>
</tr>
<tr>
<td>Manufacturing value added (%GDP)</td>
<td>37.82%</td>
<td>35.05%</td>
</tr>
<tr>
<td>Government Expenditure/GDP (%)</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Table 1.11: Development Indicators in Argentina and Brazil

SOURCE: World Bank (2002). The values represent the medians per decade for each of the three indicators.

\textsuperscript{21} Usually measured as Gross Domestic Product [GDP] per capita; e.g., Cheibub (1998)

\textsuperscript{22} Level of taxation measured as total Taxes as a percentage of GDP; progressive nature of taxation referring to a greater emphasis of income and direct taxation over consumption and indirect taxation, generally speaking.
Nevertheless, if we take GDP per capita as a measure of economic development, then the difference between Argentina and Brazil cannot be explained. By this I mean that due to Argentina’s much higher GDP per capita than Brazil the expectation would be a higher level of taxation and greater income taxation weight in Argentina (see Table 1.11); but this has not been the case throughout Argentina and Brazil’s respective taxation histories. Thus, it is necessary to pay attention to other explanatory factors in order to understand their partial taxation behavior deviations\textsuperscript{23} from accepted knowledge that the cases of Argentina and Brazil represent. We need to keep in mind this deviation, but I do not present a complete answer to this puzzle. I present some preliminary hypothetical explanations in regard to this analytical and empirical puzzle at the end of this dissertation, which become a deepening of the research I present throughout this work and a future research agenda.

\textbf{Rationality and Reform}

There exist an enormous amount of debate in regard to the usefulness and conceptualization of rationality. My intention is not to sort-out the rationality debate in this dissertation. Nevertheless, I think I need to put forth how I perceive and use rationality throughout this dissertation. This clarification is relevant because of the object of study and explanation in this dissertation: tax policy reform. Tax policy reform implies change, and a provision of its cause is warranted. The explanatory framework I

\textsuperscript{23} I state partial since their income-consumption taxation relative weights combination fall within accepted and expected knowledge.
make use of here, *veto players theory*, holds at its core a basic economic rationality assumption. Furthermore, it is also an explanatory framework where institutions are relevant. Hence, beyond these rationality debates, the issue of the relevance of institutions needs to be ascertained.

The main disagreements within the rationality and institutional debates lie on how strictly we should define rationality and on methodological individualism. Many criticisms toward rational choice approaches are in regard to the fact that they are individual-based theories, but their applications tend to be to aggregate actors. The rationality definition criticism is regarding the unreality of the models. Nevertheless, there is a common acceptance in regard to political actors pursuing calculations and strategies in order to obtain their best interests. Hence, I would argue that *veto players theory* addresses this incongruence of extrapolating individually-based theories to collective actors without modeling collective actors themselves.  

Thus, without implying that I have sorted-out the interpretation of the rationality dilemma, I include myself within the group of institutionalists, in general, that assume that political actors make calculations and pursue strategies in order to attain their best interests. Furthermore, those best interests are determined by many factors (e.g., history and institutional milieu) that depend on the specifics of what is being explained. Additionally, those actors are not necessarily individuals, but also collectives, which are formally modeled within the theoretical perspective that I use here: *veto players theory*. I think then, that the scoping and well definition of the problem to be addressed, serves as

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24 Tsebelis (2002) modeled both, individual and collective veto players.
the best guidance in order to know how strict our rationality assumption should be and if individual or collective actors would be more relevant.

Another relevant analytical issue that I need to comment on is regarding reform. Within the reform literature there seems to be a connection on the one hand, between policy crisis and change, and on the other hand, between policy success and status quo. I do not think that policy continuities only occur in a domain of gains. Thus, it cannot be argued that a fruitful, comfortable, or happy domain explains policy continuities. What needs to be studied are the actors and their respective powers and interests with respect to the policy domain under study in order to be able to explain change, its possibility, its frequency, its direction, and its magnitude.

Rodrik (1996) presents a good criticism toward this connection of reform and crisis when he states, “[t]he idea that governments have to be up against the wall before they act may be valid, but it is not entirely free of problems from an analytical standpoint. First, note that there is a strong element of tautology in the association of reform with crisis. Reform naturally becomes an issue only when current policies are perceived to be not working. A crisis is just an extreme instance of policy failure. That policy should follow crisis, then, is no more surprising than smoke following fire. Furthermore, the hypothesis is virtually nonfalsifiable: if an economy in crisis has not yet reformed, the frequently proffered explanation is that the crisis has not yet become ‘severe enough.’…True, perhaps, but not very helpful for explanation or prediction.” (26-27)

Within the realm of economic reforms, Rodrik (1996) presents an interesting and relevant analytical distinction between macro- vis-à-vis microeconomics policies and their necessity for reform. He states that,
…the distinction between (a) macroeconomics policies aimed at economic stability, such as fiscal, monetary, and exchange rate policies, and (b) liberalization policies aimed at structural reform and growth, such as the removal of relative-price distortions and the reduction of state intervention. It has become commonplace to conflate these two groups of policies, but for analytical purposes they are best kept apart…Moreover, maintaining the distinction reminds us that the consensus on what constitutes appropriate structural reform is based on much shakier theoretical and empirical grounds than is the consensus on the need for macroeconomics stability. (11)

This distinction becomes relevant for purposes of the present study for several reasons. First of all, the subject of analysis here is part of what is known as macroeconomics policies, within the realm of fiscal policies. Thus, according to Rodrik (1996) and his understanding of economic theory, tax policy reform was essential in order to ameliorate the crisis, which Latin American states experienced during the 1980s. In second place, this analytical distinction also raises the question of why both type of policies (i.e., micro and macro) were tried to be reformed at the same time using a discourse as if they were just one ‘necessary package.’

Rodrik (1996) presented a possible answer to why both types of policies were packaged as one. He states that, “[t]he consensus post mortem view held the whole complex of import-substitution policies responsible for what was essentially a crisis of overspending exacerbated by the fickleness of international capital markets. It became commonplace to view the debt crisis as the consequence of import-substitution (‘inward-

[25] “Usually, external sources are the first resort, and an inflation problem follows on the heels of a payment crisis...This distinction – between micro and macro – is lost in many studies that attribute balance-of-payments crises to activist industrial policies (rather than the unwillingness or inability to balance budgets).” (Rodrik, 1996; 14-15)

“There is little question that the microeconomics distortions in themselves were often costly...However, what eventually drove many import-substituting countries to ruin were not such micro-economic inefficiencies, but macroeconomics imbalances and the inability to correct them with sufficient speed.” (ibid, 16)
oriented’) policies. The intellectual ground was therefore cleared for the wholesale reform of prevailing policies in Latin America, Africa, and Asia. Orthodox economists who had their chance to wipe the slate clean and mount a front attack on the entire range of policies in use. After some delay, this produced dramatic results, especially in Latin America.” (ibid, 16-17)

Nevertheless, he also gave some credit to the responsible political actors besides the stressed importance of economics scholars stating that the, “[c]risis enabled reformist government to package fiscal reforms, which were absolutely crucial for the return of price stability, with trade and industrial policy reforms, which were viewed as desirable in the longer run but were incidental to the immediate crisis. In other words, policy makers acted as agenda setters: They presented domestic interests with a package of both macroeconomics and microeconomics reforms.” (ibid, 28)

Nonetheless, I think that it could be possible to argue that the presented double packaging of macro and microeconomic policies was a result of ‘calculated and strategic’ actions by policy-makers in order to pursue their best interests. Without the microeconomics policies they would not have been able to destroy or weaken the powerful ISI vested interests, which was done so by the microeconomics policies and not the macro ones. The macro ones can be understood as a public good (i.e., low inflation and low or null fiscal deficits), while the micro was a reorientation of the economy, but also a rearrangement of power forces within society and the polity.

Furthermore, we could argue that microeconomic policy reforms are in the interest of big international interests. Thus, if undertaken they can be interpreted as an indication of a weak state autonomy with respect to outside or international pressures, but
independence from big domestic interests and low capacity to act on its own. On the other hand, if macroeconomic and not microeconomics policy reforms are undertaken, this can be an indication of strong state autonomy from big international interests and high capacity to act on its own, but not independence from big domestic interests. This analytical distinction between macro vis-à-vis microeconomics policies presents valuable veins of inquiry with respect to the state’s decision-making process.

Returning to our cases of analysis, Argentina was more aggressive and rapid in implementing macro- and microeconomic policy reforms than Brazil. The latter implemented these reforms in a much slower and protracted way. I do not enter into the discussion of micro-economic reforms, but into the discussion of tax reforms within the broader realm of macro-economic policies as delineated by Rodrik (ibid). I argue that this distinction of speed, extent, and nature of tax policy reforms between Argentina and Brazil can be better understood by paying attention to their respective veto players’ configuration, which is the argument I elaborate and extend throughout this dissertation. Succinctly, this work strives to underscore the relevance of the political realm, in general, in order to understand policy outcomes. Hence, as quoted from Carciofi, Barris, and Cetrángolo (1994) at the beginning of the present chapter: seeking to fill the vacuum of policy and reform analyses.

**Dissertation Plan**

The data used for undertaking the analyses in the present study were tax revenue data, interviews with experts, evolution of tax policy legislation and debates, and newspaper coverage regarding tax policy during the 1980s and 1990s. The time-specific cases of analysis were the four Argentine and five Brazilian post-military regime
administrations with special focus on tax policy-making (see Table 1.12). Elite interviews were employed in order to grasp the essence of the tax policy decision-making processes, information that no other methodology could have provided.

<table>
<thead>
<tr>
<th>Argentina</th>
<th>Brazil</th>
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<tr>
<td></td>
<td>Fernando Henrique Cardoso [1998-2002]</td>
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Table 1.12: Elected or Acting Presidents after Democratic Transition: Argentina and Brazil

Tax policy legislation data was used in order to qualitative and quantitatively illustrate the structure (i.e., types of legislation and tax policy) of their respective tax policy systems. Quantitative data on state’s revenues at the federal level was used in order to illustrate the structure and consequent distributive implications of their respective tax policy systems. Information regarding parliament party composition (i.e., for calculating the effective number of political parties), electoral laws, presidential powers, executive-bureaucratic relations, and executive-legislative relations provided the
necessary contextual data in order to delineate and locate the relevant actors (i.e., veto players) and their respective interests and power capabilities.

Thus, these provided, I argue, the necessary information for understanding the tax policy-making processes of interest. I pursue a longitudinal comparative approach: a comparative taxation analysis of Argentina and Brazil in order to present the detailed causal mechanism at work. Quantitative analyses present the opportunity to generalize more focused findings or uncover plausible variable relations, which can be verified with more focused studies. Both types of methodologies present strengths and weaknesses and the maximum leverage is derived from these methodologies when they are kept in mind. In Chapter 8 I present a proposal for undertaking a quantitative analysis in order to test the causal mechanism I uncover in this dissertation.

The causes of tax policy reforms are the central general driving concern throughout this study. A more case-specific concern is why and how tax policy reforms occurred in Argentina and Brazil. Chapter 2 presents the overall theoretical and methodological arguments guiding this dissertation. Chapter 3 presents a detailed qualitative and quantitative tax policy analysis for Argentina and the general guiding research questions are; what are the causes of tax policy reforms and tax policy-making legislation production behavior? Chapter 4 presents a detailed qualitative and quantitative tax policy analysis for Brazil and the general guiding research questions are; what are the causes of tax policy reforms and tax policy-making legislation production behavior? In Chapter 5, the general guiding research question is; what are the causes of changes in tax policy centralization? In Chapter 6 the general guiding research question
is; what are the causes of changes in tax policy progressivity? In Chapter 7 the general guiding research question is; what are the causes of changes in the level of taxation?

In Chapter 8 I present overall conclusions and tentative extensions of the main arguments presented throughout this dissertation. In addition, I propose a quantitative pooled-times series analysis regarding tax policy reforms and the studied dimensions and an Argentina and Brazil historical comparative analysis that would help us address an important taxation difference between these two cases, since the prevalent theories remain deficient.

Thus, let us delve into the intricacies of taxation, as 16th century French jurist Jean Bodin stated “…finance ‘the nerves of the state’.” (Woo-Cumings, 1999; 10) We do so because of the information and knowledge we can acquire about the state by studying taxation as Theda Skocpol’s quote at the beginning of this chapter so eloquently underscored. And this is so, without forgetting Carciofi, Barris, and Cetrángolo (1994) quote that underscored the embedded institutional reality within which taxation takes place. In the following chapter, I define and operationalize the relevant concepts for this dissertation’s analysis. In addition, I elaborate the theoretical argument and methodological framework I use and compare them with alternative explanations.
CHAPTER 2

POLICY STABILITY, DIRECTION AND MAGNITUDE OF CHANGE, AND

VETO PLAYERS THEORY: A THEORETICAL AND METHODOLOGICAL

OVERVIEW

Any actual instance of social or institutional change is almost certain to involve a combination of all three of these elements [i.e., accident, evolution, and intention]. The problems that groups face, the solutions they concoct, and the way that they implement those solutions are all subject to accident and error. But the accidents and errors are rarely purely stochastic; and even when they are, they nonetheless typically arise in the backwash of intentionality, through the oversights and miscalculations of purposive agents engaged in projects of their own. Thus, what intentional agents intentionally do (or, more typically, fail to do) is important even in modeling social and institutional change as essentially accidental. (Goodin, 1996; 25)

Animating principles are themselves inanimate. They are incapable of ‘working themselves out,’ in any literal sense at all. What animating principles ‘animate’ is intentional agents who internalize them, and what ‘working themselves out’ amounts to is those intentional agents implementing them consistently across the whole range of their appropriate application. Thus, even in this Hegelian version of the evolutionary story of social and institutional change, intentional agents are still central players. In that, as apparently in all other cases, we will need an explanatory account that draws on notions of intentionality and perhaps as well as pure evolutionary pressures. (Goodin, 1996; 27)

Introduction

Taxation, reform, rationality, institutions, and actors; these are the main components that I deal with throughout this dissertation and they were briefly mentioned
in the previous chapter. The perspective I adopt throughout this dissertation coincides with Goodin (1996) arguments, which underscores the relevance and importance of an interaction between actors’ intentions and institutions in order to understand social reality. In our case, that social reality is tax policy-making, and the main actors are central governments. An explanatory framework of change needs to have actors, milieu of interaction, and preferences that would help us make sense of the empirical outcomes of interest.

Hence, in this chapter, I first discuss the dependent variable for this study: tax policy-making. Then, I briefly present veto players theory and the proposed theoretical connections between veto players theory and the dependent variables. I comment about alternative explanations and why they fall short in completely explaining the topic of interest. And, I present an introductory overview of Argentina and Brazil’s tax policy-making experiences throughout the 1980s and 1990s to portray a summary of the values of each of the dependent variables of interest. And in this way laying-out the changes (direction and magnitudes) that we seek to explain and understand throughout this dissertation.

Tax Policy-Making and Three Dimensions

Figures 2.1 and 2.2 present the decades’ mean values, in Argentina and Brazil for the taxation dimensions of main interest, and their changes. I explain these measures in more detail later, but it suffices for the moment to underscore that our cases followed the same direction of change: lessening of the central government relevance and of progressivity and an increase in taxing capacities (i.e., level). Nevertheless, their differences reside in the respective magnitudes of change. We can also observe their
differences in the absolute number comparisons, which counter the traditional theoretical expectations of a positive correlation between economic development and taxation levels. I include in Chapter 8 a future research project and a hypothetical explanation in order to explain this theoretical deviation.

Figure 2.1: Argentina’s Empirical Mean Values on Tax Dimensions
**Tax Policy Reform**

In the simplest way, tax policy reform is an event in time where action is taken to change a current tax policy. Elizondo (1994) presents an important distinction that we need to keep in mind when discussing reforms in general and tax policy in specific. He argues,

There is a conceptual difference between changes in the tax law, like the fiscal changes that actually took place during the Echevarría regime, and a tax reform of...
the kind proposed in 1972. The former does not attempt to change the basic structure of the system; that is, it does not alter in a significant way who pays and how. It makes only marginal changes to increase revenue; that is the same people pay, but most of them pay more. A tax reform, on the other hand, attempts to change this structure. It seeks to introduce new taxpayers, or to oblige a specific segment of the population to pay more than before…The distinction between a reform and a change can be blurred when a significant number of changes, spread over the years, leads to a more general revision of the tax structure. The fiscal reform of the Salinas administration introduced a significant number of changes, but spread over three years. (173-174)

Changes, to a certain extent, are always possible. Nevertheless, the nature of those changes, i.e. how drastic they are, will vary, and we need to differentiate between minor and major changes. Only, a tax policy reform presents the comparative analytical leverage of variation in the dependent variable (tax policy), while holding constant many other influencing factors and presenting the possibility of ascertaining with more accuracy the nature of the change under study.

Therefore, analysis of changes in the tax policy structure is possible within the same unit of analysis (i.e., Argentina and Brazil). As quoted at the beginning of this dissertation (see Chapter 1), I underscored the importance and relevance of political factors in order to understand tax policy and being able to identify tax policy reforms. Furthermore, I underscored the institutional environment wherein the relevant political actors (i.e., veto players) interact in order to understand their actions and by consequence their implications on policy-making.

In order to be able to ascertain the occurrence of a tax policy reform, it is indispensable for us to temporally analyze taxation behavior in an integral sense. Following Elizondo (1994) differentiation between change and reform, individual minor changes could amount to reform shifts when those individual changes are taken together. This is why I selected to study two decades of Argentina and Brazil’s taxation and pay
attention to the types of legislation and tax policy and three dimensions: centralization, progressivity, and level. These measures present the opportunity to gauge for structural shifts in taxation and their causes, which then help us to better conclude and understand if a reform took place.

As a preview of the empirical discussion that follows in the next chapters, Argentina’s taxation experience throughout the period studied represents an example of a major structural shift or a tax policy reform following Elizondo (1994) terminology; on the other hand, Brazil’s taxation experience represents an example of Elizondo’s characterization of a tax policy change. In this dissertation I will demonstrate that this indeed was the case (see Chapters 3 and 4), present what explains this difference, and argue that the difference between tax policy changes and reform cannot be made a priori, i.e. it is a priori impossible to understand the extent of each taxation change without contextualizing the change and studying its respective impact1.

Types of Tax Policies

In order to fully understand tax policy-making as a process and outcome, I differentiate between types of legislation and tax policy. Regarding types of legislation, I differentiate between laws and decrees. In addition, I specify the type of tax policy by categorizing them as: income tax, value-added tax, and social contributions. This categorization helps us better describe the nature of the tax policy-making process in addition to supplying information needed to explain the tax policy dimensions.

1 See two different quantitative measures of tax policy reform in Morley, Machado, and Pettinato (1999) and Mahon (2004), which I briefly mention Chapter 8. I make use of a more qualitative form of gauging tax policy reform, keeping in mind Elizondo (1994) comments.
Centralization Dimension

I measure each of the three tax policy dimensions in two distinct ways that I label as weight and level. Weight indicators measure the relative importance of the particular dimension (i.e., gauging relevance), and level indicators measure the absolute importance of the particular dimension with respect to the size of the economy (i.e., gauging at some important political processes; for example, collective action, state capacity, and distributive justice)\(^2\). To measure the central government taxation weight, I use the total central government tax revenues standardized with respect to total tax revenues (see Chapter 5). To measure the central government taxation level, I use the central government tax revenues standardized with respect to gross domestic product (i.e., gauging the central government’s capacity in collecting taxes and solving collection action dilemmas; see Chapter 7).

Progressivity Dimension

The degree of tax policy progressivity partly entails the share of tax handles\(^3\), from all tax handles, that takes into consideration socioeconomic characteristics for their collection and the number and rate levels of brackets used within these tax handles (see Guy Peters, 1991; 28-46). Thus, as this share of tax handles increases (decreases), tax policy progressivity will also increase (decrease). Furthermore, as the number of brackets and the distance between the rates among brackets increases (decreases), tax policy progressivity will also increase (decrease).

\(^2\) See Lieberman (2002).

\(^3\) This is a metaphor used in the tax policy literature to create a mental physical picture of economic activities that the state could grab (i.e., taxed) in order to generate revenue.
In addition, I measure tax policy progressive weight and level. To measure taxation progressive weight, I use income and consumption tax revenues standardized with respect to total tax revenues. From these measures, I calculate what I label as taxation progressive weight, which mainly entails subtracting\(^4\) consumption from income taxation: the greater the positive number the more progressive is the taxation. Taxation progressive weight gauges into the distributive justice relevance embedded in the tax system under study (see Chapter 6).

In regard to the taxation progressive level, I use income and consumption tax revenues standardized with respect to the gross domestic product. From these measures, I calculate what I label as taxation progressive level, which entails subtracting\(^5\) consumption from income taxation, which again entails the greater the positive number the more progressive is the taxation. Taxation progressive level measures gauge into the distributive justice capacity of the state in solving collective action problems (see Chapter 7). Thus, the progressive level measure is distinctive in gauging the three political processes of interest: collective action, state capacity, and distributive justice.

**Level of Taxation**

The level of taxation partly entails the amount of tax handles and the rates used within them (see Guy Peters, 1991; 22-27): as the amount of tax handles and their rates increases, the level of taxation will also increase. I use three measures for the level of taxation: central government, progressive, and total. The first two were already defined. To measure the total level of taxation, I use the total tax revenues standardized with

\(^4\) i.e., already standardized

\(^5\) i.e., already standardized
respect to the gross domestic product. Hence, the total level of taxation gauges into the overall state apparatus’ capacity to collect revenue and overcome collective action problems (see Chapter 7).

**Veto Players Theory**

**Veto Players**

After having presented the problem of interest in this dissertation, let us proceed with a discussion of veto players theory and its most important components, which I use throughout this dissertation in order to elaborate the core explanatory argument. “[V]eto players are individual or collective actors whose agreement is necessary for a change of the status quo. It follows that a change in the status quo requires a unanimous decision of all veto players.” (Tsebelis 2002; 19) There are two types of veto players. Formal veto players produced by the state’s constitution are labeled institutional veto players. While veto players that are generated or emerge from the political game (or the constitutional praxis) are labeled partisan veto players.

The number of veto players is further specified by range, alternation, and duration. Range is a measure of ideological distance between the veto players. Alternation is a measure of the ideological distance between the different administrations. And, duration measures the time in power of a specified administration (see Tsebelis (2002)). For identifying the number of veto players, I use the number of parties in government (partisan veto players) and the number of symmetrical institutions with

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6 “The constitution of a country can assign the status of veto player to different individual or collective actors. If veto players are generated by the constitution, they are called institutional veto players.” (Tsebelis, 2002; 19)
policy-making power (institutional veto players). There is a positive hypothetical relation among the *range* and *alternation* and the *number* of veto players; while there is a negative relation between *duration* and the *number* of veto players (see Figure C.1 in Appendix C).

I present a more qualitative empirical analysis of the veto players’ arrangements in Argentina and Brazil. But also comment on several quantitative measures in order to determine the number of veto players: *checks, stabs, stabns* from Keefer (2002) and POLCONIII_2002 (Henisz 2002) and POLCONV_2002 (Henisz 2000) (see Chapters 3 and 4). Nevertheless, I present several caveats regarding the usage and implications of each of these measures.

**Absorption Rule**

According to *veto players theory*, a high number of veto players tends to benefit the status quo, i.e. creates high policy stability. But adding new veto players might not have an influence on policy stability according to the absorption rule.

In other words, an increase in the number of veto players would not have an effect on policy stability if the new actors did not distance themselves ideologically from existing actors\(^8\) or if existing actors moved closer, in terms of ideology and therefore could not be differentiated\(^9\); these veto players would be absorbed. In the former case, an addition of veto players does not increase policy stability; and in the latter case, a stable

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\(^7\) “Analyzing the political game inside institutional veto players may produce more accurate insights. If veto players are generated by the political game, they are called partisan veto players.” (Tsebelis, 2002; 19)

\(^8\) Using formal theory language, if these new actors are located within the unanimity core, they are absorbed consequently, not changing policy stability. (Tsebelis, 2002; 28)

\(^9\) Using formal theory language, this would imply a decrease in size of the unanimity core. Therefore, the probability of policy change increases. In other words, policy stability decreases. (Tsebelis, 2002; 28)
number of veto players decreases policy stability by decreasing the effective number of veto players.

In the case of Argentina and Brazil, the absorption rule will help us explain their tax policy-making behavior by not just providing that unifying effect in order to surpass a polity’s political fragmentation, which is important in order to gain an understanding of the possibility of policy change. In addition, I argue that it provides us a concise reality snap-shot of the interests that prevailed and, consequently, got embedded within the polity’s tax policy and general political reality.

Thus, I argue that the empirical veto players’ absorptions make possible to understand the taxation behavior in this study (direction and magnitude of change). Keefer (2002), (Henisz 2000), and (Henisz 2002) veto players’ measures take into consideration empirical absorptions, but to a different extent, which according to the analysis I pursue here, present contradictory results. Nevertheless, I discuss in more detail these measures’ similarities and differences in Chapters 3, 4, and 8.

Executive Decree Power and Executive Taxation Constitutional Boundaries

I make use of two intervening variables, which I argue, help us become more sophisticated and gain analytical leverage from the theoretical connections of interest in this dissertation: tax policy-making vis-à-vis veto players. These two intervening variables are: executive decree power and executive taxation constitutional boundaries. The former refers to the ability and power of the executive to legislate without the consent of the legislative branch. This is an important variable to take into consideration since it has an effect on the power leverages among the different veto players and their
effects on policy-making; executive decree power has a negative relation with the number of veto players (see Figure C.2 in Appendix C).

Executive taxation constitutional boundaries refer to the executive and central government’s constitutional control over income and consumption taxation and their leverage within a revenue sharing mechanism. Thus, the greater the central government’s control over income, consumption, and the revenue sharing mechanism, the greater the value of the executive taxation constitutional boundaries variable (see the general hypothetical relations among the number of veto players, executive decree power, executive taxation constitutional boundaries, and policy-making variables in Figures C.3 and C.4 in Appendix C).


Having presented the dependent variables of interests and the proposed explanatory framework, let us proceed to delineate the several hypothetical connections to be tested throughout this dissertation.

Veto Players and Policy Stability

“[P]olicy stability is the term that expresses the difficulty for a significant change of the status quo. Policy stability increases in general with the number of veto players and with their distances…” (Tsebelis 2002; 37) Here, I present an institutionally grounded explanation. It focuses on the relevance of institutional effects for predicting tax policy outcomes and helps us indicate the direction and magnitude of change of the mentioned effects from a more contingent point of view. This explanation stresses that the greater the number of veto players, the lower the probability of a tax policy reform
occurrence will be\textsuperscript{10} (i.e., greater policy stability), but because the main interest of this dissertation is to explain change, I make use of the \textit{absorption rule} in order to explain change by identifying a reduction of the effective number of veto players due to absorption.

\textit{Veto Players and Policy-Making Types}

There is a positive hypothetical relation between the \textit{number} of veto players and the \textit{types of legislation} production (i.e., number of laws and decrees; see Figure C.3 in Appendix C). In regard to \textit{executive decree power} and \textit{executive taxation constitutional boundaries}, the former has a negative relation with the \textit{number} of veto players; while the latter has an effect on the \textit{type of tax policy} production. Nevertheless, their respective effects vary depending on the constellation of veto players at a specific point in time (i.e., \textit{number, range, alternation, and duration}). In order to predict the \textit{types of tax policy} production, there is a need to take also into consideration the \textit{executive taxation constitutional boundaries} and we should expect a positive relation between the incentive structures delimited by the constitutional boundaries on the executive and income and consumption taxation and a negative relation with social contributions (see Figure C.4 in Appendix C).

Since my analysis departs from the premise of an interest of maximizing revenue, we should expect a positive relation with income and consumption legislation and negative relation with social contributions; the latter is the case because of the executive’s leverage over the revenue sharing. Argentina fits this definition of the

\begin{quote}
\textsuperscript{10} “…the propositions I present are sufficient but not necessary conditions for policy stability, that is, why multiple veto players with large ideological distances from each other will produce high policy stability, while few veto players may or may not produce policy instability.” (Tsebelis, 2002; 12)
\end{quote}
executive taxation constitutional boundaries, but we need to keep in mind that this variable as well as the other ones presented here are interactive. And by interactive I mean that the predicted effects should not be considered constant, but contingent on the values of the other variables.

Regarding policy-making, executive decrees complicate veto players analysis. I do not argue that veto players theory does not allow taking into consideration such powers or that it cannot predict their theoretical effects, but that it will not be a straightforward a priori hypothetical prediction, because of the possibilities of complex interactive effects between veto players’ interests, constellations, and policy concerns. For example, presidential decree power decreases the number veto players, which implies lower policy stability. Nevertheless, presidential decree powers are not always used, complicating an a priori, or even constant, prediction of the number of veto players’ effects on policy-making, which further underscores the dynamic reality of the subject of study.

It is also important to take into consideration the executive taxation constitutional boundaries because even though decree powers enable the executive with an institutional tool for surpassing the legislative branch, there are constitutional limits, which cannot be breached even with decree powers. We should expect that the greater the number of veto players, the greater the use of decree powers. Nevertheless, the nature and limits of those decrees are going to be structured by constitutional boundaries regarding taxation, which ultimately affects the types of tax policy produced. Consequently, we need to be cautious in the interpretation of the amount of legislation done by decree and its veto players’ counterpart (see Figures C.3 and C.4 in Appendix C).
The application of veto players theory implies a possibility to encounter a greater number of laws and decrees within a high number of veto players’ milieu. Therefore, the theoretical expectation would be a lesser number of laws and decrees in Argentina than in Brazil. The basis of these two theoretical expectations is the lower number of veto players in Argentina than in Brazil, which I empirically discuss and analyze in Chapters 3 and 4, respectively.

We also need to take into consideration two other important dimensions affecting legislation production: alternation and duration. The former refers to the relative ideological difference between administration changes. The latter refers to the amount of time that a specific administration is in power. Veto players theory predicts the possibility of a positive relation of both of these dimensions with laws, while their relation with decrees depends on the veto players’ range. I test these theoretical expectations in Chapters 3 and 4 using Argentina and Brazil’s tax policy legislation during the 1980s and 1990s as our cases of analysis.

**Veto Players and Tax Policy Dimensions**

What are the analytical connections between the presented veto players framework and the three chosen tax policy dimensions? I make use of two different standardized measures: weight and level. In order to understand change in the former, we need to know and understand the interest leverage of the different veto players throughout the negotiations for reform; in the later, we assume revenue maximizing, which is further grounded in the institutional environment within which our actors are embedded in order to be able to predict and understand their guiding strategies and impacts on taxation outcomes.
Veto Players and Taxation Centralization Weight

In order to understand the characteristics of a tax policy reform, within a multiple veto players’ milieu, it is important to study the negotiations that took place during the reform. This is so because a rearrangement of veto players, makes possible a reform. And I make use of a contingent approach of veto players theory throughout this dissertation and discuss and describe the types of legislation and tax policy production in order to underscore the prevailing interests throughout the negotiations and the contours of tax policy-making. Knowing those interests and contours, we can understand changes and their characteristics in each of the tax policy dimensions under study. As Tsebelis (2002) states,

[Veto players theory] establishes the possibility of different institutional settings to provide policy change, but does not and cannot identify the direction of it. For the identification of the direction of change, the preferences of veto players are required, as well as the identity of the agenda setter and the location of the status quo. In other words, institutions in this book will resemble shells, and only when the occupants of these shells and the status quo are identified will specific predictions of outcomes are possible. (18)

Those “shells” are what are filled throughout the rest of the analysis in order to be able to predict and explain their tax policy reforms (direction and magnitude). And the “shells’ occupants,” I stress, are the central governments and their interests.

The central government taxation weight entails the share of taxation power, responsibilities, and benefits that it has with respect to the other units of government. A high central government taxation weight implies that a higher share of taxing power, responsibilities, and benefits are located within its realm.

Assuming that each governmental unit would want to maximize its revenue, the taxation outcome would depend on the power leverages each unit has during reform
moments. Therefore, any change in the central government taxation weight depends on the respective governmental units’ power leverages during the reform (see Figure C.5 in Appendix C), which can only be gauged contingently. I do so in Chapters 3, 4, and 5. Nevertheless, the greater the central government’s leverage during a tax policy reform, the greater the probability of increasing or protecting the current central government taxation weight.

Furthermore, the executive taxation constitutional boundaries are also relevant in order to understand the degree of maneuvering of the central government and the executive to protect and promote their interests. The more constitutionally protected the issues the central government prefers to change, the more difficult it will be to do so. An example of this would be President Cardoso’s attempt and failure to reform tax policy; part of the answer is that his administration intended to change the structure of the value-added tax (transferring it from the states’ governments to the federal government), which is constitutionally protected.

Veto Players and Progressive Taxation Weight

It is important to identify the relative leverage among the different veto players involved in the tax policy reforms; in this way we can hypothesize, in a more contingent way, the outcome in terms of overall tax structure and its progressive nature. Furthermore, the analysis of the progressive nature of taxation needs to take into consideration the previous discussion of centralization because of the predominance of the central government on taxation matters and its usual control over the major taxes impacting progressivity: income and consumption taxes. Thus, the greater the central
government taxation’s leverage during the reform, the greater the probability of an increase in income and consumption taxation weight (see Figure C.6 in Appendix C).

Nevertheless, the progressive taxation weight has a positive and negative relation with income and consumption taxation weight, respectively (see Figure C.7 in Appendix C). Hence, if the central government controls income and consumption taxation weight, it is impossible to hypothesize a priori which one of the two types of taxation it would prioritize. Under the assumption of revenue maximizing and departing from Latin American history, we could hypothesize a priority toward consumption over income taxation because of the less cumbersome process to collect the former, which would fill the state’s coffers with a higher probability. Nonetheless, a more complete explanation requires more contingent and contextual information that is provided throughout the empirical discussion of our two cases (see Chapters 3, 4, 5, and 6).

Veto Players and Level of Taxation

I divide this discussion into three parts: central government, progressive, and total taxation levels. This is so because of the relevance of the central government within taxation realms and the characterization of taxation that becomes possible after understanding its progressive nature.

It is of utmost importance to understand the central government taxation level first because of the greater taxation share of this governmental unit (see Figure C.11 in Appendix C). The central government taxation level depends on the executive taxation constitutional boundaries and an revenue maximizing assumption; i.e., the greater

11 Furthermore, our cases’ development level would also predict an emphasis on consumption rather than income taxation.
leverage a central government has over consumption, income, and revenue sharing mechanism, in interaction with a revenue maximizing assumption, the greater the possibility of an increase in the central government taxation level dimension (see Figure C.8 in Appendix C).

Furthermore, the central government taxation level, because of its usual control of income and consumption taxation (see Figure C.9 in Appendix C), affects the progressive taxation level (see Figure C.10 in Appendix C). An understanding of the interaction between income and consumption taxation arises from a discussion of the revenue sharing mechanism (see Figures C.8 in Appendix C), which is part of the executive taxation constitutional boundaries variable (see Figure C.4 in Appendix C). Finally, the previous two level dimensions affect the total level of taxation. In addition to indicating direction and magnitude of change regarding taxation level, we can assess the overall nature of taxation capacity from the discussion of its progressive quality.

I include a table at the end of Chapter 4 (see Table 4.11) that contingently hypothesizes the direction of change of the Argentine and Brazilian tax policy-making regarding centralization, progressivity, and level. Nonetheless, let us proceed with an examination of alternative explanations to tax policy-making/reform and locate, compare, and contrast the explanatory framework I make use of throughout this dissertation.

**Alternative Explanations**

The central objective of this dissertation is to explain Argentina and Brazil’s direction and magnitude of changes in taxation throughout the 1980s and 1990s. B. Guy Peters (1991) enumerates approximately nine different types of tax policy reforms’
explanations\textsuperscript{12}. I use his labels in order to briefly take into consideration alternative explanatory frameworks.

I argue that an explanatory framework based upon a contingent application of \textit{veto players theory} is more versatile and general than other alternative explanatory frameworks. This is so since as a middle-range institutional type of explanation, it “filters” more specific and individual explanations by unifying and putting together their contributions and “filtering” broader and macro explanations by channeling and specifying their contingent impacts. An explanatory framework of change needs to have actors, milieu of interaction, and preferences that would help us understand the empirical outcomes of interest.

Guy Peters (\textit{ibid}) explanations can be summarized into two main camps: structural\textsuperscript{13} and actor-oriented\textsuperscript{14} explanations. The structural explanations can be further divided into domestic and global. Nevertheless, there are two other labels that Guy Peters (\textit{ibid}) uses that do not perfectly fit the dichotomy presented here: policy-reasons and institutions of taxation.

In regard to the requirements for an explanatory framework of change, structural explanations tend to provide milieu and actor oriented explanations the actors; while a policy-reasons approach basically underscores strategies and the institutions of taxation.

\textsuperscript{12} The nine explanations Guy Peters (1991) lay out are: Political Culture; Public Opinion; Parties and Ideologies; Group Politics; Policy Reasons; Economic Influences/Modernization; International Influences; Political Entrepreneurship; and Institutions of Taxation.

\textsuperscript{13} These structural explanations are: Political Culture; Public Opinion; Economic Influences/Modernization; International Influences.

\textsuperscript{14} The actor oriented explanations are: Parties and Ideologies; Political Entrepreneurship; Group Politics; State.
approach more specific milieu. Thus, these frameworks remained incomplete in general terms in order for helping us explain change. *Veto players theory* is very powerful for explaining lack of change in a *sufficient* way, but not so for explaining change. Nevertheless, I argue that when applied in a contingent way we can gauge to proximate causes of change. *Veto players theory* contains the necessary conditions for change: low number or a reduction in the effective number of veto players; and the latter serves the purposes of this dissertation. Nevertheless, the actualization of change can only be gauged contingently. Actors and preferences are part of *veto players theory* and with knowledge provided by contingent information, their milieu and strategies can be better understood and gauged.

Let us present some general comments in order to discursively underscore the incomplete nature of the various listed explanatory frameworks, and not because they are necessarily wrong, for the specific purpose of this dissertation. This is to explain tax policy-making behavior by studying legislation types, tax policies types, and the three selected tax policy dimensions: centralization, progressivity, and level. I argue that the explanatory approach I selected presents an important balance between *generality* and *particularity*. *Generality* is a quality desire in order to “speak” to a community of scholars not necessarily acquainted with your cases of analysis; hence, with the possibility of using your findings and/or analysis within their own area/cases’ of interest. Conversely, *particularity* is a quality desire in order to ground your general academic thoughts and interests into substantive and meaningful “real” world examples. Nonetheless, I address some of these alternative explanations, in more specific terms, throughout the empirical chapters that follow, when I apply the proposed contingent *veto*
players theory and compare some of these as possible rival and/or complementing explanations.

Because of this “filtering” characteristic, we could perceive a veto players’ explanation as a metaphorical meeting point among the mentioned alternative explanations, but an explanation of change needs to have actors, milieu, and preferences; hence, those actors, preferences, and milieu come from somewhere. We know that they exist so, we might take them for granted and it is from here that a veto players’ explanation departs: identifying those actors that you must reckon with in order to promote any type of change in a particular society. These veto players are formally identifiable within a country’s constitution and in the day to day political practice. The easiness of identifying them is not only to the benefit of the analyst, but also to the members of that society of concern.

Nonetheless, these veto players do not just “drop from the sky.” In addition to the institutions in place helping to create them, throughout the political struggle (i.e., democratic or not) a plethora of factors are involved and get into the mix. Factors like political culture, public opinion, group politics, and economic...
influences/modernization\textsuperscript{18}, and international influence, combine and provide the milieu from which our veto players emerge and also shape their preferences. Other factors such as political entrepreneurship and parties and ideologies\textsuperscript{19} can be argued to be characteristics of veto players or veto players themselves.

In regard to explanations based on policy reasons\textsuperscript{20}, I think that they underscore strategies of the actors under study. Relevant information regarding our actors’ preferences and milieu constraints and possibilities can be obtained, but we cannot forget to transmit discontent about taxes directly into policy changes. In reality, these assumptions come close to working only when there is an option for referendum…The public choice approach also makes the assumption that voters respond only, perhaps primarily, to aggregate levels of taxing and spending, rather than to the quality of the services being provided, the personal characteristics of political leaders, or any of a number of other possible influences on their behavior…” (Guy Peters, 1991; 8)

\textsuperscript{17} “Another possible explanation for the shaping of the tax system in democratic political systems is that the universe of pressure groups plays a significant role in the process. This should not be surprising, given that a general finding is that interest groups have significant political influence in all these systems…In the case of interest groups we would not, however, expect highly visible impacts on broad issues of tax policy - the amount of total taxes extracted or perhaps even the general distribution among different types of taxes. Rather, we would expect greater influence by those interest groups on the fine detail of tax policy, and in particular the pattern of deductions and exemptions - ‘loopholes’ - made available to special interests through the tax system. Interest groups are sometimes argued to be more successful in tax policy than in other policy areas because its complex, technical character makes it easier for them to disguise their real influence in legal and economic jargon. Further, the relative secrecy in which tax policy is made in most countries provides interest groups with an arena in which their impact may not be as evident as in other policy areas…” (Guy Peters, 1991; 12)

\textsuperscript{18} “In short, governments can only tax when they can find a ‘tax handle’ that they can pull. Until large-scale personal incomes in cash existed, and monitorable cash transactions were prevalent in the economy, the types of taxes now common in the industrialized world were difficult or impossible to implement.” (Guy Peters, 1991; 226)

\textsuperscript{19} “Although there are some observed effects of party ideologies on tax policy, there is by no means an overwhelming tendency for differences in political parties to be manifested directly through differences in tax structures…There appears to be a large number of barriers standing between the promulgation of an ideology by a political party in an electoral campaign, and the implementation of that ideology through a new tax program once the party is in government.” (Guy Peters, 1991; 9)

\textsuperscript{20} “Finally, taxes can be used as a mechanism for social control, and to produce general good, as well as a means of conferring special benefits…There is some question about how effective any of these taxes intended to be control devices are…but they do constitute yet another policy option available to government in attempting to reach its goals.” (Guy Peters, 1991; 15)
that policies themselves are measures of our dependent variable. Hence, this type of explanation could easily end up as a tautology if due attention is not paid.

The chosen explanatory framework is an institutional one. Nevertheless, it deviates from traditional institutional arguments because instead of focusing on particular types of institutions and their possible effects on policy-making, I use veto players theory. It stresses the interactions between the relevant power-players, irrespective of the types of institutions. Thus, it is an account of the relevant policy-making actors (i.e., veto players), which are created by a given institutional arrangement, and study their effects on policy stability and the respective characteristics of policy change, direction and magnitude, due to the negotiation and bargaining that takes place among them.

Having presented and placed the proposed explanatory framework in this dissertation with respect to other frameworks let us then present an overview of the two chosen cases of analysis: Argentina and Brazil. In addition to underscoring several economic and political events of relevance, I summarize the mean behavior of these cases with respect to the dependent variables’ measures.

**Overview of Cases of Study**

I argue that Argentina and Brazil are cases representing the occurrence of tax policy reform after a democratic transition and before monetary stabilization (i.e., within 21 “The division of fiscal responsibility should make it little surprise, therefore, that there is a tendency for budget deficits to occur in these countries on a regular basis. It is always easier to spend than to tax, and there is no means of forcing joint consideration of the two sides of the budget. Further, it should not be surprising that the distributive effects of taxes and expenditures are not well-coordinated in most public sectors, and that taxes that are intended to be redistributive may end up by actually being proportional. The numerous institutional divisions make the effective management of the financial side of government that much more difficult, and tend to generate some unexpected and undesirable consequences for governments and their citizens.” (Guy Peters, 1991; 18-19)
a high inflation milieu). In regard to tax policy centralization, Argentina is an example of an attempt to decentralize by means of increase of federal government transfers. On the other hand, Brazil is an example of decentralization by means of an increase of taxing responsibilities to governmental sub-units and transfers to them from the federal government.

Regarding tax policy progressivity, Argentina increased its reliance on income taxes (i.e., from a very low starting point), thus, making its overall taxation partially more progressive. On the other hand, Brazil lowered its reliance on income taxes, thus, partially decreasing the progressive nature of its taxation. Nevertheless, both cases decrease their taxation’s progressivity because there was an increase distancing between income and consumption taxation with a skew toward the latter. The overall level of taxation in Argentina was increased mainly by the generalization of the value-added tax (VAT). In the case of Brazil, that increase on the level of taxation was achieved by the use of federal social contributions, which interacted with the centralization dimension in favor of the federal government. I argue that in order to understand the behavior of tax policy centralization, progressivity, and level dimensions, an understanding of the political decentralization process is required.

Changes have occurred in both countries’ tax policy structures since their returned to a democratic regime. The drastic or relevant nature of these changes is something that I discuss in Chapters 3, 4, 5, 6, and 7. This is related to a detailed analysis of the magnitude and direction of those changes, but before I want to regurgitate and expand on

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22 The decrease reliance on income taxes has to do with the constitutional requirement of the federal government sharing this type of taxes with the other governmental sub-units.
my comments on the relevance of tax policy as an issue, which were presented in Chapter 1.

Tax policy reform has been on the political agenda as part of the reforms of the state. Although this is true, the tax policy reform label has been kept alive sometimes as an element of rhetoric (i.e., according to some of my interviewees); which presents the issue of taxation as a political currency contradicting, up to certain extent, the comments presented by Guy Peters (1991) on taxation as a campaign issue. Nevertheless, tax policy reform has been and still is a subject of continuous political discussion in Argentina and Brazil.

Generally speaking, efforts were mainly directed toward securing state’s tax revenue. Policy-makers usually use the discourse of economic neutrality or efficiency, but those who were governing sacrifice that economic neutrality-efficiency argument if state’s revenues were threatened. This was especially true during the last part of the 1990s in Argentina, where economic stagnation made government prioritize state survival over ideal economic theory implementation (see also Payne (1998)).

In the Brazilian case, with a more complex tax structure and with a less clear specific point in time when an overall tax policy reform took place\(^\text{23}\), the revenue maximizing strategy by the state can be easily noticed from 1994-2002. Even more, the director of the Brazilian *Secretaria da Receita Federal* [SRF]\(^\text{24}\) Dr. Everardo Maciel (1995-2002) openly argued that a good tax is one that can be collected, or, in other

\(^{23}\) It could be argue that an overall tax policy reform took place with the 1988 Constitution. Nevertheless, as many things within that Constitution, it was thought that the issue was going to be picked-up later on 1993 when many of those issues were going to be resolved, but that turned-out not to be the case.

\(^{24}\) Brazil’s IRS
words, that generates the most revenue. This type of statement implies that it is better to have money in the state coffers, independently of the economic distortions incurred in their collection; these distortions could be dealt with later on, using countervailing economic incentives.

Thus, even though the economic efficiency-neutrality argument has not been absent from tax policy debates, it has been typically left to the side when state’s tax revenues were threatened. The third general direction or orientation of research interest in this dissertation is the distributive aspect of the tax code. This is so since every tax system has distributive effects consequently, my interest of studying the effects or interactions the chosen tax system has with the reality of marked inequalities in Argentina and Brazil (i.e., with special emphasis on the latter).

There have always been intense debates around the danger (or lack of) that the distributive/inequality issue gets lost because of the social reality within which governance must take place and the direct and indirect implications of governing actions on that social reality. Thus, it is not a question if the level of inequality in a society is relevant to the state, but how those levels are made tolerable through time and how this is accomplished.

All societies throughout history have had inequalities present and it cannot be argued that the presence of socioeconomic inequality causes governments’ collapses, revolutions, or regime changes, at least not in a simplistic way. A more complex relationship exists between socioeconomic inequality and state’s survival, but I argue that its study is not relevant only when a government collapse, revolution, or regime change
takes place (i.e., *ex post facto*). Thus, this is in part why I am interested in understanding and studying the distributive effects of the chosen tax systems.

In regard to Latin America, that tolerance equilibrium is of extreme relevance because of what has been labeled as the *social question*. After the democratic transitions during the 1980s, in addition to the criticisms of military repression, there were those who underscored the military’s obtuse focus on economic growth, modernization, and total disregard of social issues (e.g., poverty and inequality). Therefore, democratization meant the combined expectations of increase freedoms and the addressing of this so-called *social debt*.

It has been already approximately twenty years since the commented democratic experiments started in Argentina and Brazil (i.e., 1983 and 1985, respectively). Therefore, an important reason for selecting tax policy as a subject of analysis is because after the 1980s debt crisis, these two states have been struggling for increasing their respective states’ revenues and tax policy became an important debate issue for achieving the mentioned goal (i.e., among other reforms). Nevertheless, with the benefit of the hindsight, the success of achieving the goal of increase government revenues, of tax policy reform per se, and the nature of the debates regarding tax policy varied between these two states.

In addition, recent events in Argentina can also make us question the over-excitement of considering Argentina during the early 1990s as a reform success (i.e., a *poster child*), while criticizing Brazil as a laggard regarding reforms. Although

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25 Economic stagnation (1996-2003) and the resignation of President De la Rúa on December of 2001 with result of social, economic, and political instability.
empirically it is true that reform was undertaken very early and fast in Argentina in comparison to Brazil, their economic and political situations inverted during President Fernando Enrique Cardoso [FHC] two administrations. I think that these events force us to re-think and look deeper in order to explain and better understand these two cases and hopefully tax policy-making and reform in general26.

The three chosen dimensions of tax policy during the 1980s and 1990s have been central in the debates over reforming tax policy. The centralization dimension became relevant because of democratization, since tax policy centralization was perceived as part of an authoritarian history27 that was wanted to be put behind. The progressivity dimension has been a contentious issue because of the reality of great socioeconomic inequality (i.e., especially in Brazil). Nevertheless, the overall global ideological tendency since the 1980s has been to reduce the redistributive aspects of taxation via a shift toward consumption taxes instead of income taxes. As I mentioned, income taxes are what give a progressive quality to a tax structure and historically, Latin American states have done poorly in their attempts of taxing income. The level of taxation dimension presented a predicament, because there was an interest of increasing the

26 In general, the recommended market oriented reforms rely on rationality and the efficiency of the economic system. These recommendations take as a given the self-interested nature of human beings (i.e., actors). Nevertheless, we also need to take into consideration the milieu within which policies are constructed and implemented. By disregarding or not taking into consideration this milieu, we would be requiring altruistic behavior from the relevant actors in order to undertake and pursue the economic efficient/neutral reform policies that are usually recommended.

27 “Our Latin American cases reveal that fiscal crises play an important role in upsetting existing fiscal bargains, particularly when the effects of a crisis are uneven across jurisdictions. Broader political developments also create pressures for decentralization. This is most obvious in the case of civil wars and successful nationalist or secessionist movements. But democratization, too, creates such pressures, as democratic forces press for the extension of democratic rule to subnational jurisdictions.” (Garman et al., 2001; 208)
effectiveness or capacity of the state to tax, but without inefficiently overtaxing the economy.

The 1980s were labeled as the “lost decade” for Latin America. Throughout the decade, Latin American economies were debt and inflation-ridden. In addition, it was a decade where authoritarian-military regimes were replaced by elected regimes. On the other hand, the 1990s were expected to become the decade where free-market economic reforms and democratic regimes were going to take root or become consolidated. Nevertheless, with the benefit of the hindsight, mixed results were obtained. The inflationary dilemma was controlled, but economic growth was not robust and there were some setbacks in regard to the democratic authentic nature of the established regimes.

Argentina and Brazil were able to negotiate their debt problems during the first part of the 1990s. Argentina was able to control its hyperinflationary crisis with the so-called ‘Convertibility Plan’ (1991) and Brazil with its ‘Real Plan’ (1994) by pegging their respective national currencies to the United States’ dollar and creating currency boards.

Related to all the mentioned concerns, was the issue of state’s revenues. State’s revenues are mainly dependent on the tax system and level of economic activity. Nevertheless, because of the free-market reform wave, important income for the state was collected from privatization initiatives. But the resources drawn from privatizations were not recurrent and represented challenges to the new democratic regimes because of many corruption scandals. Therefore, these scandals underscored the tension between the

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28 Argentina and Brazil’s economies were approximately 30% greater in the 1990s than in the 1980s.

29 For more details about the Convertibility and Real Plans see Palermo (2000).
objectives of increasing state’s resources and the democratic functioning of these new regimes.

Having been able to control the inflation problem was a big macro-economic conquest for these two states. The downside to this conquest is that they needed to accommodate their revenue needs to the new non-inflationary economic milieu (i.e., they were no longer able to rely on the so-called ‘inflationary tax\(^{30}\)). The tax reforms of concern took place before the inflationary conquest, so reforming the reformed tax systems became a point of conflict and brought to the forefront the tax policy reform debate. Among the several reforms that took center-stage in the respective political agenda, tax policy reform was one of them.

As stated, the relevance of this research arises from its study of tax policy as a political outcome, instead of just a technocratic choice. It also takes into consideration the balance between economic efficiency vis-à-vis distributive effects of tax systems and their potential impact on socioeconomic inequality. Furthermore, it studies the impact of socioeconomic inequality on democratic stability, because an understanding of the state’s action regarding the issue of inequality, through tax policy, is provided.

The 1980s and 1990s showed us a more decentralized taxation, a higher percentage of its economy taxed, and a higher reliance on income taxes in Brazil when

\(^{30}\) “Inflationary financing replaced taxation as a central tool for collecting revenues. Thus, labyrinthine tax laws and inadequate enforcement mechanisms fed a vicious circle which, along with the debt crisis, eventually ended in dramatic fiscal disasters. Then, it was the public sector which not only suffered the consequences of high-inflation, but also perpetuated it. As [Olivera and Tanzi] demonstrated, lags in tax collection strongly influenced real revenue due to the constant depreciation of the currency and the lack of sound mechanisms for indexation. In addition, the incapacity to improve tax administration was a key factor in reproducing the weakness of the state, especially due to the lack of enforcement mechanisms and the existence of unscrupulous inspectors. Indeed, there clear incentives for inspectors to behave in this particular manner, and for people to behave illegally as well. Salaries were low, no one really supervised inspectors’ duties, and the profession lacked prestige altogether.” (Berenzstein, 1995; 8-9)
compared to Argentina (see Figures 2.1 and 2.2). Nevertheless, their distance on the degree of tax policy centralization has increased. On the other hand, their distance on the level of taxation and level tax policy progressivity has decreased. This work presents an explanatory argument centered on the different nature of the undertaken political decentralization processes, in order to address why and how these divergent taxation behaviors occurred.

It can be argued that Brazil’s tax collecting machine is more capable than Argentina’s (i.e., through time). This can be explained by the constant higher percentage of the economy taxed by Brazil, which goes against the traditional expectation within the taxation development literature positively relating economic development and taxation capacity. Although Argentina has increased its reliance on income taxes, it still has lower percentages when compared to the Brazilian. Although both are federal systems, their inner workings differ. I define the Brazilian federalism dilemma as more political than administrative or economic, in general terms and if compared to the Argentine. This differentiation becomes clearer when we examine their respective mechanisms of revenue transfer and the different taxation powers of their federal sub-units.

As I discuss in more detail in Chapters 3, 4, and 5, and succinctly below, Brazil’s sub-units have more taxing powers than Argentina’s provinces. Even more, Brazil’s states were able to obtain control of the most important tax, while Argentina’s provinces rely on the central government for its collection and subsequent transfers. This is not to imply an absolute disadvantage of Argentina’s sub-units with respect to Brazil’s, but to underscore differences that are crucial to understanding differing taxing behaviors of their central governments.
Let us put into temporal context the relevant changes regarding economic policy in Argentina and Brazil in the two decades of interest to this research project (see Table 2.1). This is relevant in order to get a better understanding of the milieu within which tax policy reform took place. Here I present some general descriptive comments about the relevant changes that occurred in the tax policy reforms of interests and their characteristics by further studying three tax policy dimensions: centralization, progressive, and level.

The 1988 Constitution in Brazil represented a transfer to the states of the power to set the rates of the value-added tax (VAT) over commerce, goods and services to the states (ICMS). In addition, there was an increase on the percentage of transfers of the Income Tax (IR) and Tax on Industrialized Products (IPI)\textsuperscript{31} from the Federal government toward the states and municipalities. The 1988 Constitution also created a three-tiered federalism instead of a two-tiered one. The most important tax (i.e., the ICMS) is controlled by the states and the transfer mechanism is constitutionally embedded and protected and it has worked smoothly\textsuperscript{32}.

The 1989-90 tax reforms in Argentina (see Table 2.1) represented principally a generalization of the VAT with a reduction of its rate. After the mid-1990s, that rate has been increased in order to increase state’s revenues. Those increases were, up to a certain extent, provoked by economic stagnation. There is one VAT (i.e., in contrast to Brazil) and it is collected by the federal government and then transfers take place from the

\textsuperscript{31} The Federal VAT.

\textsuperscript{32} By working smoothly, I mean that it has been implemented and respected, not that there are no debates about changing or criticizing it.
federal government to the provinces. Also, the income tax is collected by the federal government and then shared with the provinces through transfers. The most important tax (i.e., VAT) is controlled by the federal government. The transfer mechanism remains unfinished, which why these transfers have taken place through political pacts. This unfinished characteristic of the transfer mechanism has been a problem and cause of vertical fighting between the federal government and the provinces.

A key part of the divergence between Argentina and Brazil’s tax policy hinges on their treatment of the value-added tax (VAT). The VAT is an indirect tax on consumption and it represents the highest percentage of overall tax collection in both states. The interesting argument that emerges from analyzing the VAT dilemma is that the three chosen tax policy dimensions become illustrated. The first obvious relation is with the level of taxation dimension, since the VAT represents the highest percentage of tax revenues in both countries. Thus, any tinkering with the VAT has important implications on the amount of revenues for the state.

Because of the VAT’s importance, a struggle arises of who collects or gets the benefits of the VAT (i.e., a centralization-decentralization struggle). Regarding the progressive dimension, the implications are more controversial than the two discussed dimensions, but because the VAT is an indirect tax on consumption, its impact, in general terms, is regressive or a definite reduction on the overall progressive quality of taxation. In Argentina, the federal government collects the VAT, while in Brazil it is collected by the states33. Because of this political reality, the two federal governments under study

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33 As stated, in Brazil the most important VAT (i.e., ICMS) is controlled at the state-level. Although there is a VAT at the federal level (IPI), its revenues are shared with the states and municipalities.
have adopted different strategies to defend their interests with respect to the other levels of government.

Since it is difficult to pursue a constitutional review in order to reform its tax structure, the Brazilian federal government has opted for creating federal social contributions. It has done so, because this type of revenue is exempted from constitutional mandatory transfers to the other levels of government. Thus, because of this action, it has indirectly increased its taxation weight, the level of overall taxation, and worsened its progressive quality. In contrast to the Argentine case, the tax revenue sharing mechanism between the different levels of government in Brazil has worked well since it is constitutionally structured. Nevertheless, this has represented some rigidity for the federal government’s maneuvering, without implying any alternative lines of action. The Brazilian Federal Government chosen alternative line of action has been the mentioned federal social contributions in order to increase its own revenue, with distributive justice and economic efficiency implications.

In Argentina, the federal government has used its leverage over the VAT and bargain with the provinces over the percentages of transfers; although the amount of those transfers is supposed to be constitutionally determined, until today no constitutional accord has been set. Thus, those transfers have been working through political pacts.

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34 This is true during the second part of the 1990s.

35 See Varsano et al. (2001) for a discussion of the cascading effects of these taxes and a proposal of converting these social contributions into a value added contribution in order to ameliorate the economic detrimental implications of them.

36 I am referring here to what is known as the primary sharing and not to the secondary sharing. The former is related to the respective shares between the central government and the provinces. The latter is related to the respective shares among the provinces.
between the federal government and the provinces. The outcome has been a continuing
fight for those revenues between the two levels of governments, where the federal
government has had some of an advantage\(^\text{37}\), as we shall discuss in Chapters 3 and 4.

Hence, in contrast to Brazil’s greater institutional fragmented rigidity, Argentina’s
federal government was embedded within an institutional milieu (i.e., less fragmentation)
that provided more flexibility of action and it has acted accordingly. Let us then present
a brief overview of Argentina and Brazil’s tax policy-making and tax dimensions
empirical behavior. This discussion is elaborated more fully throughout Chapters 3, 4, 5,
6, and 7.

\(^{37}\) This is so, depending on which party has the presidency, where Peronism has had a much greater
leverage and assertiveness since they have historically had the upper-hand in the provincial governments.
<table>
<thead>
<tr>
<th>Year</th>
<th>Argentina</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
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<td>DT</td>
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<td>1981</td>
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<td>1982</td>
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<td>1987</td>
<td></td>
<td>DT</td>
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<tr>
<td>1988</td>
<td></td>
<td>DT/NC/TR</td>
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<tr>
<td>1989</td>
<td>TR</td>
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<tr>
<td>1990</td>
<td>TR</td>
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<tr>
<td>1991</td>
<td>SDP\textsuperscript{a}</td>
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<tr>
<td>1992</td>
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<tr>
<td>1993</td>
<td>NC</td>
<td>SDP\textsuperscript{b}</td>
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<td>1994</td>
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<td>1999</td>
<td>UC</td>
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<td>2000</td>
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<td>FR\textsuperscript{c}</td>
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<tr>
<td>2001</td>
<td>FR\textsuperscript{d}</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>PIRU/UC</td>
<td></td>
</tr>
</tbody>
</table>

Table 2.1\textsuperscript{38}: Relevant Economic Policy and Political Events: Argentina and Brazil 1980-2002.

\textsuperscript{38} a) Convertibility Plan; b) Real Plan; c) Fiscal Responsibility Law (includes all three levels of government); d) Deficit Zero Law (for the federal government only); DT- Democratic Transition; TR- Tax Reform; NC- New Constitution; SDP- Successful Deflation Plan (pegged national currency to the USD$); UC- Unpegged Currency; FR- Fiscal Responsibility Legislation; PIRU- Political/Institutional/Regime Uncertainty
**Tax Policy-Making**

The discussion that follows is a brief description of the different types of legislation and tax policy productions in Argentina and Brazil throughout the 1980s and 1990s. The purpose is in order to present an overall descriptive snap-shot of these two cases’ policy-making behavior and underscore important differences, which I address and explain in Chapters 3 and 4. Table 2.2 presents a descriptive summary of these measures.

Thus, we can observe that Argentina can be considered more executively dominated, but with a lower number of tax laws and decrees (i.e., in absolute and standardized terms). Furthermore, we can observe that Argentina had a lower number (i.e., in absolute and standardized terms) of income, consumption, and social contribution legislation than Brazil. The questions arise of: why this was the case (see Chapters 3 and 4); what help us explain these differences? (see Chapters 3 and 4); and what were the implications of the mentioned types of legislation and tax policy differences in terms of the tax policy centralization, progressive, and level dimensions? (see Chapters 5, 6, and 7, respectively) Let us now present a brief overview of Argentina and Brazil’s tax policy centralization, progressivity, and level dimensions’ empirical behavior.
Table 2.2: Tax Policy-Making Summary: Argentina vis-à-vis Brazil

<table>
<thead>
<tr>
<th>Tax Policy Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>The discussion that follows is based on a statistical means’ comparison of tax revenue data of Argentina and Brazil during the last two decades of the twentieth century (see Tables A.1 and A.2). Table 2.3 presents comparisons among the different tax measures (see Figures 2.1 and 2.2) within the same case across time and with respect to each other through time. Thus, it is a cross-sectional, cross-temporal, and cross-sectional-temporal description in order to pursue its analysis throughout Chapters 5, 6, and 7. In Appendixes A and B I include tables with the values (see Tables A.1 and A.2)</td>
</tr>
</tbody>
</table>
used for undertaking the comparison means analysis discussion by using SPSS and the SPSS results’ tables (see Tables B.1, B.2, B.3, and B.4).

<table>
<thead>
<tr>
<th>1980-2000</th>
<th>Rate of change</th>
<th>Absolute value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cent. Gov’t. Tax. Weight</strong></td>
<td><strong>Brazil (decrease)</strong></td>
<td><strong>Argentina</strong></td>
</tr>
<tr>
<td><strong>Income Taxation Weight</strong></td>
<td><strong>Argentina (increase)</strong></td>
<td><strong>Brazil</strong></td>
</tr>
<tr>
<td><strong>Consump. Tax. Weight</strong></td>
<td><strong>Argentina (increase)</strong></td>
<td><strong>Argentina</strong></td>
</tr>
<tr>
<td>VAT vs. IPI</td>
<td><strong>Argentina (increase)</strong></td>
<td><strong>Not Significant</strong></td>
</tr>
<tr>
<td>VAT vs. ICMS</td>
<td><strong>Argentina (increase)</strong></td>
<td><strong>Brazil</strong></td>
</tr>
<tr>
<td>VAT vs. IPI+ICMS</td>
<td><strong>Argentina (increase)</strong></td>
<td><strong>Brazil</strong></td>
</tr>
<tr>
<td><strong>Progressive Tax. Weight</strong></td>
<td><strong>Argentina (decrease)</strong></td>
<td><strong>Not Significant</strong></td>
</tr>
<tr>
<td>IPI+ICMS</td>
<td><strong>Argentina (decrease)</strong></td>
<td><strong>Not Significant</strong></td>
</tr>
<tr>
<td><strong>Cent. Gov’t. Taxation Level</strong></td>
<td><strong>Argentina (increase)</strong></td>
<td><strong>Brazil</strong></td>
</tr>
<tr>
<td><strong>Income Taxation Level</strong></td>
<td><strong>Argentina (increase)</strong></td>
<td><strong>Brazil</strong></td>
</tr>
<tr>
<td><strong>Consump. Taxation Level</strong></td>
<td><strong>Argentina (increase)</strong></td>
<td><strong>Argentina</strong></td>
</tr>
<tr>
<td>VAT vs. IPI</td>
<td><strong>Argentina (increase)</strong></td>
<td><strong>Brazil</strong></td>
</tr>
<tr>
<td>VAT vs. ICMS</td>
<td><strong>Argentina (increase)</strong></td>
<td><strong>Brazil</strong></td>
</tr>
<tr>
<td>VAT vs. IPI+ICMS</td>
<td><strong>Argentina (increase)</strong></td>
<td><strong>Brazil</strong></td>
</tr>
<tr>
<td><strong>Progressive Tax. Level</strong></td>
<td><strong>Argentina (decrease)</strong></td>
<td><strong>Argentina</strong></td>
</tr>
<tr>
<td>IPI+ICMS</td>
<td><strong>Argentina (decrease)</strong></td>
<td><strong>Argentina</strong></td>
</tr>
<tr>
<td><strong>Level of Taxation</strong></td>
<td><strong>Argentina (increase)</strong></td>
<td><strong>Brazil</strong></td>
</tr>
</tbody>
</table>

Two-tailed tests:
* \( p \leq 0.10 \)
** \( p \leq 0.05 \)

Table 2.3: Tax Policy Empirical Outcome Behavior [Intra- and Inter-comparisons]:
Argentina and Brazil (1980-2000)

SOURCE: Brazil, Varsano et. al. (1998)\(^39\) and Lemgruber (2001)\(^40\); Argentina, The Conjuncture and Information Sector of the Economic Ministry\(^41\)

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\(^39\) Brazilian 1980-1989 data

\(^40\) Brazilian 1990-2000 data
In addition, Table 2.3 presents a summary for the last two decades of the twentieth century and includes a column signaling a rate of change comparison (i.e., a comparative dynamic measure of change within and across our cases) in addition to an absolute value comparison. We can observe that Brazil had a faster central government taxation weight decrease rate (i.e., 1980s vis-à-vis 1990s) than Argentina, while Argentina had a greater absolute central government taxation weight than Brazil taking the mean for the entire twenty years.

In terms of income taxation, Argentina had a faster income tax weight increase rate (i.e., 1980s vis-à-vis 1990s) than Brazil, while Brazil had a greater absolute income tax weight than Argentina taking the mean for the entire twenty years. If we compare their respective federal consumption taxes, Argentina had a faster consumption tax weight increase rate (i.e., 1980s vis-à-vis 1990s) and a greater absolute consumption tax weight than Brazil taking the mean for the entire twenty years. Comparing Argentina’s federal with Brazil’s state-consumption taxes, Argentina had a faster consumption tax weight increase rate (i.e., 1980s vis-à-vis 1990s) than Brazil. Nevertheless, there was no statistical significant difference regarding their respective absolute consumption tax weights taking the mean for the entire twenty years.

If we compare Argentina’s federal with Brazil’s combined federal-and-state-consumption taxes, Argentina had a faster consumption tax weight increase rate (i.e., 1980s vis-à-vis 1990s) than Brazil, while Brazil had a greater absolute combined federal-and-state-consumption tax weight than Argentina taking the mean for the entire twenty

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41 Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
years. Finally, Argentina had a faster progressive tax weight decrease rate (i.e., 1980s vis-à-vis 1990s) than Brazil. Nevertheless, there was no statistical significant difference regarding their respective absolute progressive tax weights taking the mean for the entire twenty years.

If we now discuss the level measures, Argentina had a faster central government taxation level increase rate (i.e., 1980s vis-à-vis 1990s) than Brazil, while Brazil had a greater absolute central government taxation level than Argentina taking the mean for the entire twenty years. In regard to income tax level, Argentina had a faster increase rate (i.e., 1980s vis-à-vis 1990s) than Brazil, while Brazil had a greater absolute income tax level than Argentina taking the mean for the entire twenty years.

Consumption-wise, comparing their respective federal consumption taxing levels, Argentina had a faster consumption tax level increase rate (i.e., 1980s vis-à-vis 1990s) and a greater absolute consumption tax level than Brazil taking the mean for the entire twenty years. If we now compare Argentina’s federal with Brazil’s state-consumption taxes, Argentina had a faster consumption tax level increase rate (i.e., 1980s vis-à-vis 1990s) than Brazil, while Brazil had a greater absolute state-consumption tax level than Argentina taking the mean for the entire twenty years.

Comparing Argentina’s federal with Brazil’s combined federal-and-state-consumption taxes, Argentina had a faster consumption tax level increase rate (i.e., 1980s vis-à-vis 1990s) than Brazil, while Brazil had a greater absolute combined federal-and-state-consumption tax level than Argentina taking the mean for the entire twenty years. With respect to the total taxation level, Argentina had a faster total taxation level increase rate (i.e., 1980s vis-à-vis 1990s) than Brazil, while Brazil had a greater absolute total
taxation level than Argentina taking the mean for the entire twenty years. Finally, Argentina had a faster progressive tax level decrease rate (i.e., 1980s vis-à-vis 1990s) and greater absolute progressive tax level than Brazil taking the mean for the entire twenty years.

Closing Chapter’s Comments

Therefore, Table 2.3 presents for the two decades under study a more decentralized and a greater degree of decentralization in Brazil (i.e., weight-wise); no statistically significant difference between Argentina and Brazil regarding the progressive taxation weight\(^{42}\), but Argentina decreased its progressive weight more than Brazil. In addition, Brazil presented a more capable and less progressive state (i.e., level-wise) than Argentina, but Argentina increased more its taxing capacity and decreased more its progressive level.

In Chapters 5, 6, and 7 more detailed intra- and inter-country comparative analyses are presented on each of the selected tax policy dimensions. Even though Brazil historically has had a more decentralized tax system than Argentina, there was an increase in the distance between these two countries in their tax systems’ degree of tax policy centralization. Although Brazil has always had a higher reliance on income taxes than Argentina, Brazil diminished while Argentina increased that reliance on income taxes when the 1990s are compared to the 1980s. In regard to the level of taxation, both countries increased their level of taxation and Brazil has had historically a higher level of

\(^{42}\) I am using as a measure of progressivity the result from subtracting consumption taxation from income taxation (i.e., standardized as a percentage of total taxation for weight or gross domestic product for level). Thus, the greater a positive amount is the more progressive and vice versa.
taxation than Argentina. Nevertheless, the distance between them in this dimension decreased.

In other words, the following chapters present answers to what caused the tax policy-making behavior we have summarized and why, when, and how tax reform occurred. I do so by explaining the structural tax policy changes of each country case. The discussion portrays both countries’ tax systems evolving throughout the two decades under analysis. Thus, I present answers to three main questions per tax policy dimension: change, rate of change, and absolute value.

Preliminary answers to these basic questions can be summarized in the following way. The tax system in Brazil, but not in Argentina, was significantly decentralized in the period under study. I present answers to how and why this happened. The tax system in Brazil was decentralized more than in Argentina. I present answers to how and why this happened. The tax system in Brazil has been more decentralized through time than in Argentina. I present some preliminary insights to why this has been the case (see Chapter 5).

The progressive taxation weight measure decreased in Argentina and in Brazil. I present answers to how and why this happened. The rate of change of the progressive taxation weight dimension in Argentina decreased more than it did in Brazil. I present answers to how and why this happened. Nevertheless, the progressive taxation weight difference between Argentina and Brazil was indistinguishable throughout the two decades under study. I present answers to why this was the case (see Chapter 6).

The central government taxation level measure increased in Argentina but not in Brazil. I present answers to how and why this happened. The central government
taxation level increased more in Argentina than it did in Brazil. I present answers to how and why this happened. Nevertheless, the central government taxation level in Brazil was higher than in Argentina. I present some preliminary insights to why this was the case (see Chapter 7).

The progressive taxation level measure decreased in Argentina and Brazil. I present answers to how and why this happened. The progressive taxation level decreased more in Argentina than it did in Brazil. I present answers to how and why this happened. In addition, the progressive taxation level in Argentina was higher than in Brazil. I present some preliminary insights to why this was the case (see Chapter 7).

The total level of taxation measure increased in Argentina and Brazil. I present answers to how and why this happened. The total level of taxation increased more in Argentina than it did in Brazil. I present answers to how and why this happened. Nevertheless, the total level of taxation in Brazil was still higher than in Argentina. I present some preliminary insights to why this was the case (see Chapter 7).

Nevertheless, before addressing these questions related to the three tax policy dimensions of interest in this dissertation, we need first to underscore and understand the overall tax policy-making behavior in Argentina and Brazil. This is of utmost importance for two main reasons. The first one is that we first need to describe the policy-making empirical production in order to be able to demarcate the realm of reforms and decipher if they really took place. Secondly, according to the explanatory framework used in this dissertation, these dimensions’ behaviors depend (hypothetically) on the type of legislation and tax policy production of the reforms that took place.
Thus, that is what I elaborate throughout Chapters 3 and 4: empirically describe the types of legislation and tax policy productions that took place in Argentina and Brazil, respectively. In Chapter 4, I elaborate on what caused their respective taxing behaviors and put forth several hypothetical expectations on the three studied tax policy dimensions (see Table 4.11). In other words, the next two chapters are crucial in order to equip us with the necessary analytical and empirical tools for addressing the listed questions regarding the three tax policy dimensions’ behaviors.

Returning to Goodin’s quotes at the beginning of this chapter, our interest is beyond acknowledging the importance and relevance of the interaction among intentions, institutions, and social reality. We want to depart from this acknowledgement and put forth an explanation of tax policy outcomes by laying-out how these interactions worked-out in reality; in this way purporting causal mechanisms for further explanations, understandings, testing, and/or refinements.
CHAPTER 3

TAX POLICY-MAKING: THE CASE OF ARGENTINA

In the end...political considerations will dominate in the selection of tax policies. Taxes are simply too important as political actions - in both real and symbolic terms - to permit other types of factors (important as they are) to have other than a secondary influence over the final selection of tax instruments...The exact manner in which each political factor influences policy in each country is...something which depends very much upon their interaction within the particular institutional and cultural setting. It further depends upon the external constraints imposed on policy choices. Specifying the influence of these factors thus requires some understanding of the political system within which the policies are being made. (Guy Peters, 1991; 21)

Introduction

After having reviewed the relevant concepts and measures for this dissertation and presented a general overview of our two cases of analysis, we can begin to empirically define and test the different hypotheses that were presented in Chapter 2. And as I underscored in the previous two chapters and in the opening quote, the emphasis throughout this dissertation is on how politics helps us explain and understand taxation outcomes. This is not because they are the only important matters explaining taxation issues, but political considerations force us to pay attention to contingent factors and their interactions, which approaches us to the “reality” of what we seek to understand.
Furthermore, political considerations have at their core the relevance of purposive actors and the milieu in which they are embedded.

The present chapter examines tax policy-making behavior in Argentina during the 1980s and 1990s. The analytical puzzle is the occurrence of tax policy reforms where the structural conditions (i.e., multiple veto players) point toward its grave difficulty. I make use of veto players theory, which states that a reduction in the number of veto players tends to increase the probability of change, in order to explain and understand Argentina’s tax policy-making during the 1980s and 1990s.

I demonstrate that a reduction in the number of veto players occurred in Argentina (1989), which helps us explain and understand the occurrence of tax policy reform. Nevertheless, the nature of the studied Argentine and Brazilian reforms (see Chapter 4) differed since the nature and constellation of veto players also differed. We can gauge this difference by undertaking a further in-depth analysis of the three tax policy dimensions mentioned in Chapters 1 and 2, which I further explore and analyze throughout Chapters 5, 6, and 7. This is the theoretical and empirical connection that I elaborate throughout the discussion in this chapter and this dissertation.

Nevertheless, in this chapter I present a description of the Argentine tax policy-making behavior and its veto players’ configuration in order for being able to start addressing the general question, what the causes of a tax policy reforms are, from a more contextualized and contingent perspective. This question and the following more specific questions are comparatively addressed in the next chapter: Why and how did tax policy reform occur in Argentina and Brazil? What were the characteristics of the Argentine and Brazil tax policy reform and what can help us explain these characteristics? These
are important questions in order to be able to differentiate our cases’ tax policy-making experiences. At the end of Chapters 3 and 4, the basis of this dissertation is set in order to proceed with a more exhaustive analysis of the tax policy dimensions of interest and further uncover the taxation realities in Argentina and Brazil during the last twenty years of the twentieth century.

Hence, the present qualitative analysis underscores the relevant inertial effects of a high number of veto players on tax policy-making. Nevertheless, *veto players theory* provides enough flexibility in order to take into consideration policy changes within a milieu of multiple veto players. This counteraction is labeled as the *absorption rule* (Tsebelis 2002; 26), which takes into consideration the ideological distance (i.e., range) among the different veto players. As the ideological distance between veto players decreases, the probability of reducing the effective number of the veto players increases; consequently, increasing the probability of reducing policy stability. Nevertheless, I argue that the nature and empirical effect of the *absorption rule*\(^1\) still helps us explain the tax policy reform outcomes’ characteristics, from a more contingent point of view, which I further develop throughout Chapters 5, 6, and 7.

Therefore, I first recapitulate\(^2\) regarding the definition and operationalization of my dependent variables (i.e., tax policy-making and reform) and their connections with *veto players theory*. Secondly, I present a description of tax policy-making in Argentina throughout the 1980s and 1990s. Finally, I present some concluding and bridging

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\(^1\) i.e., relevant actors and their interests after the absorption rule effect

\(^2\) See Chapter 2 for more details.
remarks toward a tax policy-making description of Brazil and its comparison with the Argentine case described throughout this chapter.

**Veto Players and Policy-Making**

The explanation I propose here departs from the premise of strategic interacting actors and focuses on the relevance of institutional effects on predicting tax policy change. In addition, I argue, it helps us predict the relative direction and magnitude of change of the mentioned effects, which I elaborate in more detail throughout Chapters 5, 6, and 7. The dependent variables in this chapter are: tax policy reform and tax policy-making, as defined and discussed in Chapter 2. The independent variable of interest in this chapter is the number of veto players. In addition, there are three important intervening variables, which are: absorption rule, executive decree powers, and executive taxation constitutional boundaries.

I qualitatively analyze the tax policy-making variable in this chapter by giving a comprehensive description of the different changes and negotiations that took place in the Argentine case. This is so, in order to keep in mind Elizondo’s (1994) differentiation between minor and major changes, where the latter ones, approaches what is being gauged here as reform. Furthermore, tax policy-making is also quantitatively examined by dichotomizing between types of legislation and tax policy production. *Legislation types* are further dichotomized as laws and decrees; while *tax policy types* are categorized as income, consumption, and social contribution taxation.

The independent variable, veto players, is specified as number, range, alternation, and duration. *Number*, referring to the amount of partisan and institutional veto players; *range* is a measure of ideological distance between the identified veto players;
alternation is a measure of the ideological distance between the different administrations; and finally, duration is a measure of the time in power of a specified administration. The three intervening variables, absorption rule, executive decree powers, and executive taxation constitutional boundaries, help us sophisticate and gain analytical leverage from the theoretical connections of interest in this chapter: tax policy reform and policy-making vis-à-vis veto players.

As I discussed in Chapter 2, veto players theory states and stresses that the greater the number of veto players, the lower the probability will be of a tax policy reform occurrence\(^3\). Since it is expected, from a veto players theory standpoint, that a high number of veto players creates high policy stability, we must search for an explanatory factor in order to explain tax policy reforms in multiple veto players’ environments, which structurally speaking, tend not to promote change. Within the veto players theory, the absorption rule is used to explain the policy stability status with the addition of new actors. In addition to the number of veto players, their ideological distances (i.e., range) need to be taken into consideration in order to present a complete picture of the policy-making scenario.

In regard to executive decree power and executive taxation constitutional boundaries, the former has a direct negative effect on the number of veto players and indirectly on the type of legislation production, while the latter has an effect on the type of tax policies produced and both effects vary depending on the constellation of veto players at a specific point in time. This means that we need a contingent approach in

\(^3\) “…the propositions I present are sufficient but not necessary conditions for policy stability, that is, why multiple veto players with large ideological distances from each other will produce high policy stability, while few veto players may or may not produce policy instability.” (Tsebelis, 2002; 12)
order to ascertain the veto players’ effect on policy-making. The general hypothetical relations among the listed variable were included in Figures C.1, C.2, C.3, and C.4 (see Appendix C). Nevertheless, let us present some general comments.

In the case of Argentina and Brazil the absorption rule helps us explain their respective tax policy-making behavior by not just providing that unifying effect in order to surpass the structural impediment of a multiple veto players’ milieu, which is important in order to gain an understanding of the possibility of significant policy change. In addition, I argue that it provides a concise reality snapshot of the interests that prevailed and, consequently, got embedded in these polities’ tax policies and general political realities; therefore, making it possible to understand the direction and magnitude of changes of the three tax policy dimensions of interest in this dissertation: centralization, progressivity, and level.

Regarding types of legislation production, executive decrees complicate an analysis based on veto players. I do not argue that veto players theory do not allow to take into consideration such powers or that it cannot predict their theoretical effects, but that it will not be a straightforward and static a priori hypothetical prediction, because of the possibilities of complex interactive effects between veto players’ interests, constellations, and policy concerns. For example, presidential decree power decreases the number veto players, which implies lower policy stability. Nevertheless, presidential decree powers are not always used, complicating an a priori, or even a constant, prediction of the number of veto players.

Furthermore, it is important to take into consideration the executive taxation constitutional boundaries. This is so, because even though decree powers enable the
executive with an institutional tool for surpassing the legislative branch, there could be constitutionally bounded limits, which cannot be breached even with decree powers. We should expect that the greater the number of veto players, the greater the use of decree powers. Nevertheless, the nature and limits of those decrees are going to be structured by the mentioned constitutional boundaries regarding taxation. Consequently, we need to be cautious in the interpretation of the amount of legislation done by decree and its veto players’ counterpart.

Hence, the hypothetical expectations would be a positive relation between type of legislation and number, range, alternation, and duration of veto players; while we would expect a positive relation between income and consumption taxation and the executive taxation constitutional boundaries, but a negative one with social contribution taxation (see Figures C.1, C.2, C.3, and C.4 in Appendix C). Thus, we would expect to find a lower number of laws, decrees, and social contribution legislation in Argentina than in Brazil; while a greater number of income and consumption legislation in Argentina than in Brazil. I test these theoretical expectations on Chapter 4 after describing Argentina’s tax policy legislation in this chapter, and Brazil’s on the first part of Chapter 4, during the 1980s and 1990s. The basis of these theoretical expectations is the greater effective number of veto players and the more de-centered executive constitutional taxation boundaries in Brazil than in Argentina, which I empirically discuss and analyze in this chapter for the latter and in Chapter 4 for the former.

Tax Policy-Making Description: Argentina

Throughout this section I empirically portray the behavior of the taxation variables in the Argentine case. The discussion of tax policy that follows is divided into
two main aspects: qualitative and quantitative\textsuperscript{4}. This is done in order to test the \textit{veto players theory}’s hypothetical predictions. The qualitative tax policy description underscores the main changes that took place within the time frame that I am labeling as a \textit{reform moment} (see Table 3.1). This description, time and policy-wise, is of relevance in order to make the analytical connection of the \textit{absorption rule} within \textit{veto players theory}, in addition to presenting that change actually took place and its nature.

\begin{table}[H]
\centering
\begin{tabular}{|c|c|}
\hline
\textbf{Tax Policy Reform} & \\
\hline
\textbf{1989-90} & VAT simplification and broadening of base; Social security reform; administrative reforms (punitive); increase revenue transfers; revenue sharing mechanism unfinished constitutionality \\
\hline
\textbf{Argentina} & \textbf{YES} \\
\hline
\end{tabular}
\caption{Qualitative Characteristics of Tax Policy Reform}
\end{table}

\textsuperscript{4} Type of legislation: laws and decrees; and type of tax policy: Income, Consumption, or Social Contributions
The quantitative tax policy study describes tax policy-making and tests the *veto players theory* predictions regarding legislation production. I categorize legislation production as: *laws* and *decrees*. Furthermore, in order to test the effects of the *executive taxation constitutional boundaries* variable, tax policy legislation is further categorized as *income, consumption, and social contribution* taxation.

Thus, I present the qualitative description in order to demarcate that a tax policy change occurred and the quantitative description in order to categorize the legislation’s production behavior and its nature in order to test the hypothetical expectations of *veto players theory*. Although Argentina and Brazil do not deviate from such expectations, some refinements in the analysis are warranted because of the contingent nature of the analysis and with the idea of contributing to a better understanding of these cases’ tax policy-making and possible interesting theoretical connections that can be tested in future research with other cases, which I elaborate throughout the discussion and in Chapter 8.

**Tax Policy-Making qualitative description: Argentina**

The non-recessive nature of the *Austral Plan*, under President Alfonsin, presented better chances in the September 1985 congressional elections against a Peronist opposition advocating nationalist and populist solutions to the debt crisis. Among the several objectives behind the *Austral Plan* were: elimination of the *inflationary tax* (i.e., monetary emission); a budgetary goal based primarily on revenue increases from explicit taxes and public tariff increases: a lowering of expenditures based on lowering real wages paid to public sector employees, a freeze on hiring new public employees, and cutting

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5 Throughout this section I borrow heavily from Payne (1998).
subsidies to public enterprises; nevertheless, there was no plan to rationalize the public sector and the administration was committed to maintain key social programs.

Furthermore, the main objective behind the Austral Plan was to promote a change in inflationary expectations. It strive to do so, by: increasing the real rates for public utilities; a 12% increase in export and import tariffs; a reduction in payment period for the VAT; a compulsory loan to the federal government equal to 40% of the taxes paid on income and wealth in 1984; and an increase in taxes for cigarettes, alcoholic beverages, and fuel. Nevertheless, the last two premises required Congress approval. All these measures together were expected to produce a tax revenue increase due to an expected reduction of the impact of the Olivera-Tanzi effect6.

President Alfonsín’s tax reforms aims were: an increase in the level of tax collection; improve equity of the tax system by increasing the level of imposition on individual income and wealth; increase the neutrality of the imposition between economic sectors by reducing the dependence on taxes on specific goods such as fuels or particular economic sectors; broaden the bases of the main taxes by eliminating exemptions, deductions, and closing tax loopholes or procedures which facilitate the evasion or elusion of tax payments. In other words, strengthen income and wealth taxation and broaden the VAT base and improve its enforcement.

6 “Inflationary financing replaced taxation as a central tool for collecting revenues. Thus, labyrinthine tax laws and inadequate enforcement mechanisms fed a vicious circle which, along with the debt crisis, eventually ended in dramatic fiscal disasters. Then, it was the public sector which not only suffered the consequences of high-inflation, but also perpetuated it. As [Olivera and Tanzi] demonstrated, lags in tax collection strongly influenced real revenue due to the constant depreciation of the currency and the lack of sound mechanisms for indexation. In addition, the incapacity to improve tax administration was a key factor in reproducing the weakness of the state, especially due to the lack of enforcement mechanisms and the existence of unscrupulous inspectors. Indeed, there clear incentives for inspectors to behave in this particular manner, and for people to behave illegally as well. Salaries were low, no one really supervised inspectors’ duties, and the profession lacked prestige altogether.” (Berensztein, 1995; 8-9)
Thus, President Alfonsín sent to Congress a tax package which: broadened the bases, increase the rates, and limit evasion of income, personal wealth, net worth, and capital gains taxes; reform of the VAT; unification of internal taxes, stamp tax, and created a tax to the transference of debt instruments; restore the inheritance tax; gave greater power to the DGI to investigate taxpayers, to impose punishment, and to increase the penalty for tax evasion; and the government began working, late 1985, on a national land tax penalizing farmers not making efficient use of their land.

In terms of income tax reform, President Alfonsín’s aims were: increase its revenue; make it more progressive; increase the level of personalization of tax in respect to companies; elimination of exemption of dividends from the income tax; increase rates to a range of 7% to 45%; reduce the period in which business losses could be carried over (10→5 years); improve the mechanism of inflation adjustment; and reduce to a limited extent the basic deductions for individual and family expenses, but the minimal non-taxable income still remained quite high.

In terms of the VAT reform, President Alfonsin aims were: the unification of rates to 18%; inclusion of small taxpayers through a simplified system; and the exemption of many general consumption goods which were previously taxed at the lower 5% rate and many services. Thus, some efficient economic characteristics of Alfonsín’s tax reforms were the broadening of bases, efforts to reduce tax evasion, the unification of the VAT rate, the planned phasing out of export taxes, and the adoption of a national land tax. On the negative side, in terms of efficiency, were the exemption of a large number of goods and services from the VAT, its high reliance on fuel and export taxes, and the ever expanding scope of industrial promotion incentives.
The previous military regime had shifted the focus of taxation toward indirect taxes such as VAT, excise, and fuel taxes, while more progressive taxes such as export retentions, employer contributions to social security, inheritance taxes, and taxes on stockholder dividends were eliminated. There was a taxation focus shift toward targeting the lower and middle classes and away from employers, large corporations, and export producers. Thus, President Alfonsín wanted to make the tax system much more progressive or overturn the regressive changes implemented by the military regime preceding his administration. In addition, there was widespread public disapproval of the inequitable economic and social policies of the military government and a fairly universal support among politicians and general public for a shift away from taxes that put an undue burden on the poor.

Nevertheless, there were also technical considerations, in addition to possible ideological ones, to take into consideration to skew any tax reform toward the easy collection criteria due to the ineffectiveness of the DGI and the premium of collecting revenue. Therefore, that is why the tax system relied so heavily on bank debit taxes, fuels taxes, cigarette taxes, and export taxes, which are regressive and inefficient taxes. The last tax was kept because of the state’s inability to tax big farmers’ income.

Under Alfonsín, the Treasury decided in favor of a forced savings scheme because as a loan, not a tax, the revenues did not have to be shared with the Provinces, which underscores an important difference between Alfonsín and Ménem and between Argentina and Brazil (see Chapter 5 on the center-periphery debates). Even though these changes in taxation could be considered to be due more because of the ideological orientation of the governing party, the general societal attitudes shaped by the experience
under military rule, and technical criteria than international and societal pressures; I would argue that an indispensable piece of information arises from the revenue sharing mechanism in place and the guiding assumption of a revenue maximizing administration. As Payne (1998) states, “[t]he government’s choice to ignore, for sometime, the demands for rural producers was based not only on the fact that their voting power was relatively small and that they had few other electoral options, but also on the desperate need of the government for foreign exchange and fiscal revenues.” (136)

There was a remarkable increase in tax revenues (i.e., 9% GDP) between the first and second half of 1985. Nevertheless, tax legislation came into effect on early 1986; thus, it was due to a reversal of the Olivera-Tanzi effect, heavier taxes on foreign trade and fuels, forced savings scheme, and a slight improvement in the control of tax evasion. The November 1985 congressional elections were a success for the Radicals and by the end of 1985 there was a shift within Peronism: from the verticalista and orthodox to the Renovador faction, which became more confrontational against the government even though there was an improvement in the aggregate economic picture and actual increases in purchasing power of wages.

Industrial groups had reservations about the Austral Plan and by early 1986 due to price controls, individual manufacturers responded by renewing capital flight, reducing planned investments, and withholding their products from the market (M. Acuña 1995; Smith 1989). On the other hand, rural organizations transitioned from lukewarm support to blunt criticism of the Austral Plan by late 1985. In terms of the internal workings of the administration per se, there were conflicts between the Central Bank directing body and the Economic Ministry. The former had an ideological affinity with Alfonsín and
pursued a loose monetary policy, while the latter had a more economically orthodox orientation. Because of this “loose monetary policy”, consumer demand increased. There was also a wage increase due in particular to union pressure and Alfonsín’s attempts to appease and reach a compromise with an ever more confrontational union movement. Furthermore, there was a spillover effect after a salary increase to the armed forces and the Radical Party’s generous wage policy, which was based on Alfonsín’s attempt to appease these two antagonistic groups toward the Radical Party: the military and the union movement.

In August 1986, economic technocrats replaced the Central Bank’s directorate in order to gain a more conservative monetary policy. Nevertheless, the fiscal deficit exploded from 3% GDP (1st quarter of 1986) to 9% GDP (September 1986) despite a 19% reduction of government expenditures relative to 1985. Important factors influencing the fiscal deficit explosion were: that Argentina’s agricultural exports declined markedly after 1984 (35% between 1984 and 1987); an intensification of rural groups protests against export taxes, made it more difficult for the state to maintain its prior levels of tax collection; the disappearance of forced savings scheme; the reduction of real price of public services; and a return of inflation.

From the discussed tax proposals by Alfonsín: all proposed laws dealing with the main direct taxes were enacted in October 1985, permitting them to be applied in 1986; the reforms of the VAT, internal taxes, and DGI enforcement powers were delayed until mid and late 1986 by the Peronists; and the inheritance tax, reforms of the penal tax code, and national land tax were rejected by Congress. Thus, as Payne (1998) states,
…the immediate failure of the tax reform cannot be attributed solely or mainly to legislative gridlock. Rather, its design did not take into account the gross deficiencies of the tax administration and the pervasiveness of tax loopholes. The government chose to emphasize direct taxes because, after the experience under military rule, there was a strong consensus among the major political parties and the public at large that there was a need to make the tax system more progressive. The social democratic or populist orientation of the Radical Party also contributed to the choice of tax reform and the deficiency of control over spending and the growth of the money supply. But, once the shortcomings of the tax reform and the need for additional public sector reforms was realized, the government’s lack of a majority in Congress, its deficient political strength in the provinces, and its lack of ties to important economic groups greatly limited its ability to deepen the fiscal adjustment. Peronist opposition in the Congress was particularly instrumental in blocking government efforts to reform the industrial promotion system, to put in place a new federal revenue sharing law, and to carry out more far-reaching reforms of the public sector. (Payne 1998; 144-145)

Thus, even though Payne advocates for governing party’s ideological orientation as the source of tax reform failure, he then shifted to an explanation closer to the one I propose here: the institutional obstacles against Pres. Alfonsín’s power leverage, which were overcome by his successor. Nevertheless, before furthering my explanatory argument, let us proceed with what, and when, took place under Pres. Ménem’s administration.

Under President Ménem, a first omnibus tax reform bill in 1989 consisted of a generalization of the VAT with a rate of 13%, but it excluded water, milk, bread, and the print media, while food and medicines had a 5% rate. The claim was that food and medicines would be gradually incorporated. In regard to income taxation, there was a decrease in corporate income taxation (i.e., from a rate of 33% ➔ 20%), an inclusion of taxes on assets with a rate of 1.5% and the possibility of payments deductible from corporate income tax obligations. Regarding personal income taxation, the minimum taxable income increased by 40% and personal and family allowances deductions were reduced. Nevertheless, there was an increase of the lower bracket and a decrease of the upper one (i.e., from 5-45% ➔ 10-30%).
Taxes over net worth, net wealth, capital gains, and excise were eliminated. In addition, the special VAT regime for small taxpayers was eliminated. Furthermore, an increase in fuel taxes rates and a decrease in the bank credit tax (i.e., $0.007 \rightarrow 0.003$) with no possibility of income tax deduction took place. The Ménem administration proposed a reduced portion of the fuel taxes increase to the social security system and a tax on tourism, but Congress did not approve them\(^7\). Thus, by early December 1989 these changes in the tax system took place with the exception of the VAT changes which waited until the new Congress took office in late December. The penal code for tax violations was approved in February 1990.

The Ministry of the Economy was restructured under Minister Rapanelli. He “promoted” the Public Revenue Sub-ministry into a Secretariat and made it responsible for the Dirección General Impositiva (i.e., DGI; Argentina’s IRS) and Custom’s Administration, which previously were under the Treasury Secretariat. Thus, he disentangled spending (i.e., Treasury Secretariat) from taxing/revenue collection concerns (i.e., Public Administration Secretariat). Although the change could be criticized from the point of view of the necessity of both side of the fiscal equation (i.e., spending and revenue collection) to communicate, it was not in dissonance from the industrialized countries’ trend. Furthermore, this swift change clearly underscored the equal importance of revenue collection and spending, which was hierarchically set before giving superiority to spending matters. Thus, increasing the probability, at least

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\(^7\) This underscores the struggle to solve the deficit dilemma and the difference of solving it between Argentina and Brazil. The former privatized it and the latter created social contributions. This was so because of the difficulty of getting to an agreement on reform, which underscores the veto players’ configuration difference between the two cases.
administrative structure-wise, of promoting fiscal discipline (i.e., in its most extreme form, spending equating revenue collection).

The reformed Penal Code (February 1990) gave the DGI power to prosecute tax evaders (i.e., from fines to imprisonment), increase the number of full time and temporary tax inspectors, publish a list of businesses that evaded taxes, created a special court to try cases involving tax evasion, and a special system for monitoring tax payers.

In early March 1990, the economic plan known as *Erman III* was approved by decree (see Smith 1990). It consisted of: an increase in fuel prices and public utility rates; a downgrading of top positions within the public administration; a five percent increase in export taxes; the re-imposition of a 2% company net worth tax; termination of tax benefits for numerous promoted firms; a suspension of promoted firm’s exemption from the VAT for input purchases; and a transfer of authority for industrial promotion from provincial governments to the Secretariat of Public Revenue, which underscores a strengthening of the central government’s position.

During the second hyperinflationary period (early 1990), the control of inflation obtained a higher priority. Part of the strategy concentrated in fiscal deficits’ containment by increasing revenue and cutting spending. Even though executive decrees were used under severe economic crisis, Ménem still could count on working majorities in Congress, on party discipline, and Peronism-Union Movement historic ties. As a result of a combination of political, material, and symbolic resources, Ménem was able to have a hold of the union movement and restrained union demands, not possible to Alfonsín. Ménem’s actions and policies dramatically improved his connections with the upper classes, while maintaining work-able relations with the working class.
In April 1990, Ménem increased the size of the Supreme Court from five to nine members with Congress approval. This change helped him speed the privatization process, the confiscation of saving deposits, and “flexibilize” labor markets later-on during his administration. On October 17, 1990, he imposed restrictions on strikes by decree. Furthermore, there was a power concentration on the Minister of the Economy in order to streamline the process of reform. This Minister had the power to restrict spending of public agencies and manage the operation and privatization of state enterprises.

In late August and early September 1990, there was an increased monitoring of firms benefiting from the industrial promotion system and a decrease of export taxes. Thus, this meant an increased pressure on DGI to set-up enforcement mechanisms of the VAT. A second omnibus tax reform bill was submitted in late September 1990, which consisted of extending the coverage of the VAT to nearly all services. It was approved with the following caveats: some additional services, most forms of health services, remained exempt for the VAT; no tax on transference of debt instruments and real state; the executive was deprived of independently deciding which financial services the VAT would be applied to; the proposed increase in taxes on currency operations was reduced; and increased funding was provided for Buenos Aires and other provinces facing financial emergencies. These caveats underscore the limits of the increased power leverage of the central government vis-à-vis the provinces; in addition to also

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8 The Secretariat of Public Revenues and Treasury Secretariat were accountable and responsible to the Ministry of the Economy.
underscoring the revenue transfer to the provinces characteristic instead of an independent provincial revenue-raising characteristic that I have previously underscored.

By late 1990, the VAT rate was increased from 13% to 15.6%. This was a power the executive obtained from the 1989 tax reform law. In addition, Ménem extended the duration of the economic emergency law and stepped up inspection of VAT taxpayers (“3,000 DGI agents combing the streets”).

In February 1991, the Ministry of the Economy under Domingo Cavallo, an emergency tax reform was enacted by decree, which consisted of an increase in public sector tariffs (15% → 20%), an increase in the tax component of fuel prices (33%), and a plan to reduce the number of public sector workers. This reform departed from the general orientation of simplifying the tax system and helps illustrate the predominance of maximizing revenue over distributive justice and efficiency goals. Nevertheless, Congress approved a more comprehensive tax reform plan.

This plan consisted of: an increase in tax on bank debits allowing deductions against the VAT and income tax; an increase in tax on purchase and sale of foreign currency; an increase in assets tax (1% → 2%) to be credited against income tax payments instead of the reverse (i.e., like in the 1989 reform); suspend carryover of tax losses from the period of high inflation (i.e., 1988-1989); an increase in the general VAT to 16%; create a special VAT rate of 25% for public utilities (i.e., commercial customers); an increase in the VAT rate for non-registered tax payers; and the creation of a tax on transference of real estate property.

The aim of the reform package was to increase compliance by forgiving past delinquency for full compliance in present year. This reform was possible because of the
central government’s threats of reductions in financial transfers to the provinces, which underscores the relevance of the revenue sharing mechanism and conflict, tensions between the central government and the provinces. Nevertheless, the executive conceded on some aspects to Congress in order to buy support for its reform. These concessions were: a larger share of revenues from the increase in bank debit, currency operations, and asset tax assigned to the provinces and national pension fund; Congress rejected granting to the executive the power to increase the VAT rate again by as much as 20%; a reduction of the planned increase in assets tax for small businesses; and set the term of assets tax increase to one year.

A showdown of forces, which illustrates the intrinsic interest of the central government in increasing revenues, took place in February 1991 when two different strikes coupled to the economic difficulties of financial speculation against the austral⁹, depletion of Central Bank reserves, and an inflation increase to 27%. One of the strikes was by the railway workers and the other by the principal rural organizations on March. Ménem decided to crush the former making use of the decree banning the right to strike in public services, while catering to some of the interests of the latter. This catering took the shape of: abolishing specific taxes on agricultural exports; SRA (Sociedad Rural Argentina) and CRA (Confederación Rural Argentina) gained representation in joint commissions with government to negotiate new tax and credit policies; and the establishment of new lines of credit for the rural sector. This catering was offered in exchange of the rural organizations urging their members to pay the VAT, income, and property taxes; and underscores a neocorporatist style of strategy, which is important for

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the administration in gaining acceptance from the relevant power groups in society, especially big rural interests that have not been traditional supporters of Peronism with a historical baggage of animosity between (i.e., Peronism and big rural interests).

In March 1991, the Convertibility Plan was approved by Congress, which basically forbid the Central Bank from printing money to cover budget deficits (i.e., unless emissions were backed by gold or foreign currency) and banned price or wage indexation. In addition, following the plans approval: privatization of state enterprises accelerated; tariff and non-tariff trade barriers were reduced; the economy was further deregulated; government expenditures were cut (i.e., mainly massive cut-backs in public sector employment); and a high priority was given on renegotiating the external debt. Thus, because of the Convertibility Plan’s absolute dependence on balance budgets, it imposed a major effort in increasing tax collections (i.e., mainly through VAT and social security contributions).

Peronists won the September and October 1991 gubernatorial and October 1993 congressional elections, which strengthened Ménem, continuing the absorption of these veto players, and the direction of policy. It also solidified Ménem’s intentions of reforming the constitution (1994) and giving him a re-election victory on May 1995.

In respect to the central vis-à-vis provincial governments, there were several changes starting with the Federal Revenue Sharing Law (1988). Pres. Ménem, changed this law by decrees in the direction of decreasing the amount of VAT and income tax transferred share to the provinces. In October 1992, a federal pact was reached, which consisted of: withholding 15% of the pool of shared tax revenues by the central government so that pension payments could be increased to the minimum required by
law; required provinces to hold increase in current spending for 1993 to no more than 10%; and guaranteed provinces a minimum $725 million/month in revenue transfers (i.e., a 20% decrease ($270 million) of potential receipts from the 1988 Federal Revenue Law).

In August 1993 another pact was agreed upon known as the *Fiscal Pact for Employment, Production, and Growth*. This pact consisted of: an increase of the minimum guaranteed to $740 million/month; set $800 million as the maximum to be devoted to current expenditures (excess only for canceling previous debts, finance investments, or state reforms); the national government committed itself to phase-out the assets tax and gradually reduce employer contributions to social security system (i.e., dependent on provincial adhesion to the pact) and reduce the statistical tax on imports. Nevertheless, the provinces needed to change their turnover sales tax into a general consumption tax (i.e., final sales), eliminate the stamp tax on financial transactions, eliminate taxes on public services, reduce real estate taxes below an established ceiling, improve tax administration, and privatize enterprises.

Dramatic increases in tax collections (i.e., VAT, social security taxes, and income taxes) were possible in part because of the *Convertibility Plan’s* success in stabilizing prices and consequently permitting economic growth. Nevertheless, the discussed changes in policy and efficiency increases in tax administration were also important in these tax collection’s increases. Minister Cavallo restructured the tax administration, eliminated loopholes, promoted an aggressive campaign against tax evasion, and made the tax system simpler and more economically efficient.

Nevertheless, the tax system’s simplification and economic efficiency were not necessarily the prime goals, but I argue that they were only so when the objective of tax
revenues increases was not negatively affected (i.e., even if it was just a perception). This needs to be tied with the mentioned dependence of the Convertibility Plan on balance budgets and consequently tax collections. In April 1992 there was an increase in the VAT rate to 18% and on March 1995 to 21%. Even though I listed three main tax collections improved, the improvements and their relative weights varied. The prime of them was the VAT followed by social security taxes, and lastly income taxes. Nevertheless, let me summarize the most important changes in laws, tax administration, and specific comments on changes regarding the VAT and income and wealth taxes.

In February 1990 a tougher Penal Code was approved and implemented, throughout the 1989-1992 period the industrial promotion system was phased-out, and loss carry-overs for income tax were substituted with a bond credit in April 1992. Regarding the 1989-1992 period, the important policy instruments were: Economic Emergency Law (August 1989); suspension of new projects approval (March 1990); phased elimination of VAT exemptions; Decree 435 (March 1990) which transferred the monitoring of the promoted firms from provincial to the economic ministry; and finally Decree 2054 (November 1992) which basically was an implementation of a Congress law during the last year of Alfonsín’s administration. Most of these changes were done by decree and had the consequence of increasing the tax base and simplifying the tax agency’s monitoring task of business compliance with tax laws.

Tax administration (DGI) changes included: more budget, which allowed to increase its staff, their salaries, and provided improved training of its expanded personnel; the development of a computerized roster of taxpayers and expanding the systems for monitoring compliance by large taxpayers and withholding of income tax and
VAT payments; an increase in the number of audits carried out and number of businesses closed or fined; a shift of social security tax collection from the Ministry of Labor to the DGI.

The VAT improvements consisted of: the establishment of a unique invoice (numbered sequentially) for transactions; computerization of a roster of all VAT taxpayers; aggressive auditing campaigns (e.g., thousand of tax agents and student volunteers took to the streets); the employment of large taxpayers in different economic sectors as agents to retain tax payments from their suppliers and clients; and aggressive publicity campaigns.

The increase in rate of taxpayer compliance was facilitated by technical and organizational improvements made to the tax administration during the Alfonsín administration (Payne 1998, 232). The increase enforcement of taxes was also very much a product of a changed balance of political power between the executive and the other branches of government and between the executive and societal groups (Payne 1998; 232). Ménem and Cavallo gave political backing to the issue of taxation and borrowing from Ménem’s leverage in Congress and decree usage, legislation was created that empowered the tax agency in relation to taxpayers. In addition to these changes and supportive taxation milieu, there was a high level of coordination between the Public Revenue Secretariat (under Carlos Tacchi) and the DGI (under Ricardo Cossio).

With respect to income and wealth taxes, there were greater administrative difficulties in enforcement and political impediments. The administrative difficulties consisted of the preponderance of small businesses and independent professionals in the Argentine economy that becomes very difficult to control. In addition, the government
was unwilling to confront the sources of capital generation, which is basically ideological in essence. By this I mean that a clear distinction (i.e., by the government and capital interests) is made between the VAT and income/wealth taxation. The former was easier to ‘swallow’ as legitimate taxation by the capital interests, while the latter ones were perceived more as usurpation.

Nevertheless, several steps were taken by the government in order to improve direct tax collection. These steps consisted of: replacement of accumulated loss carry-overs with a bond; an increase in the corporate income tax rate (20% → 30%, April 1992); an increase integration of income tax and social security contributions; a reintroduction of a personal wealth tax; payment enforcement of the personal wealth tax by auditing individuals with vacation houses, yachts, and imported luxury cars. Nevertheless, the elimination of interest income taxation and personalization of stock shares and the introduction of bank secrecy, which hindered income and wealth tax collections, affected the progressive quality of these changes.

Contrary to pluralist and Marxist societal explanations based on objective material impact on explaining group behavior and their impact on states’ policies, these impacts were dependent on the manner of organization and nature of ties to the political party system. The nature of ties with the party system help us to better understand the different experiences between Alfonsín and Ménem with respect to the tax policy issues here discussed. Ménem strategies and means have been questioned. But it is important to underscore that several important changes (e.g., the Supreme Court change) were done with Congress approval. The necessity and urgency decrees remained questionable,
especially because of the state of economic emergency that broadened the interpretation of the Economic Emergency Law.

How the previous qualitative tax policy description does looks like in terms of the types of legislation (i.e., laws versus decrees) and tax policy (i.e., income versus consumption versus social contributions) productions in these two cases during the last two decades of the twentieth century? To this we now turn, with a quantitative account of Argentina’s tax policy-making experience in order to complete this historical account that serves our intra- and inter-comparative analytical goals.

**Tax Policy-Making quantitative description: Argentina**

Figure 3.1 presents the total number of tax related policies in Argentina during the last two decades of the twentieth century. Nevertheless, what concerns us here are those policies that legislate and not regulate taxation. This is why the discussion that follows underscores the different outcomes regarding tax legislation (i.e., laws and decrees). Figure 3.2 isolates tax related legislation and presents the percentages of laws and decrees that compose it.

What can be comfortably asserted about tax policy-making in Argentina throughout the 1980s and 1990s is its extremely executive-dominated characteristic. This is more so in Argentina than in Brazil, as we will see in the next chapter, but it is true for both (see Figures 3.2 and 4.2; more decrees than laws). Nevertheless, the executive-dominated characteristic of tax policy-making is different for Argentina and Brazil. This

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10 In the case of Argentina: Decreto (decreet & executive act); Ley (law); Circular (circular); Comunicación (communication); Comunicación "A"; Comunicación "B"; Comunicación "C"; Convenio (??); Decisión Administrativa (administrative decision); Disposición (disposition); Nota (note); Nota Externa (external note); Resolución (resolution); Resolución "C"; Resolución General (general resolution).
is so, even if we control for the difference in degree. I argue this because in addition to
decree powers given to the executive branch, which is truer in the Brazilian case than in
the Argentine case because decrees should only be used under *cases of emergency* in the
latter; Argentina gave extraordinary legislative powers (i.e., law making and decree
powers) to a bureaucratic ministry (i.e., Ministry of the Economy), which was not the
case in Brazil. This is why in Figure 3.2 there is a third category not included in the
Brazilian figure (see Figure 4.2). The category refers to laws that were not approved by
Congress, but laws that were enacted by the executive branch (i.e., the President or
Ministry of the Economy).
Thus, we need to be cautious when analyzing the Argentine tax policy data because policies labeled as *laws* do not imply the required approval of the three institutional veto players within a presidential system. The executive-dominated characteristic can be perceived by the extremely small amount of tax legislation where...
the legislative branch was consulted in the case of Argentina and the greater number of *decrees* when compared to *laws* in both cases. Nevertheless, I need to underscore that this is not a normative statement it is an empirical observation. I do not address the effects of this type of policy-making on the quality of the democratic system in place. As important as these effects might be considered, the undertaken research do not allow me to properly address such concerns. Nevertheless, I do study the effects of the executive domination regarding the production of tax policy and its related effects on taxation outcomes by undertaking an analysis of the centralization, progressivity, and level of taxation dimensions (see Chapters 4, 5, and 6, respectively).

Table 3.2 presents the total number of laws and decrees throughout the different time periods in Argentina; in addition, those measures are standardized with respect to time and as percentages in order to be able to present comparative comments. Table 3.3 presents the same information, but aggregated for the different administrations during the 1980s and 1990s. The selected time periods represent the lower legislative branch tenure. I selected these as the maximum amount of time where there was no change of party composition, which has an effect on the veto players’ calculations. According to the data used, Argentina averaged 4.88 laws and 15.49 decrees per year or 23.97% of taxation legislations were laws while 76.03% were decrees.
In regard to the different administrations: Alfonsín averaged 6.91 laws and 0.55 decrees per year or 92.68% of taxation legislations were laws while 7.32% were decrees; Ménem I averaged 3.38 laws and 25.54 decrees per year or 11.70% of taxation legislations were laws while 88.30% were decrees; Ménem II averaged 7.25 laws and 27 decrees per year or 21.17% of taxation legislations were laws while 78.83% were decrees (Ménem’s total average was 10.63 laws and 52.54 decrees per year or 15.69% of taxation legislations were laws while 84.31% were decrees); and De la Rúa’s averaged 6.5 laws
and 29 decrees per year or 18.31% of taxation legislations were laws while 81.69% were decrees.

<table>
<thead>
<tr>
<th>Year</th>
<th>#laws</th>
<th>#decrees</th>
<th>laws/year</th>
<th>decrees/year</th>
<th>%laws</th>
<th>%decrees</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1980-1982)</td>
<td>1</td>
<td>0</td>
<td>0.33</td>
<td>0.00</td>
<td>100.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>(1983-1985)</td>
<td>21</td>
<td>0</td>
<td>7.00</td>
<td>0.00</td>
<td>100.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>(1986-1987)</td>
<td>10</td>
<td>3</td>
<td>5.00</td>
<td>1.50</td>
<td>76.92%</td>
<td>23.08%</td>
</tr>
<tr>
<td>(1988-1989)</td>
<td>9</td>
<td>7</td>
<td>4.50</td>
<td>3.50</td>
<td>56.25%</td>
<td>43.75%</td>
</tr>
<tr>
<td>(1990-1991)</td>
<td>6</td>
<td>58</td>
<td>3.00</td>
<td>29.00</td>
<td>9.38%</td>
<td>90.62%</td>
</tr>
<tr>
<td>(1992-1993)</td>
<td>2</td>
<td>54</td>
<td>1.00</td>
<td>27.00</td>
<td>3.57%</td>
<td>96.43%</td>
</tr>
<tr>
<td>(1994-1995)</td>
<td>12</td>
<td>47</td>
<td>6.00</td>
<td>23.50</td>
<td>20.34%</td>
<td>79.66%</td>
</tr>
<tr>
<td>(1996-1997)</td>
<td>16</td>
<td>56</td>
<td>8.00</td>
<td>28.00</td>
<td>22.22%</td>
<td>77.78%</td>
</tr>
<tr>
<td>(1998-1999)</td>
<td>13</td>
<td>52</td>
<td>6.50</td>
<td>26.00</td>
<td>20.00%</td>
<td>80.00%</td>
</tr>
<tr>
<td>&quot;(2000)&quot;</td>
<td>4</td>
<td>15</td>
<td>4.00</td>
<td>15.00</td>
<td>21.05%</td>
<td>78.95%</td>
</tr>
<tr>
<td>(2001-2003)</td>
<td>22</td>
<td>76</td>
<td>8.00</td>
<td>27.64</td>
<td>22.45%</td>
<td>77.55%</td>
</tr>
<tr>
<td>(1980-2003)</td>
<td>116</td>
<td>368</td>
<td>4.88</td>
<td>15.49</td>
<td>23.97%</td>
<td>76.03%</td>
</tr>
</tbody>
</table>

Table 3.2: Type of Tax-Legislation (Laws vis-à-vis Decrees): Argentina

<table>
<thead>
<tr>
<th>Administration</th>
<th>#laws</th>
<th>#decrees</th>
<th>Laws/year</th>
<th>Decrees/year</th>
<th>%laws</th>
<th>%decrees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alfonsín</td>
<td>38</td>
<td>3</td>
<td>6.91</td>
<td>0.55</td>
<td>92.68%</td>
<td>7.32%</td>
</tr>
<tr>
<td>Ménem I</td>
<td>22</td>
<td>166</td>
<td>3.38</td>
<td>25.54</td>
<td>11.70%</td>
<td>88.30%</td>
</tr>
<tr>
<td>Ménem II</td>
<td>29</td>
<td>108</td>
<td>7.25</td>
<td>27.00</td>
<td>21.17%</td>
<td>78.83%</td>
</tr>
<tr>
<td>Ménem Tot</td>
<td>51</td>
<td>274</td>
<td>10.63</td>
<td>52.54</td>
<td>15.69%</td>
<td>84.31%</td>
</tr>
<tr>
<td>Del Rúa</td>
<td>13</td>
<td>58</td>
<td>6.50</td>
<td>29.00</td>
<td>18.31%</td>
<td>81.69%</td>
</tr>
</tbody>
</table>

Table 3.3: Type of Tax-Legislation (Laws vis-à-vis Decrees): Administrations


Table 3.4 presents the total number of income, consumption, and social contributions taxation policies throughout the different time periods in Argentina; in addition, those measures are standardized with respect to time and as percentages in order to be able to present comparative comments. Table 3.5 presents the same information, but aggregated for the different administrations during the 1980s and 1990s. The social contributions category in the Argentine case means legislation regarding social security. I selected the label social contributions in order to have a comparative label with Brazil. Nevertheless, this is a strategy peculiar to the Brazilian case, which was not required or existed in the Argentine case as the numbers show. The percentages do not add to 100% or at some points exceed 100% in the Brazilian case. The reason for this is that a single decree or law could have implications of income, consumption, and/or social contribution.
taxation so, going beyond 100%. Nevertheless, it is also possible that the decree or law does not fall within any of these categories so, adding to less than 100%.

According to the data used, Argentina averaged 6.32 income, 11.41 consumption, and 0.42 social contributions taxation policies per year or 30.99% of taxation legislation was income, 55.99% was consumption, and 2.07% were social contributions. In regard to the different administrations: Alfonsín averaged 2 income, 2.36 consumption, and 0 social contributions taxation policies per year or 26.83% of taxation legislation was income, 31.71% was consumption, and 0% were social contributions; Ménem I averaged 6.92 income, 18.46 consumption, and 0.77 social contributions taxation policies per year or 23.94% of taxation legislation was income, 63.83% was consumption, and 2.66% were social contributions; Ménem II averaged 14.5 income, 16.5 consumption, and 0 social contributions taxation policies per year or 42.34% of taxation legislation was income, 48.18% was consumption, and 0% were social contributions (Ménem’s total averaged 10.2 income, 18.3 consumption, and 0.5 social contributions taxation policies per year or 31.38% of taxation legislation was income, 56.31% was consumption, and 1.54% were social contributions); and De la Rúa’s averaged 7 income, 25 consumption, and 1.5 social contributions taxation policies per year or 19.72% of taxation legislation was income, 70.42% was consumption, and 4.23% were social contributions.
<table>
<thead>
<tr>
<th>Year</th>
<th>#Income</th>
<th>#Consumption</th>
<th>SocContr.</th>
<th>Income/year</th>
<th>Consumption/year</th>
<th>SocContr./year</th>
<th>%Income</th>
<th>%Consumption</th>
<th>%SocContr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1980-1982)</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0.33</td>
<td>0</td>
<td>0</td>
<td>100.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>(1983-1985)</td>
<td>8</td>
<td>6</td>
<td>0</td>
<td>2.67</td>
<td>2</td>
<td>0</td>
<td>38.10%</td>
<td>28.57%</td>
<td>0.00%</td>
</tr>
<tr>
<td>(1986-1987)</td>
<td>3</td>
<td>6</td>
<td>0</td>
<td>1.50</td>
<td>3</td>
<td>0</td>
<td>23.08%</td>
<td>46.15%</td>
<td>0.00%</td>
</tr>
<tr>
<td>(1988-1989)</td>
<td>3</td>
<td>6</td>
<td>0</td>
<td>1.50</td>
<td>3</td>
<td>0</td>
<td>18.75%</td>
<td>37.50%</td>
<td>0.00%</td>
</tr>
<tr>
<td>(1990-1991)</td>
<td>9</td>
<td>46</td>
<td>1</td>
<td>4.50</td>
<td>23</td>
<td>0.5</td>
<td>14.06%</td>
<td>71.88%</td>
<td>1.56%</td>
</tr>
<tr>
<td>(1992-1993)</td>
<td>18</td>
<td>31</td>
<td>1</td>
<td>9</td>
<td>15.5</td>
<td>0.5</td>
<td>32.14%</td>
<td>55.36%</td>
<td>1.79%</td>
</tr>
<tr>
<td>(1994-1995)</td>
<td>17</td>
<td>38</td>
<td>3</td>
<td>8.50</td>
<td>19</td>
<td>1.5</td>
<td>28.81%</td>
<td>64.41%</td>
<td>5.08%</td>
</tr>
<tr>
<td>(1996-1997)</td>
<td>36</td>
<td>38</td>
<td>0</td>
<td>18</td>
<td>19</td>
<td>0</td>
<td>50.00%</td>
<td>52.78%</td>
<td>0.00%</td>
</tr>
<tr>
<td>(1998-1999)</td>
<td>22</td>
<td>28</td>
<td>0</td>
<td>11</td>
<td>14</td>
<td>0</td>
<td>33.85%</td>
<td>43.08%</td>
<td>0.00%</td>
</tr>
<tr>
<td>&quot;(2000)&quot;</td>
<td>4</td>
<td>14</td>
<td>1</td>
<td>4</td>
<td>14</td>
<td>1</td>
<td>21.05%</td>
<td>73.68%</td>
<td>5.26%</td>
</tr>
<tr>
<td>(2001-2003)</td>
<td>29</td>
<td>58</td>
<td>4</td>
<td>10.55</td>
<td>21.09</td>
<td>1.45</td>
<td>29.59%</td>
<td>59.18%</td>
<td>4.08%</td>
</tr>
<tr>
<td>(1980-2003)</td>
<td>150</td>
<td>271</td>
<td>10</td>
<td>6.32</td>
<td>11.41</td>
<td>0.42</td>
<td>30.99%</td>
<td>55.99%</td>
<td>2.07%</td>
</tr>
</tbody>
</table>

Table 3.4: Type of Tax Policy: Argentina

<table>
<thead>
<tr>
<th>Administration</th>
<th>#Income</th>
<th>#Consumption</th>
<th>#SocContr.</th>
<th>Income/year</th>
<th>Consumption/year</th>
<th>SocContr./year</th>
<th>%Income</th>
<th>%Consumption</th>
<th>%SocContr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alfonsín</td>
<td>11</td>
<td>13</td>
<td>0</td>
<td>2</td>
<td>2.36</td>
<td>0</td>
<td>26.83%</td>
<td>31.71%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Ménem I</td>
<td>45</td>
<td>120</td>
<td>5</td>
<td>6.92</td>
<td>18.46</td>
<td>0.77</td>
<td>23.94%</td>
<td>63.83%</td>
<td>2.66%</td>
</tr>
<tr>
<td>Ménem II</td>
<td>58</td>
<td>66</td>
<td>0</td>
<td>14.5</td>
<td>16.5</td>
<td>0</td>
<td>42.34%</td>
<td>48.18%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Ménem Tot</td>
<td>102</td>
<td>183</td>
<td>5</td>
<td>10.2</td>
<td>18.3</td>
<td>0.5</td>
<td>31.38%</td>
<td>56.31%</td>
<td>1.54%</td>
</tr>
<tr>
<td>Del Rúa</td>
<td>14</td>
<td>50</td>
<td>3</td>
<td>7</td>
<td>25</td>
<td>1.5</td>
<td>19.72%</td>
<td>70.42%</td>
<td>4.23%</td>
</tr>
</tbody>
</table>

Table 3.5: Type of Tax Policy: Administrations

What explains these differing types of legislation and tax policy production? What explains these differing types of legislation and tax policy rankings? What are the implications of these differing tax policy-making productions? To answer these questions, we must first identify the empirical veto players, which I do in the next section. In the next chapter I put together the two sides of the explanatory equation (tax policy-making and veto players) in order to address the first two questions. I address the third question, regarding the implications of the studied tax policy-making production, throughout chapters 5, 6, and 7, but I present several testable hypotheses at the end of the next chapter in order to guide the subsequent discussion (see Table 4.11).

**Empirical Veto Players: Argentina**

The temporal inflexion juncture, I argue, from the point of view of veto players and tax policy in the Argentine case is 1989-90. This time period represents an election year\(^1\) and created a rearrangement of veto players: a temporary reduction of veto players (see Table 3.6).

Argentina has three institutional veto players (i.e., one individual and two collectives): the President and two legislative chambers. The Peronist party (PJ) won the 1989 Presidential Elections, which gave this party the control of all three institutional veto players (see Table 3.6). Thus, by making use of the *absorption rule* I can explain the occurrence of a tax policy reform, which was not possible before the 1989 election because of the incongruence between institutional and partisan veto players, as it was discussed in regard to Alfonsín’s dilemmas with Congress. Immediately previous to 1989, Argentina had the Presidency dominated by the *Unión Cívica Radical* (UCR) and

---

\(^1\) 1989 Presidential Elections in Argentina
both houses of the federal congress dominated by the PJ (see Table 3.6). After 1989 the PJ dominated all three institutional veto players. Thus, the PJ, a partisan veto player, provided the unifying role among the three institutional veto players. In other words, by making use of the absorption rule we can explain a reduction of veto players, which then enables us to explain the tax policy reform of interest and from a more contingent point of view, its characteristics, as I explain here and throughout Chapters 4, 5, and 6.

Argentina can be considered to have two main political parties (i.e., UCR and PJ), which helps understand the formation of almost single-party governments (see Table 3.6). In Argentina we see single-party governments (or one big and one small party government). As we will see later, the Brazilian case has never had this type of government and always multiparty governments or shifting coalition governments. During their tax policy reforms, this characteristic was still the case with Brazil having a higher number of partisan veto players than Argentina.
<table>
<thead>
<tr>
<th>Years</th>
<th>Chamber of Deputies</th>
<th>Senate</th>
<th>Presidency</th>
<th># Partisan Veto Players</th>
<th># Institutional Veto Players</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983-1985</td>
<td>UCR: 50.79%</td>
<td>PJ: 45.65%</td>
<td>Alfonsín (UCR)</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>1985-1987</td>
<td>UCR: 50.79%</td>
<td>PJ: 45.65%</td>
<td>Alfonsín (UCR)</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>1987-1989</td>
<td>UCR: 44.49%</td>
<td>PJ: 45.65%</td>
<td>Alfonsín (UCR)/Méndez I (PJ)</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>1989-1991</td>
<td>PJ: 48.03%</td>
<td>PJ: 58.70%</td>
<td>Méndez I (PJ)</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>1991-1993</td>
<td>PJ: 45.53%</td>
<td>PJ: 58.70%</td>
<td>Méndez I (PJ)</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>1993-1995</td>
<td>PJ: 49.03%</td>
<td>PJ: 62.50%</td>
<td>Méndez I (PJ)</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>1995-1997</td>
<td>PJ: 51.75%</td>
<td>PJ: 54.17%</td>
<td>Méndez II (PJ)</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>1997-1999</td>
<td>PJ: 46.30%</td>
<td>PJ: 54.17%</td>
<td>Méndez II (PJ)</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>1999-2001</td>
<td>Alianza: 48.25%</td>
<td>PJ: 54.17%</td>
<td>De la Rúa (Alianza)</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

Table 3.6: Empirical Veto Players: Argentina

SOURCE: Payne et al. (2002) CD-Rom
Figure 3.3: Argentina’s Veto Players


Figure 3.3 presents Argentina’s veto players according to three quantitative cross-sectional measures: PolConIII (Henisz (2000)), PolConV (Henisz (2002)), and Chks (Keefer (2002)). The figures present the normalized values of these measures in order to be able to compare across measures. I present them in order to underscore the goods and
evils of cross-sectional quantitative analysis and comparative case studies. The data sets for these measures are impressive and ambitious, especially Henisz (2000) which goes all the way back to the nineteenth century and the three of them are globally oriented without attempting to skew their interest to a specific region of the world. Thus, the comprehensive nature, regional and temporally-wise, of these data sets permit us to address questions that would not be possible using case studies. Even more, the economies of scale that these data sets provide are also appealing, permitting the researcher to concentrate in addressing questions and not in the tedious construction of specific measures.

Nevertheless, all of these virtues become suspect, I argue, when we pursue comparative analyses or case studies. Without taking away the underscored virtues of cross-sectional quantitative analysis, a comparative analysis like the one pursued here, provides the opportunity to zoom-in into the specifics of what is supposedly being measured by these large data sets. In other words, comparative analyses provide the opportunity for gauging or assessing the construct validity of these measures. This is the case since comparative analyses permit the possibility of paying attention to more minute details, which might be perceived as mere idiosyncrasies in large-n quantitative data sets, but which could have important and significant impacts on what we want to explain. These idiosyncrasies, we could argue, are what could end up being analytical puzzles.

Returning to our discussion of the three graphed veto players’ measures, they do not coincide among them even for the same case. Obviously, Henisz’ measures tend to follow a similar trend because they depart from the same theoretical grounding, but even those two measures differ. The purpose of underscoring this disagreement is in order to
argue that these measures could be attempting to measure existing veto players, but it is a debate that has not been settled. Hence, there is room for further research and improvement.

I would like to underscore another disagreement, which is regarding the issue of selectivity. It is true that these measures were not constructed specifically for the purposes of this dissertation, but their usage supposedly crosses cases, time, and topics. Thus, if we pay attention to Figure 3.3, we are confronted with the uncomfortable and unscientific conclusion of different measures meeting my analytical expectations for each of my cases. Keefer (2002) checks fit my analytical expectations for the Brazilian case (see Chapter 4), while Henisz (2000) and Henisz (2002) polcon measures meet my Argentine explanation.

In the Argentine case (Figure 3.3), we see a reduction in veto players in 1989 (both polcon measures) coinciding with the explanation I present. One possibility is to argue that what I am presenting here is not right or at least misguided. Nevertheless, I think that the mere issue of some support toward my explanation, however selective, merits its consideration and elaboration.

My argument is that these “conflicts” between quantitative measures and my explanation are due more to the nature of what is wanted to be explained here: change. I argued before in this dissertation, that the explanation put forth here is a necessary, but not a sufficient type of explanation of change. Furthermore, I argue that a sufficient explanation of change is only possible contingently. As quoted from Tsebelis (2002) in Chapter 2, veto players theory and Henisz (2000), Henisz (2002), and Keefer (2002) measures provide the “shells,” the contours where political interaction takes place.
Nevertheless, how the political interaction takes place depends on the “shells’ occupants” and the status quo.

Therefore, Henisz (2000), Henisz (2002), and Keefer (2002) measures provide important insights of how those “shells” look like with the possibility of cross-sectional and temporal comparisons. Nevertheless, they are still approximations which exactitude might not be of extreme importance until we want to understand more specific changes; in other words, until we zoom-in and attempt to provide specific causal mechanisms illustrating relevant processes of interest. The analysis I provide here does not “travel” as easy to other cases, but it does provide broad guidelines of what to expect. Nevertheless, since it is an interactive and complex process, easy ready-to-apply recipes tend to be misguided ending up obscuring rather than clarifying, illuminating.

Thus, what are the implications of the veto players’ arrangements in regard to tax policy-making? How can an understanding of veto players further our understanding about tax policy? The next chapter focuses in addressing these questions.

Closing Chapter’s Comments

I presented a contingent depiction of the studied tax policy reform that took place in Argentina. In the next chapter, I use generalized theoretical claims (veto players theory) in order to explain Argentina and Brazil’s taxation behavior. Thus, it is been a combination of general-contingent claims in order to understand tax policy-making and tax policy reform within a multiple veto players milieu.

The understanding of why and how tax policy reforms occur is of extreme importance because of the generalized quality of such findings. In a nutshell, I propose throughout this dissertation the necessity of a reduction of veto players, within a high
number milieu, in order for a tax policy reform to take place. It is important to keep in mind that a reduction of veto players does not necessarily imply only number, but also includes the distance dimension between the existent veto players (i.e., range).

It is not a sufficiency argument because of the necessity of agency in order to be able to explain a policy change. Tsebelis (2002) argues that a high number of veto players are a sufficient, but not a necessary condition in order to explain the opposite of what I have discussed throughout this chapter, policy stability. This is so, because of the necessity of agency in order to explain a policy change (or partly policy stability). Thus, even in the situation with one veto player, we cannot a priori predict that change will take place and that is why I have argued for a more contingent application of veto players theory.

Throughout the present chapter, I discussed events of tax policy reform within an environment of multiple veto players. Thus, in order to be able to explain those changes and in order to make use of veto players theory, I traced for reductions of veto players which coincided with the studied reforms. Nevertheless, the possibility of predicting the direction and magnitude of those changes in a generalized way is more troublesome (see Chapter 2) and that is why I have insisted on a more contingent approach of the reforms under study, without straying away from veto players theory. The purpose of the latter

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2 “...while veto players theory sometimes comes to similar conclusions with the existing literature, there are also many disagreements. But most important, there is no direct way of translating existing institutions into the number and distances of veto players. Some institutions have similar effects (federalism increases the number of veto players), while others alter their impact on veto players on the basis of specific institutional provisions (who controls the agenda on referendums, executive decrees). Most important, however, is the fact that the results of veto players analysis depend on the ideological positions of veto players: some of them may be absorbed; even if they are not absorbed, they may converge or diverge, and this will have serious implications for policy stability. Even the importance of agenda setting depends on the positions of veto players and the location of the agenda setter.” (Tsebelis, 2002; 159-160)
was for underscoring the interests that prevailed after the absorption rule effects on the relevant veto players, which I use throughout Chapters 5, 6, and 7 for explaining the nature and extent of tax policy decentralization, progressivity, and level (hypotheses presented in Table 4.11) and testing the predictive power of this contingent application of veto players theory.

As indicated at the end of Chapter 2, and elaborated more throughout Chapters 5, 6, and 7, the studied reforms had the benefits of increasing the level of taxation, which is related to state capacity. Furthermore, they increased the level of resources that both countries’ sub-units had at their disposition. A more debatable aspect of such reforms, and other world-wide tax reforms, has been a shift away from its progressive quality. Otherwise, in less normative language, the relative share of direct socioeconomic characteristics-considering vis-à-vis indirect taxation with a heavier weight toward the latter. In addition, beyond the issue of progressivity, an emphasis on consumption taxation makes states revenues more volatile and susceptible to economic trends, as has been the case in Argentina since its economy is more open, in addition to its strong reliance on consumption taxation. Thus, this is an aspect that we need to take into consideration when judging or evaluating taxation strategies.

As quoted from Guy Peters (1991) at the beginning of this chapter, this dissertation departs from the analytical premise, that for understanding a state’s tax system, it is of utmost importance to understand the institutional milieu within which it is constructed. In other words, the politics of taxation becomes essential to understand why a tax system has the structure it has and why certain changes take place at certain moments in time and not at others.
The analysis presented so far and the rest of the chapters within this dissertation do not contribute to the understanding of creating the most efficient, fair, and/or neutral tax systems. This is so, because ideas regarding a tax system’s characteristics are channeled and structured by the decision-making institutions of a particular state. Nevertheless, I argue that the present analysis contributes to the understanding of tax policy reform occurrences and tax policy legislation production, with a special emphasis on the interaction of decree powers and policy-making, which has been disregarded in tax policy analyses as was quoted from Bird and Oldman (1968) and Bird (1992) in Chapter 1.

Let us now proceed to underscore and understand the overall tax policy-making behavior in Brazil, in order to be able to compare it with the Argentine experience just described. As we did with the Argentine case, this discussion is of utmost importance for two main reasons. The first one is that we first need to describe the policy-making empirical production in order to be able to demarcate the realm of reforms and decipher if they really took place. Secondly, according to the explanatory framework used in this dissertation, the taxation dimensions behaviors of interest depend (hypothetically) on the type of legislation and tax policy production of the reforms that took place. Thus, that is what I elaborate throughout Chapter 4: empirically describe the types of legislation and tax policy productions that took place in Brazil, what caused them, compare these two cases tax policy-making experiences; and put forth several hypothetical expectations on the delineated tax policy dimensions (see Table 4.11).
CHAPTER 4

TAX POLICY-MAKING: THE CASE OF BRAZIL

Political scientists and sociologists...should be interested in the fact that many or most of these well-designed policy proposals will never get a chance to become effective. The reason is that public policy is not usually produced by a unitary actor with adequate control over all required action resources and a single-minded concern for the public interest. Rather it is likely to result from the strategic interaction among several or many policy actors, each with its own understanding of the nature of the problem and the feasibility of particular solutions, each with its own individual and institutional self-interest and its own normative preferences, and each with its own capabilities or action resources that may be employed to affect the outcome. (Scharpf, 1997; 11)

Introduction

After having reviewed Argentina’s tax policy-making experience, let us proceed to empirically define and test the different hypotheses that were presented in Chapter 2 for both of our cases. Nevertheless, we need first to lay-out Brazil’s tax policy-making experience. And as I underscored in the previous three chapters and in the opening quote, the emphasis throughout this dissertation is on how politics helps us explain and understand taxation outcomes.

The present chapter examines tax policy-making behavior within a realm of multiple veto players. The analytical puzzle is the occurrence of tax policy reforms where the structural conditions point toward its grave difficulty. The case of study is the
Brazilian tax policy experiences during the 1980s and 1990s. I make use of veto players theory, which states that a high number of veto players tend to benefit the status quo, in order to explain and understand Brazil’s tax policy-making during this time period.

I demonstrate that a reduction in the number of veto players occurred in Brazil (1986-88), which helps us explain and understand the occurrence of its tax policy reform. Nevertheless, the nature of the reform can be explained, and differentiated from the Argentine one, by paying attention to the nature and constellation of veto players. We can gauge this difference by undertaking a further in-depth analysis of the three tax policy dimensions mentioned in Chapters 1 and 2, which I further explore and analyze throughout Chapters 5, 6, and 7. This is the theoretical and empirical connection that I elaborate throughout the discussion in this chapter and this dissertation.

Thus, in this chapter I continue addressing the general question: What are the causes of a tax policy reform? In addition, I present answers to the following more specific questions: Why and how did tax policy reform occur in Argentina and Brazil? Why and how did tax policy reform and tax policy-making differ in Argentina and Brazil? At the end of this chapter, the basis of this dissertation is set in order to proceed with a more exhaustive analysis of the tax policy dimensions of interest and further uncover the taxation realities in Argentina and Brazil during the last twenty years of the twentieth century.

Hence, the present qualitative analysis underscores the relevant inertial effects of a high number of veto players on tax policy-making. Nevertheless, veto players theory provides enough flexibility in order to take into consideration policy changes within a milieu of high number of veto players. This counteraction is labeled as the absorption
rule (Tsebelis 2002; 26), which takes into consideration the ideological distance (i.e., range) among the different veto players. As the ideological distance between veto players decreases, the probability of reducing the effective number of veto players increases; consequently, increasing the probability of reducing policy stability. Nevertheless, I argue that the nature and empirical effect of the absorption rule\(^1\) still helps us explain the characteristics of the tax policy reform outcome, from a more contingent point of view, which I further develop throughout the three subsequent chapters.

Therefore, I first describe the Brazilian tax policy-making behavior. Secondly, I describe the Brazilian veto players’ configuration. Thirdly, I pursue the explanation of the two chosen cases, making use of a contingent veto players theory application. Finally, I present some concluding and bridging remarks that set the thematic and empirical emphasis of this dissertation.

**Tax Policy-Making Description: Brazil**

Throughout this section I empirically portray the behavior of the taxation variables of interest for the Brazilian case (i.e., type of legislation and tax policy). The discussion of tax policy that follows is divided into two main aspects: qualitative and quantitative\(^2\). This is done in order to test the veto players theory’s hypothetical predictions. The qualitative tax policy description underscores the main changes that took place within the time frame that I am labeling as a reform moment (see Table 4.1).

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\(^1\) i.e., relevant actors and their interests after the absorption rule effect

\(^2\) Type of legislation: laws and decrees; and type of legislated tax: Income, Consumption, or Social Contributions
This description, time and policy-wise, is of relevance in order to make the analytical connection of the absorption rule within veto players theory, in addition to presenting that change actually took place and its nature.

<table>
<thead>
<tr>
<th>Tax Policy Reform</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intra-case change</td>
<td>1988</td>
</tr>
<tr>
<td>Inter-case rate change</td>
<td>Increase revenue transfers [Income Tax. &amp; Federal VAT]; municipal level constitutional actor; state level VAT (ICMS) strengthening &amp; consolidation; revenue sharing mechanism constitutionality</td>
</tr>
<tr>
<td>YES</td>
<td>[Argentina]</td>
</tr>
</tbody>
</table>

Table 4.1: Qualitative Characteristics of Tax Policy Reforms

The quantitative tax policy study describes tax policy-making and tests the veto players theory predictions regarding legislation production. I categorize legislation production as: laws and decrees. Furthermore, in order to test the effects of the executive taxation constitutional boundaries variable, tax policy legislation is further categorized as income, consumption, and social contribution taxation.
Thus, I present this qualitative description in order to demarcate that a tax policy change occurred and the quantitative description in order to categorize the legislation’s production behavior and its nature in order to test the hypothetical expectations of veto players theory. Although Argentina and Brazil do not deviate from such expectations, some refinements in the analysis are warranted because of the contingent nature of the analysis and with the idea of contributing to a better understanding of these cases’ tax policy-making and possible interesting theoretical connections that can be tested in future research with other cases, which I elaborate throughout the discussion here and in Chapter 8.

**Tax Policy-making qualitative description: Brazil**

When President Sarney assumed power in March 1985 the societal demands were improvement of public services, wages’ increase, and control of politicians’ appetite for patronage resources. Sarney’s cabinet (i.e., appointed by Tancredo Neves) was widely divided over economic strategy (e.g., Finance Minister Francisco Dornelles an orthodox vis-à-vis Planning Minister João Sayad a nationalist-developmentalist). In August 1985, Dilson Funaro (a nationalist-developmentalist) replaced Dornelles, in contradistinction to what happened under Alfonsín where orthodoxy won over heterodoxy. Thus, orthodox reforms were out of the question. In December 1985, a tax reform was approved and consisted of: a reduction of permeability of income tax to inflation-induced losses; an income tax rate increase for the upper-income bracket; the creation of a 40% tax rate on profits from financial investments; and steps to curb tax evasion.

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³ Throughout this section I borrow heavily from Payne (1998).
The Cruzado Plan was implemented by decree in late February 1986 and was similar to the Austral Plan: called for a wage and prize freeze; eliminated form of indexation; created a new currency; but gave a higher priority in promoting short-term economic growth and redistributive objectives than the Austral. Nevertheless, before the wage and prize freeze: real wages were increased by 8%; public tariffs and key consumer prices frozen at low levels; and workers were guaranteed automatic wage adjustments whenever prices increased by 20%. And this was partly due because of Sarney’s much weaker position than Alfonsin’s and the dominance of economic heterodoxy over orthodoxy in Sarney’s cabinet.

Several factors interacted in order to explain why growth-oriented policies rather than unpopular economic adjustments received priority. These were: Sarney’s lack of democratic credentials/legitimacy, party base, and societal support; the upcoming Congressional/Constitutional Constituent Assembly elections (November 1986); societal pressure for equity; and the power leverage of the progressive wing in Congress (i.e., Ulysses Guimarães [PMDB], Lula [PT], and Leonel Brizola [PDT]). In addition, Brazil’s large absolute foreign debt size and its strong external position gave it independence, or more bargaining leverage, with respect to the IMF (Kaufman, 1990).

The Cruzado Plan had temporary success in reducing inflation and creating economic growth, which consequently increased Sarney’s popularity and power leverage over Congress. Nevertheless, this was a fleeting and ephemeral success that ended up rationing and creating an informal market in order to control unsatisfied consumer demand and magnitude of price distortions. Furthermore, the budget situation worsened
because of: increase in real public sector wages; lag in public utilities’ prices; and a

The November 1986 elections gave an overwhelming victory to the PMDB (i.e.,
obtaining 22 of 23 governorships and an absolute majority in Congress). Nevertheless,
this did not translate automatically into swift political power because of the PMDB’s
nature (i.e., ideological heterogeneity and lack of discipline). Six days after the elections,
the Cruzado II was implemented which: increased prices of key goods and public
services; the crawling peg exchange rate was restored; and financial contracts were again
indexed to inflation. The consequences of these changes were an inflation rate increase,
Brazil’s unilateral default on foreign debt interest payments; and Sarney’s popularity
plummeted and his relation with the PMDB soured.

Bresser Pereira replaced Funaro as Finance Minister and implemented a plan
consisting of: a short-term wage and price freeze; an attempt to reduce fiscal deficit; a
tightened money supply; the Central Bank barred from financing budget deficits;
expenditures of all central government departments limited to level of revenue receipts;
and a significant devaluation of the currency. This plan controlled inflation, but to a
limited extent because: Sarney caved in to striking public workers’ salary demands;
inability of the government to exert greater control over public spending; and the nature
of Sarney’s contingent power-base. Sarney’s interest was to hold on together a coalition
of conservative and machine politicians from the Centrão (i.e., PMDB, PFL, and PDS)
and the armed forces. This support was maintained at the cost of substantial concessions
and large amount of resources and jobs, which were the only political currency Sarney
had at hand. In addition, the most important business groups and conservative-leaning legislators pressured Sarney for not raising taxes.

Mailson Ferreira da Nóbrega replaced Bresser Pereira as Finance Minister. He tried to be pragmatic and act within the constraints of Sarney’s political weakness, but state governors and national legislators were not controlled, underscoring the power leverage between the central and sub-units’ governments. Regarding the 1988 Constitution, Sarney won the president’s term length and scope of presidential powers; and economic and social issues were dominated by the nationalist and left-wing candidates. Even Sarney stated that the new constitution would make Brazil ungovernable, but he lacked credibility. The new constitution restored most of Congress’s pre-1964 powers; granted organize labor extensive freedoms to organize and strike; changed the federal fiscal structure; restricted the possibilities of privatizing certain economic activities; circumscribed foreign investment in mining and other industries; prevented government from laying-off public employees with more than two years of service; and set a floor for pension payments.

Minister Nóbrega in early 1989 implemented the Summer package that imposed a wage and prize freeze and created a new currency in order to avoid Argentina’s hyperinflation. Nevertheless, it confronted problems with credibility due to past packages’ failures. Sarney tried to lay-off public employees and privatize state enterprises, but did not get support from Congress (it was a presidential election year).

The first fully free, open, universal, and direct presidential election in Brazil’s entire political history took place in 1989. Due to the PDT and PT electoral success in the 1988 municipal elections and the labor movement’s expanded constitutional rights,
combined and produced a more confrontational strategy by labor and fueled the distributive struggle. The winner of this presidential election was Fernando Collor de Mello. Collor campaigned with an arrogant and populist style, which consisted of attacks on: corruption of government and legislative officials; overpaid and under-worked state workers; and clientelistic practices by parties in Congress.

Nevertheless, he himself had traditional political oligarchic family roots; served for ARENA and PDS during the military regime; and only in 1986 switched to the PMDB. He created a new political party (PRN), which got 4% of Congress’s seats in 1989. He did his cabinet selection without consulting anybody and refused endorsements from established forces (e.g., FIESP). He had a high popularity at the beginning (71%).

Argentina under Ménem and Brazil under Collor differed because of the hyperinflation experience in the former and not in the latter; but inflation was still problematic in Brazil. The difference was a matter of degree.

The new president’s first economic plan (Collor I) consisted of: a new currency; a temporary wage and price freeze; freezing all transactions and savings accounts exceeding US$3,000; the creation of the IOF (a tax on financial operations/transactions); the immediate indexation of all taxes; steps to reduce tax evasion; elimination of several types of fiscal subsidies; and raised public sector tariffs. Polls indicated high levels of popular support for Collor and his plan. The plan was adopted through the use of provisional measures, as presidential decree powers are labeled in Brazil under the 1988 constitution.

Congress approved the provisional measures since the plan was perceived as a fait accompli and also because the promise of patronage that many members of Congress
received. Nevertheless, this complacent attitude by Congress changed in May 1990, when Collor lost a key battle over the pace of wage adjustments. Under Collor I, tax revenues increased because the frozen deposits still could be used for paying taxes. Thus, there was a shift from government deficit into surplus, but through artificial and temporary measures. Only one third of the projected cuts by Collor on the public sector’s workforce were achieved.

In October 1990 congressional elections, Collor’s PRN increased its controlled number of seats (i.e., 4% → 8%). Nevertheless, it was an even more fragmented Congress and federalist structure (i.e., 20 political parties represented in Congress and governors from 9 different parties). Since local governments gained control of a larger share of the total public sector (i.e., after 1988 Constitution), they played a critical role in determining the success of any fiscal adjustment effort. In other words, this represents an increase in the number of veto players.

In January 1991, Collor implemented a second plan by decree, which consisted of: new price and wage controls; an increase in publicly administered prices; new fiscal austerity measures; and instituted a reference interest rate. Since Collor experienced a decrease in popularity (i.e., by the time of this second plan) and Congress became increasingly dismayed of the president’s behavior, Collor was forced to negotiate key aspects of the plan, which ended-up diluting its efficacy.

In order to underscore the level of dismay of Congress toward the President, it is interesting to highlight how close the former was to get the three-fifths majority necessary to amend the constitution and take away the executive’s reissuing decree powers (i.e., even though the extremely fragmented and indiscipline nature of Congress’
parties). Under Collor’s administration, trade liberalization proceeded the furthest since it was a policy area almost under exclusive authority of the executive. In regard to privatization, it was slowed because of the 1988 Constitution and a strong CUT and cartel suppliers’ opposition.

In late 1991 Collor proposed a tax reform, which consisted of: an increase in income tax rates; deductions and exemptions elimination; abolishment of minor taxes; and improving the tax administration. Nevertheless, only by agreeing to roll over the large debt that state and local governments owed to the federal government and granting other concessions, a more limited fiscal reform was approved by Congress, which underscores the central versus periphery conflicts central to this dissertation’s agenda. When the impeachment proceedings started, Collor’s agenda changed from reform toward political survival.

Both, Ménem and Collor, represented the second democratic administration after their respective countries democratic transitions. What was the difference between them in order to explain Ménem’s reform success and Collor’s failure? Ménem had the support and control of a strong and cohesive political party; an effective majority in Congress; great strength in the provinces; and strong historic and symbolic ties of his party and the union movement. On the other hand, Collor had no strong party; lacked Congress support; confronted by an autonomous union movement with ties to leftist parties and which was invigorated and emboldened by the 1988 Constitution; and many of the needed reforms required supra-majorities.
What about Collor’s successor? Franco lacked electoral legitimacy and popularity\(^4\). He was a nationalist and a statist thus; reforms were not at the top of his agenda. In addition, he enlarged the cabinet with ministers from different parties along the ideological spectrum, which can be understood due to his lack of legitimacy, but also it created a lack of coherence in governing because of the administration’s internal conflicts. Franco’s emphasis was in promoting economic growth, while his finance Ministers were interested in fighting inflation. His administration’s lack of cohesiveness can also be gauged from his cabinet’s volatility (i.e., three finance ministers in eight months). Furthermore, he halted privatizations in order to halt corruption, but also for protecting workers’ jobs.

There were some efforts to contain the public sector deficit, which was swelling because of pervasive tax evasion; uncontrolled spending and accumulating arrears of state and local governments; and constitutionally mandated increases in social security payments. In March 1993, Congress approved a new tax on financial transactions. But this was so at the cost of the president agreeing to direct a large part of the expected revenues toward new social programs and removing proposals to set-up special tax tribunals, waiving the confidentiality of bank accounts, and establishing two additional taxes on fuel and corporate assets. Furthermore, the Supreme Court ruled that this tax on financial transactions could not be implemented until the following year, underscoring the relevance of governmental sub-units’ relevance and solidification after the 1988 Constitution. Thus, even after diluting his proposal, the President’s efforts were *de jure* and *de facto* frustrated.

\(^4\) We could make a parallel with President Sarney’s situation.
In May 1993, Fernando Henrique Cardoso (FHC) was appointed Finance Minister. He introduced the *Immediate Action Plan*, which was the first step of a comprehensive anti-inflationary strategy. This plan consisted of: cutting federal government spending; tightening tax collection; reining in state and local governments’ spending; controlling loose credit policies of state banks; and speeding up the privatization of state enterprises. Nevertheless, opposition legislators and negative Supreme Court rulings prevented Cardoso from making great progress in respect to other goals, which further underscores the 1988 Constitution’s effects and the increase in veto players. There was some progress in reducing tax evasion.

In early 1994, Congress gutted another package of tax measures. Due to this, Cardoso needed Congress approval of the *emergency social fund*, in order to achieve a balance budget, which was needed for a second step of an anti-inflationary strategy (i.e., the implementation of a U.S. dollar-pegged money index URV, Unit of Real Value)\(^5\). The *emergency social fund* consisted of the national treasury retaining 15% of the transferable resources to the states and municipalities (i.e., temporary until December 1995), a central government pact with its sub-units possible only within a crisis perception lens.

In October 1994 FHC won the presidency and his pre-elections coalition won a large share of seats in Congress. Thus, this represented a shift from the previous post-transition administrations. FHC reform agenda was gradual in nature and through consensus. The reforms at the top of FHC’s administrations agenda were: tax system, social security system, public administration, and privatizations acceleration and scope

expansion. His biggest success was on the privatization front. Nevertheless, there were successes with several tax measures; on amending the Constitution in order to allow foreign investment and private ownership in monopolistic economic sectors; in controlling credit practices of some state banks; and de-indexing wage increases.

Nevertheless, he was able to get enough support for Constitutional amendments for an administrative reform (obtained in 1998) only. He did not get the required support for a tax reform (obtained in 2003) or a social security reform (obtained in 2003) under President da Silva (Lula). In addition, to gain Congress approval for tough fiscal measures, FHC’s administration needed to disperse resources and patronage, which tended to reduce net improvements in the fiscal picture. The Real Plan had the great achievements of defeating inflation and generating economic growth, but with weak foundations.

Why and how FHC was able to pursue more than his predecessors, but less than Ménem? He had an extensive electoral mandate; with a broader party support base; a stronger consensus among the elites existed regarding reform; the general public support of structural economic reforms; and there was a strong crisis before the Real Plan. In addition, he had strong leadership skills and a competent team of ministers. Nevertheless, FHC still lacked the partisan cohesion and societal following that Ménem had at his disposal because of a historical fit: he was a Peronist6. How the previous qualitative tax policy description does looks like in terms of the types of legislation (i.e., laws versus decrees) and tax policy (i.e., income versus consumption versus social

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6 “Rather than promoting tax reform, the [Cardoso] administration chose to increase tax collection on the basis of the existing flawed taxation framework and specifically on ‘cascading’ taxes that seriously hinder the economy’s efficiency and external competitiveness.” (Lamounier 2003; 270)
contributions) productions in these two cases during the last two decades of the twentieth century? To this we now turn.

**Tax Policy-making quantitative description: Brazil**

Figure 4.1 presents the total number of tax related policies\(^7\) in Brazil during the last two decades of the twentieth century, respectively. Nevertheless, what concern us here are those policies that legislate and not regulate taxation. This is why the discussion that follows underscores the different outcomes regarding tax legislation (i.e., laws and decrees). Figure 4.2 isolates tax related legislation and presents the percentages of laws and decrees that compose it. What can be comfortably asserted about tax policy-making in Brazil throughout the 1980s and 1990s is its extremely *executive-dominated* characteristic. This is more so in Argentina than in Brazil, but it is true for both (see Figures 3.2 and 4.2; more decrees than laws).

Table 4.2 presents the total number of laws and decrees throughout the different time periods in Brazil; in addition, those measures are standardized with respect to time and as percentages in order to be able to present comparative comments. Table 4.3 presents the same information, but aggregated for the different administrations during the 1980s and 1990s. The selected time periods represent the lower legislative branch tenure. I selected these as the maximum amount of time where there was no change of party composition, which has an effect on the veto players’ calculations.

\(^7\) *In the case of Brazil*: decreto lei (law-decree); medida provisória (provisory measures); lei complementar (complementary law); lei ordinária (ordinary law); ato declaratório (declaratory act); decreto (executive act); decreto legislativo (legislative decree); resolução (resolution); resolução do Senado Federal (Federal Senate resolution).
Figure 4.1: Tax Policy-Making: Brazil (1985-Sept. 2001)

SOURCE: Brazil: https://legislacao.planalto.gov.br/legislacao.nsf
According to the data used, Brazil averaged 9.49 laws and 37.79 decrees per year or 20.08% of taxation legislations were laws while 79.92% were decrees. In regard to the different administrations: Sarney’s averaged 13.2 laws and 14.4 decrees per year or 47.83% of taxation legislations were laws while 52.17% were decrees; Collor/Franco’s averaged 8.6 laws and 16.4 decrees per year or 34.40% of taxation legislations were laws while 65.60% were decrees; Cardoso I averaged 7.75 laws and 72 decrees per year or
9.72% of taxation legislations were laws while 90.28% were decrees; and Cardoso II averaged 12.83 laws and 130.5 decrees per year or 9.05% of taxation legislations were laws while 90.95% were decrees (Cardoso’s total average was 20.58 laws and 202.5 decrees per year or 9.45% of taxation legislations were laws while 90.55% were decrees).

<table>
<thead>
<tr>
<th>Brazil</th>
<th>#laws</th>
<th>#decrees</th>
<th>laws/year</th>
<th>decrees/year</th>
<th>%laws</th>
<th>%decrees</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1985-1989)</td>
<td>66</td>
<td>72</td>
<td>13.20</td>
<td>14.40</td>
<td>47.83%</td>
<td>52.17%</td>
</tr>
<tr>
<td>(1990-1994)</td>
<td>43</td>
<td>82</td>
<td>8.60</td>
<td>16.40</td>
<td>34.40%</td>
<td>65.60%</td>
</tr>
<tr>
<td>(1995-1998)</td>
<td>31</td>
<td>288</td>
<td>7.75</td>
<td>72.00</td>
<td>9.72%</td>
<td>90.28%</td>
</tr>
<tr>
<td>(1999-2000)</td>
<td>15</td>
<td>149</td>
<td>7.50</td>
<td>74.50</td>
<td>9.15%</td>
<td>90.85%</td>
</tr>
<tr>
<td>&quot;(2001)&quot;</td>
<td>4</td>
<td>42</td>
<td>5.33</td>
<td>56.00</td>
<td>8.70%</td>
<td>91.30%</td>
</tr>
<tr>
<td>(1985-2001)</td>
<td>159</td>
<td>633</td>
<td>9.49</td>
<td>37.79</td>
<td>20.08%</td>
<td>79.92%</td>
</tr>
</tbody>
</table>

Table 4.2: Type of Tax-Legislation (Laws vis-à-vis Decrees): Brazil

SOURCE: Brazil:


Table 4.4 presents the total number of income, consumption, and social contributions taxation policies throughout the different time periods in Brazil; in addition, those measures are standardized with respect to time and as percentages in order to be...
able to present comparative comments. Table 4.5 presents the same information, but
aggregated for the different administrations during the 1980s and 1990s. According to
the data used, Brazil averaged 19.88 income, 12.72 consumption, and 11.28 social
ccontributions taxation policies per year or 42.05% of taxation legislation was income,
26.89% was consumption, and 23.86% were social contributions.

<table>
<thead>
<tr>
<th>Administration</th>
<th>#laws</th>
<th>#decrees</th>
<th>Laws/year</th>
<th>Decrees/year</th>
<th>%laws</th>
<th>%decrees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sarney</td>
<td>66</td>
<td>72</td>
<td>13.20</td>
<td>14.40</td>
<td>47.83%</td>
<td>52.17%</td>
</tr>
<tr>
<td>Collor/Franco</td>
<td>43</td>
<td>82</td>
<td>8.60</td>
<td>16.40</td>
<td>34.40%</td>
<td>65.60%</td>
</tr>
<tr>
<td>Cardoso I</td>
<td>31</td>
<td>288</td>
<td>7.75</td>
<td>72.00</td>
<td>9.72%</td>
<td>90.28%</td>
</tr>
<tr>
<td>Cardoso II</td>
<td>19</td>
<td>191</td>
<td>12.83</td>
<td>130.50</td>
<td>9.05%</td>
<td>90.95%</td>
</tr>
<tr>
<td>Cardoso Tot.</td>
<td>50</td>
<td>479</td>
<td>20.58</td>
<td>202.50</td>
<td>9.45%</td>
<td>90.55%</td>
</tr>
</tbody>
</table>

Table 4.3: Type of Tax-Legislation (Laws vis-à-vis Decrees): Administrations

SOURCE: Brazil:

2&Src=%2Flegislacao.nsf%2FpagInicio%3FOpenPage%26AutoFramed

In regard to the different administrations: Sarney’s averaged 12.8 income, 6.6
consumption, and 1.4 social contributions taxation policies per year or 46.38% of
taxation legislation was income, 23.91% was consumption, and 5.07% were social
contributions; Collor/Franco’s averaged 10.6 income, 8.4 consumption, and 3.8 social contributions taxation policies per year or 42.40% of taxation legislation was income, 33.60% was consumption, and 15.20% were social contributions; Cardoso I averaged 21 income, 24.25 consumption, and 29 social contributions taxation policies per year or 26.33% of taxation legislation was income, 30.41% was consumption, and 36.36% were social contributions; and Cardoso II averaged 48 income, 14.91 consumption, and 17.09 social contributions taxation policies per year or 62.86% of taxation legislation was income, 19.52% was consumption, and 22.38% were social contributions (Cardoso’s total averaged 32 income, 20.44 consumption, and 24.15 social contributions taxation policies per year or 40.83% of taxation legislation was income, 26.09% was consumption, and 30.81% were social contributions).
<table>
<thead>
<tr>
<th>Brazil</th>
<th>#Income</th>
<th>#Consumption</th>
<th>#SocContr.</th>
<th>Income/year</th>
<th>Consumption/year</th>
<th>SocContr./year</th>
<th>%Income</th>
<th>%Consumption</th>
<th>%SocContr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1985-1989)</td>
<td>64</td>
<td>33</td>
<td>7</td>
<td>12.8</td>
<td>6.6</td>
<td>1.4</td>
<td>46.38%</td>
<td>23.91%</td>
<td>5.07%</td>
</tr>
<tr>
<td>(1990-1994)</td>
<td>53</td>
<td>42</td>
<td>19</td>
<td>10.6</td>
<td>8.4</td>
<td>3.8</td>
<td>42.40%</td>
<td>33.60%</td>
<td>15.20%</td>
</tr>
<tr>
<td>(1999-2000)</td>
<td>95</td>
<td>38</td>
<td>34</td>
<td>47.5</td>
<td>19</td>
<td>17</td>
<td>57.93%</td>
<td>23.17%</td>
<td>20.73%</td>
</tr>
<tr>
<td>&quot;(2001)&quot;</td>
<td>37</td>
<td>3</td>
<td>13</td>
<td>49.33</td>
<td>4</td>
<td>17.33</td>
<td>80.43%</td>
<td>6.52%</td>
<td>28.26%</td>
</tr>
<tr>
<td>(1985-2001)</td>
<td>333</td>
<td>213</td>
<td>189</td>
<td>19.88</td>
<td>12.72</td>
<td>11.28</td>
<td>42.05%</td>
<td>26.89%</td>
<td>23.86%</td>
</tr>
</tbody>
</table>

Table 4.4: Type of Tax Policy: Brazil

SOURCE: Brazil:

<table>
<thead>
<tr>
<th>Administration</th>
<th>#Income</th>
<th>#Consumption</th>
<th>#SocContr.</th>
<th>Income/year</th>
<th>Consumption/year</th>
<th>SocContr./year</th>
<th>%Income</th>
<th>%Consumption</th>
<th>%SocContr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sarney</td>
<td>64</td>
<td>33</td>
<td>7</td>
<td>12.8</td>
<td>6.6</td>
<td>1.4</td>
<td>46.38%</td>
<td>23.91%</td>
<td>5.07%</td>
</tr>
<tr>
<td>Collor/Franco</td>
<td>53</td>
<td>42</td>
<td>19</td>
<td>10.6</td>
<td>8.4</td>
<td>3.8</td>
<td>42.40%</td>
<td>33.60%</td>
<td>15.20%</td>
</tr>
<tr>
<td>Cardoso I</td>
<td>84</td>
<td>97</td>
<td>116</td>
<td>21</td>
<td>24.25</td>
<td>29</td>
<td>26.33%</td>
<td>30.41%</td>
<td>36.36%</td>
</tr>
<tr>
<td>Cardoso II</td>
<td>132</td>
<td>41</td>
<td>47</td>
<td>48</td>
<td>14.91</td>
<td>17.09</td>
<td>62.86%</td>
<td>19.52%</td>
<td>22.38%</td>
</tr>
<tr>
<td>Cardoso Tot.</td>
<td>216</td>
<td>138</td>
<td>163</td>
<td>32</td>
<td>20.44</td>
<td>24.15</td>
<td>40.83%</td>
<td>26.09%</td>
<td>30.81%</td>
</tr>
</tbody>
</table>

Table 4.5: Type of Tax Policy: Administrations

SOURCE: Brazil:

What explains these differing types of legislation and tax policy production for Argentina and Brazil? What explains these differing types of legislation and tax policy rankings? What are the implications of these differing tax policy-making productions?

To answer these questions, we must first identify the empirical veto players, which I do in the next section for the Brazilian case. Afterwards, I put together the two sides of the explanatory equation (tax policy-making and veto players) in order to address the first two questions for both of our cases. I address the third question, regarding the implications of the studied tax policy-making production, throughout Chapters 5, 6, and 7, but I present several testable hypotheses at the end of the present chapter in order to guide the subsequent discussion (see Table 4.11).

**Empirical Veto Players: Brazil**

The temporal inflexion juncture, I argue, from the point of view of veto players and tax policy in the Brazilian case is 1986-88. This time period represents an election period¹ and created a rearrangement of veto players: a temporary reduction of veto players (see Table 4.6).

Brazil has three institutional veto players (i.e., one individual and two collectives): the President and two legislative chambers. In the case of Brazil, the 1986 Federal Congressional Elections represented a decrease in the number of institutional veto players. This was true since the elected Federal Congress (i.e., both houses) functioned as the National Constituent Assembly (i.e., as one) with the responsibility of writing a new constitution for the new democratic regime and legislating. In other words, by making use of the absorption rule we can explain a reduction of veto players (i.e.,

¹ 1989 Presidential Elections in Argentina and 1986 Federal Congressional Elections in Brazil
from three to two institutional veto players), which then enables us to explain the tax
policy reform of interest and from a more contingent point of view, its characteristics, as
I explain here and throughout Chapters 5, 6, and 7.

In contradistinction to Argentina, Brazil and its fragmented party system, it has
been impossible to form single-party governments (see Table 4.6). Thus, Brazil has been
categorized by multi-party governments after democratization. These comments
underscore the higher number of veto players in the Brazilian case during the tax reform
event. Both cases have three institutional veto players, but in the Argentine case we see
single-party governments (or one big and one small party government). The Brazilian
case has never had this type of government and always multiparty governments or
shifting coalition governments. During the tax policy reform moment, this characteristic
was still the case with Brazil having a higher number of partisan veto players than
Argentina.
Figure 4.3 presents Brazil’s veto players according to three quantitative cross-sectional measures: “PolConIII” (Henisz (2000)), “PolConV” (Henisz (2002)), and “Checks” (Keefer (2002)). The figure presents the normalized values of these measures in order to be able to compare across measures. As stated in the previous chapter, I present them in order to underscore the goods and evils of cross-sectional quantitative analysis and comparative case studies (see discussion in previous chapter).

These three graphed veto players’ measures do not coincide among them even for the same case. Obviously, Henisz’ measures tend to follow a similar trend because they depart from the same theoretical grounding, but even those two measures differ. The purpose of underscoring this disagreement is in order to argue that these measures could
be attempting to measure existing veto players, but it is a debate that has not been settled. Hence, there is room for further research and improvement.

Figure 4.3: Brazil’s Veto Players

I would like to underscore another disagreement, which is regarding the issue of selectivity. It is true that these measures were not constructed specifically for the purposes of this dissertation, but their usage supposedly crosses cases, time, and topics. Thus, if we pay attention to Figure 4.3, we are confronted with the uncomfortable and unscientific conclusion of different measures meeting my analytical expectations for each of my cases. Keefer (2002) checks fit my analytical expectations for the Brazilian case, while Henisz (2000) and Henisz (2002) polcon measures meet my Argentine explanation (see Chapter 3).

In the Brazilian case (Figure 4.3), we see a reduction in veto players (checks measure) in 1986, which stayed at that level until 1994, which coincides with the explanation I present. We need to remember that a reduction of veto players does not guarantee change, but if one is going to take place within a realm of multiple veto players, I argue that a reduction in veto players needs to take place. One possibility is to argue that what I am presenting here is not right or at least misguided. Nevertheless, I think that the mere issue of some support toward my explanation, however selective, merits its consideration and elaboration.

My argument is that these “conflicts” between quantitative measures and my explanation are more due to the nature of what is wanted to be explained here: change. I argue before in this dissertation, that the explanation put forth here is a necessary, but not a sufficient type of explanation of change. Furthermore, I argue that a sufficient explanation of change is only possible contingently. As quoted from Tsebelis (2002) in Chapter 2, veto players theory and Henisz (2000), Henisz (2002), and Keefer (2002) measures provide the “shells,” the contours where political interaction takes place.
Nevertheless, how the political interaction takes place depends on the “shells’ occupants” and the status quo.

Therefore, Henisz (2000), Henisz (2002), and Keefer (2002) measures provide important insights of how those “shells” look like with the possibility of cross-sectional and temporal comparisons. Nevertheless, they are still approximations which exactitude might not be of extreme importance until we want to understand more specific changes; in other words, until we zoom-in and attempt to provide specific causal mechanisms illustrating relevant processes of interest. The analysis I provide here does not “travel” as easy to other cases, but it does provide broad guidelines of what to expect. Nevertheless, since it is an interactive and complex process, easy ready-to-apply recipes tend to be misguided ending up obscuring rather than clarifying, illuminating.

Thus, what are the implications of the veto players’ arrangements in regard to tax policy-making? How can an understanding of veto players further our understanding about tax policy? The section that follows focuses in addressing these questions. Let us now proceed with a “putting together” of the descriptions that I have lay-out regarding the two sides of the explanatory equation of interest in this dissertation, tax policy vis-à-vis veto players, in order to evaluate the different intra- and inter-case hypotheses.

**Contingent Veto Players’ Analysis: Argentina and Brazil’s Tax Policy Reforms and Policy-Making**

Throughout this section we proceed to address questions of: what explains the differing types of legislation and tax policy production in Argentina and Brazil (see Tables 3.2 – 3.5 and Tables 4.2 – 4.5, respectively)?; and what explains the differing types of legislation and tax policy rankings (see Tables 4.9 and 4.10, respectively)?
Argentina experienced a significant tax policy reform in 1989-1990, while Brazil experienced a less clear one in 1988, but tax policy reforms took place in both cases. Furthermore, I presented the argument that a reduction of veto players took place in both cases, before the tax policy reforms under study here, which I am arguing helps us explain and understand the possibility of their occurrences. Nevertheless, the nature of the mentioned veto players’ reduction differed between the Argentine and the Brazilian case, which I use to explain the difference on the tax policy reform outcomes (see Table 4.11). Tables 4.7 and 4.8 summarize the relevant variables for our analysis.

<table>
<thead>
<tr>
<th></th>
<th>Partisan Veto Players</th>
<th>Institutional Veto Players</th>
<th>Absorption Rule</th>
<th>Qualitative Tax Policy Legislation</th>
<th>Quantitative Legislation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>pre-1989: 2</td>
<td>pre-1989: 3</td>
<td>1989 PJ’s victory</td>
<td>See Table 3.1</td>
<td>See Tables 3.2, 3.3, 3.4, and 3.5</td>
</tr>
<tr>
<td></td>
<td>post-1989: 1</td>
<td>post-1989: 3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>pre-1986: 1</td>
<td>Pre-1986: 3</td>
<td>1986 election (Constituent Assembly)</td>
<td>See Table 4.1</td>
<td>See Tables 4.2, 4.3, 4.4, and 4.5</td>
</tr>
</tbody>
</table>

Table 4.7: Tax Policy-making and Veto Players Summary
I present an explanation of what, why, and how tax policy reform happened and its characteristics and not what should have had, why should it have had, and how it should have had happened. Due to this goal, a political science perspective has much to offer within an area of study usually dominated by economics and law (see Chapter 1). This is so, since whatever “technical expertise” or recommendations regarding taxation are given, they have to be embedded and take into consideration the real policy mechanisms available and relevant actors involved, in order to be able to promote change.

Thus, what follows is a combined account of the Argentine and Brazilian tax policy-making experiences in order to put together both sides of the explanatory equation (i.e., tax policy-making and veto players), which have been separately discussed up to this point. It is an analytical attempt in order to present an answer to: Why and how did tax policy reform occur in Argentina and Brazil?
Argentina and Brazil experienced several economic, political, and social changes throughout the last two decades of the twentieth century. Thus, in order to be able to understand and explain tax policy we need to be able to disentangle causes and consequences. Arranging the discussion in a comparative perspective permits doing so. Argentina’s 1989-90 tax policy reform was preceded by its transition to democracy, which took place in 1983; hence, underscoring that this reform was undertaken under a democratic regime. Nevertheless, this tax policy reform occurred before a control of hyperinflation, which was realized in 1991 under what was called the Convertibility Plan.

Another note of the reality under which the 1989-90 tax policy reform took place was the constitutional environment guiding Argentina’s new democracy.

As a result of the military regime’s total discredit after the Malvinas’ War² and economic mismanagement, the transition toward democracy in Argentina was quite sudden and caught the democratic opposition unprepared. Partly because of this reality, a decision was made of using the 1853 constitution for guiding the new upcoming democratic regime (Linz and Stepan 1996; 83). I state this because the procedural and structural reality under which the 1989-90 tax policy reform took place formally changed in 1994. There was a constitutional reform in 1994 directed at rearranging political power within Argentine democracy³, but these changes, de facto, took place gradually and culminated with the 2001 legislative federal elections, which those legislative

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² Known as the Falklands’ War for the United Kingdom

³ This was an attempt of a Pact of Moncloa-like approach by the Argentine government. See Huntington, 1991; 166.
election results were a harsh stroke against the De la Rúa administration from which it was not able to recover (Levitsky 2003; 358).

In the case of Brazil, the mentioned 1988 tax policy reform was preceded by a partial transition to democracy in 1985⁴. Furthermore, in 1988 we can state that a simultaneous regime change, political restructuring of power, and tax policy reform took place (i.e., among other relevant changes). I state this confounding of changes since 1988 was the year when a new democratic constitution was approved in Brazil. A similarity between Argentina and Brazil’s tax policy reform would be that both took place before a control of inflation was possible. Nevertheless, the inflationary dilemma was more drastic in Argentina than in Brazil and Argentina’s control came after less than a year of its tax policy reform. In the case of Brazil, that inflationary control came after almost six years of its mentioned tax policy reform (i.e., in 1994 under the Real Plan).

Furthermore, although with different monetary mechanisms, in both cases that inflationary conquest took place with the creation of a new national currency and its respective pegging to the United States’ dollar on a one-to-one basis⁵. The purpose of this discussion has been to comparatively embed the Argentine and Brazilian cases with respect to important background factors: *regime change, tax policy change, inflation control, and political (re)structuring*. Tax policy change (i.e., our variable of interest) took place after a regime change and before inflation control and a political restructuring in Argentina; while it took place concurrently with a regime change and political

---

⁴ By partial I mean that although a civilian President took power in 1985 for the first time since 1964, but this president was elected and needed to perform his presidential duties under the authoritarian constitution of 1967.

⁵ For more details about the Convertibility and Real Plans see Palermo (2000).
restructuring and before an inflationary control in Brazil. Furthermore, the slow nature and less drastic nature of change in Brazil when compared to Argentina can be tied to the higher number of veto players in the former than in the latter, which is the main emphasis and argument being put forth throughout this dissertation.

*Veto players theory* predicts that the high number of veto players in Argentina and Brazil, tends to benefit the status quo or creates high policy stability. Thus, we must search for an explanatory factor that changed in order to promote the mentioned tax policy reforms in an institutional environment, which tends not to promote change. Lieberman (2001) used what he called the *Communist* and *Racial glue* metaphors in order to explain specific moments in Brazil and South Africa’s (respectively) income tax policy-making, where the dominant classes were united by a common view.

Nevertheless, the so-called *glue* argument used by Lieberman is a representation of the *absorption rule* within *veto players theory*. Using Lieberman’s metaphor it would be possible to respectively label the *Peronist* and *Constitutional Constituent Assembly glue* in order to explain the interested tax policy reforms’ causes and characteristics in Argentina and Brazil. Nevertheless, these *glue* arguments can be interpreted better making use of the *absorption rule* within *veto players theory*. It is a decrease in the number of effective veto players provided by institutional absorptions: *partisan control* in the case of Argentina and a *Constitutional Constituent Assembly* in the case of Brazil.

The *absorption* in the Argentine case refers to President Carlos Saúl Ménem assuming power in 1989. He was the presidential candidate for the *Partido Justicialista* (*PJ*), or better known as the Peronist Party, for the 1989 presidential election. He assumed power six months earlier because of President Raúl Alfonsín’s (from the *Partido
de Unión Cívica Radical; UCR) resignation. At the time of President Ménem’s assumption of power, Argentina was experiencing hyperinflation. Thus, controlling inflation was at the top of the governmental agenda. Connected with the inflationary dilemma was the ability of the state to collect revenues. Besides the problems of collecting tax revenues related to the inflationary situation, many criticized the taxation regime that existed per se and blame it also for the tax collecting dilemmas.

Pres. Alfonsín did pursue tax policy reform, but was unsuccessful. The institutional obstacle he was not able to surpass was the Senate, which was controlled by the Peronists (see Table 3.6). The Peronists criticized his tax reform ideas as being too regressive, among other criticisms. But, the peculiarity of the Senate was that although it was a veto player (i.e., policies require its approval vote), it behaved in a defensive-reactive way instead of a proactive way. This was partly true because of its legitimacy’s nature. Senators were appointed, not elected. Thus, they represented the interests of the provinces (i.e., federal sub-units) in a defensive way. The majority of the provinces were controlled by the Peronists at that point in time (1983-1989) consequently they also controlled the Senate.

6 “During the first democratic administration of Raúl Alfonsín (1983-1989) the president’s Radical Party held a majority in the lower house, while the opposition Peronists (PJ) held a majority in the senate, as well as controlling most of the provincial governments. In view of the constitutional provision that all revenue-sharing bills must originate in the senate, the Peronists prevented the federal government from introducing a new revenue-sharing law between federal and provincial governments. In the absence of federal revenue sharing, the Treasury distributed discretionary grants in order to compensate for provincial shortfalls. Provincial governments therefore had the incentive to blackmail the federal government by running up large budget deficits in order to receive a greater share of federal funds. Such blackmail was successful because a Peronist majority in the senate could threaten passage of any legislation favored by the Alfonsín administration. A new revenue-sharing law was passed only in 1987, after Peronists assumed the majority of seats in the lower house. The new law increased the provincial share of federal revenue, but at the same time the government tightened the monitoring of provincial accounts by the central bank.” (Garman et. al., 2001; 230)
The political scenario changed with President Ménem’s arrival to power. He himself was a Peronist. A combination of leadership skills, his party affiliation, and the hyperinflationary crisis presented opportunities of action with respect the intensely debated tax reform topic, among others. President Ménem was successful in achieving a tax policy reform and with an outcome, structurally speaking, that was more regressive than Alfonsín’s proposals as briefly discussed in Chapter 3 and discuss in more detail in Chapter 6. With the benefit of the hindsight, the 1989-1990 tax policy reform was characterized by being undertaken through the “normal” policy-making process (i.e., no constitutional change as in Brazil). The interests that strived were the President-National over Legislative-Sub-national interests. This is true with the caveat that the sub-national units won increased tax revenue benefits (i.e., federal transfers) more than power for independent tax revenues, which can be related to the current difficulties of the federal government in controlling deficit spending by the provinces (more about this dilemma discussed in Chapter 5).

The absorption in the Brazilian case refers to the process that took place between 1986 and 1988 for writing a new democratic constitution in Brazil (Thomas Bruneau, 1992). After the 1986 federal congressional elections, the Chamber of Deputies and Senate were unified and functioned as the Constituent Assembly and Federal Congress. Thus, because of this bicameral unification into a temporary unicameral body, the

---

7 “Prior to the 1994 constitutional reform, the authority to issue so-called Necessity and Urgency Decrees (NUDs) was not explicitly granted by the constitution, and legal experts and politicians disagreed over whether such decrees were constitutional. Presidents used them sparingly: fewer than 20 NUDs were issued by constitutional presidents between 1853 and 1983. Between 1983 and 1989, President Alfonsín issued just 10. By contrast, President Menem issued 335 NUDs between July 1989 and the 1994 constitutional reform and a total of 545 during his 10 years in office. The 1994 constitution reform permitted NUDs, but only under “exceptional circumstances” and never on fiscal matters. After 1994, Menem issued 210 NUDs, at least 15 of which were related to fiscal policy.” (Levitsky, 2003; 248)
Brazilian political system experienced an elimination of one institutional veto player. This process and its outcomes are of extreme relevance for understanding Brazil. I argue this since the 1988 Constitution left several unsolved issues, which still remain unsolved or have experienced cumbersome negotiations in order to arrive at final decisions. An important explanatory factor, I argue, for these cumbersome negotiations is the high number of veto players. This is so because after the constitution writing process on 1988 was over, Brazil experienced an increase in the number of veto players (i.e., the federal congress went back to have two separate independent chambers and an explosion of political parties took place).

Tax policy was one among several issues of dispute during the constitutional writing process. Nevertheless, important changes with respect to tax policy took place during the mentioned constitution writing process, which became crystallized until the present day. My argument is not just that the Constitutional writing process provided that unifying effect in order to surpass the political fragmentation of the Brazilian polity, which is important in order to gain an understanding of the possibility of reform or policy change. In addition, I think that it provides a concise reality snap-shot of the interests that prevailed and, consequently, got embedded into the Brazilian tax policy, and general political, reality.

With the benefit of the hindsight, the Brazilian 1988 tax policy reform was characterized by being undertaken through a constitution writing process (i.e., extraordinary process). This is contrary to the Argentine “normal” policy-making process. Because of this reality and the composition of the Constitutional Constituent Assembly, the interests that strived were the Legislative-Sub-national over Presidential-
National interests (see Souza, 1997). This implies that the sub-national units won an increased power for independent tax revenues in conjunction to more tax revenue benefits (i.e., federal transfers). Thus, the Argentine and Brazilian experiences present the opportunity to gain an understanding of tax policy reform within structural environments that are not consider prone to change. Nevertheless, their respective tax policy changes were guided by the institutional realities under which such reforms took place, which help us explain why the outcomes differed from one another.

Therefore, the higher number of veto players of Brazil’s polity helps us explain the higher degree of difficulty for promoting reforms (i.e., tax policy reform took place only within an extraordinary and temporary process). Nevertheless, a change within this greater fragmented milieu occurs at higher costs and this meaning that the necessary political support for tax policy change requires more complicated exchanges with implications to the final tax policy structure as I discussed on Chapters 3 and 4 for Argentina and Brazil, respectively (i.e., regional assertive interests). Nevertheless, after changes have taken place within this fragmented milieu they rapidly become consolidated for similar reasons. Thus, this means an increase in the degree of difficulty of promoting further change and the crystallization of the conflicts or interests present throughout the reform process or event (i.e., Argentina (executive-national) vis-à-vis Brazil (legislative-sub-national).

Hence, why and how did tax policy reform occur in Argentina and Brazil? The presented temporary *institutional absorptions* were used to explain the tax policy reforms that took place in Argentina and Brazil, partisan control and constitutional constituent assembly, respectively. Levitsky (2003) and Lamounier (2003), for Argentina and
Brazil, respectively, underscore the relevance of partisan control, partisan fragmentation, and constitutional issues on reform attempts and successes.

The Ménem government’s capacity to combine democracy and radical reform was rooted, in large part, in the Justicialista party. Given its close ties to organized labor and deep roots in working- and lower-class society, the PJ represented many of the potential losers under neoliberalism. Its capacity to deliver these sectors on behalf of economic reform was therefore critical to the reform’s success. This was most clearly seen with respect to the unions, whose repeated protests had helped to derail the Alfonsín government’s comparatively mild heterodox stabilization policies. Through a deft combination of persuasion, threats, and side payments, the Ménem government gained a remarkable degree of labor acquiescence. The Peronist-led General Labor Confederation (CGT) did not carry out a single general strike during Ménem’s first three and a half years in office, and it led only one general strike during his entire first term. Moreover, sector-level unions cooperated with every major privatization, including electricity, telecommunications, petroleum, and social security. (Levitsky, 2003; 251)

In the late 1980s and early 1990s, legislative fragmentation, loose party discipline, and steep inflation eroding popular support of the presidency had the effect of rendering the Brazilian political system unable to aggregate issues for negotiation and decision. Caught in the vicious circle of political disarray and monetary instability, Brazil seemed doomed to lag behind the rest of Latin America in the path to structural economic reform. During the 1980s and early 1990s, Brazil’s nightmarish legislative fragmentation problem was compounded by two other factors: the resilience of the statist economic ideological legacy (much of which had been entrenched in the 1988 constitutional text) and weak presidential leadership under the last military and the initial three civilian presidents (João B. de Oliveira Figueiredo [1979-85], José Sarney [1985-90], Fernando Collor [1990-92], and Itamar Franco [1992-94]). (Lamounier, 2003; 282)

The absorption arguments were presented in order to counteract the effects of a high number of veto players, which tend to create policy stability. Once a reduction in veto players took place, it represented less structural impediments in order to promote and undertake a tax policy reform. Nevertheless, the latter only took place because it was part of the veto players’ agenda (i.e., Argentina (President Ménem) vis-à-vis Brazil (Constitutional Constituent Assembly)). Furthermore, the shape that it finally took is related to those interests that prevailed during those reform events; which were an
executive-central government interest in Brazil and a legislative-sub-national government interest in Argentina.

Why and how did tax policy making differ in Argentina and Brazil? As we will discuss throughout the three subsequent chapters, the quintessential defining characteristic for the tax policy reforms being discussed here are: a dramatic increase in tax collecting capacity in the Argentine case and decentralization of taxing powers in the Brazilian case. These two defining characteristics can be better understood if we take into consideration the veto players’ realities when those reforms took place. Thus, returning to my previous comments of the difficulty of pin-pointing, underscoring a labeling characteristic of these two tax policy reform outcomes I presented in Chapter 1, if we are able to accept my characterizations of these reforms, then the veto players’ explanation being put forth here gives us tremendous analytical leverage in understanding these outcomes. Furthermore, this veto players’ characterization helps us understand, for the moment, the presented different tax policy productions in Argentina and Brazil, which coincide with the stated hypothetical expectations in Chapter 2.

What explains the differing types of legislation production (and rankings) in Argentina and Brazil (per year and percentage-wise⁸)? The expectations were that Brazil should have had more tax related decrees and laws than Argentina per year because it also had more veto players and of course because decree powers existed. Table 4.9 presents the countries’ rankings. These expectations were met as we can see from Table 4.9, but Argentina appears to have more laws as a percentage than Brazil. Nevertheless,

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⁸ In the case of Argentina see Tables 3.2 and 3.3. In the case of Brazil see Tables 4.2 and 4.3. In the case of the rankings, see Table 4.9.
we need to remember the caveat presented on Chapter 3 regarding law-making in
Argentina with the peculiarity of considering as a “law” a policy adopted only by the
executive, which fall more into the category of a decree.

<table>
<thead>
<tr>
<th>Absolute Number</th>
<th>per year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Laws</td>
<td>Brazil &gt; Argentina</td>
<td>Brazil &gt; Argentina</td>
</tr>
<tr>
<td>Decrees</td>
<td>Brazil &gt; Argentina</td>
<td>Brazil &gt; Argentina</td>
</tr>
</tbody>
</table>

Table 4.9: Type of Tax-Legislation Rankings (Laws vis-à-vis Decrees): Argentina vis-à-vis Brazil

SOURCE: Argentina: http://infoleg.mecon.gov.ar; Brazil:

What explains the differing types of tax policy production (and rankings) in
Argentina and Brazil (per year and percentage-wise)? Table 4.10 presents the countries’
rankings. The expectation was that Brazil’s tax policy-making should have concentrated
on the federal consumption tax (i.e., IPI), income taxation, and social contributions; while
Argentina focused more on the consumption taxation (i.e., VAT) and to a lesser extent on income taxation because of their differing executive constitutional taxation boundaries. In order to further understand this difference, it is important to understand the nature of the revenue sharing mechanisms in place in both cases. The unfinished constitutionality of this mechanism in Argentina presented an additional tool of negotiation, which was not possible in Brazil. Because of this it is possible to understand the increase in social contributions, in Brazil, even though the negative effects (i.e., economic efficiency and regressive implications) on the overall tax system (see Chapter 5).

<table>
<thead>
<tr>
<th>Tax Policy</th>
<th>Absolute Number</th>
<th>Per year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Taxation</td>
<td>Brazil &gt; Argentina</td>
<td>Brazil &gt; Argentina</td>
<td>Brazil &gt; Argentina</td>
</tr>
<tr>
<td>Consumption Taxation</td>
<td>Argentina &gt; Brazil</td>
<td>Brazil &gt; Argentina</td>
<td>Argentina &gt; Brazil</td>
</tr>
<tr>
<td>Social Contributions</td>
<td>Brazil &gt; Argentina</td>
<td>Brazil &gt; Argentina</td>
<td>Brazil &gt; Argentina</td>
</tr>
</tbody>
</table>

Table 4.10: Type of Tax Policy Rankings: Argentina vis-à-vis Brazil


9 In the case of Argentina see Tables 3.4 and 3.5. In the case of Brazil see Tables 4.4 and 4.5. In the case of the rankings, see Table 4.10.
The behavior of both cases further underscores the prevalence of maximizing revenue collection over efficiency and distributive justice arguments, which I argue is better understood from an institutional perspective rather than any ideological inclinations; by stating this, I do not want to imply of the irrelevance of ideology as an explanatory factor or as a guidance for making decisions by our actors. Nevertheless, all ideological, cultural, and interests preconceptions have to be and are channeled and mediated by the institutional mechanisms in place. In other words, any one-dimensional analytical intent will give us an incomplete and void picture of the reality we are trying to explain, understand. Thus, even though it might be perceived as I am purporting another type of one-dimensional explanation, the analytical reality is otherwise.

The several different and important factors in order to bring light to the outcomes of interest here are channeled by the institutional environment in place, which our actors learn and adapt to in order to strategically act for furthering their goals. Those goals, however idiosyncratic as they might be at the beginning, need to be adjusted to the reality within which they are embedded in order to survive and contribute. In other words, in order for us to be able to notice their effects, they still need to survive and that is why it is of utmost importance an strategic assumption instead of an ideological one, and why the former is not one-dimensional, while the latter one is.

Table 4.11 includes the interests that prevailed during the tax policy reforms under study here and extrapolate some hypothetical predictions (i.e., direction of change) regarding the relevant tax policy dimensions in this study. As was discussed in Chapter 2, I make use of two different standardized taxation measures for each of these dimensions: weights and levels. These two types of measures give us different
information about taxation and the political system. Furthermore, they are explained by different factors (see Chapter 2). Thus, the hypotheses included in Table 4.11 underscore the prevailing interests during the tax policy reforms of interest here, which they are more relevant for explaining weight than level measures as discussed in Chapter 2. In order to make sense of the level measures’ predictions, we need to recall the basic assumption used throughout this dissertation, maximizing revenue interest, and the institutional reality within which our actors are embedded, especially the revenue sharing law. Therefore, why do I predict or expect the directions of change included in Table 4.11?

In regard to the central government taxation weight, the Argentine case presents the possibility of experiencing an increase and that is why I have included this possibility in Table 4.11 based on the prevailing interest I underscored. Nevertheless, I also indicated that the centralization of taxation was perceived as an inheritance of the authoritarian past. Thus, we need to realize these contradicting effects on the final central government taxation weight’s behavior. Although an increase in the central government taxation weight might be possible, it could be counteracted by the decentralization ethos, which might have a null effect at the end; in other words, a status quo outcome. I included the status quo possibility in all entries in Table 4.11. The main reason for doing so is because of the non-sufficiency quality of the explanatory framework I use. Furthermore, and a more ambitious claim, an explanation of change in itself can only be done contingently; hence, there is no possibility of constructing a sufficient explanation of change, which implies that hypothetical outcomes will remain open until contingent characteristics are taken into consideration.
Table 4.11: Hypothesized Tax Policy Dimensions’ Change (direction): Centralization, Progressivity, and Level

In the Brazilian case we should expect a decrease in the *central government taxation weight* because of the domination we mentioned the sub-national governments had in the drafting of the new constitution and its effect on this taxation dimension outcome. In regard to the *progressive taxation weight*, we already mentioned that it is
based on the behavior of two types of taxation: *income* and *consumption*. Thus, based on the previous centralization dimension discussion, we should expect an increase (a decrease) in both types of taxation, *income* and *consumption taxation weight*, in Argentina (in Brazil) because both taxes are controlled by the central government (shared with sub-units).

In order to explain and understand the *level* measure behaviors we underscore the relevance of the *revenue maximizing* in conjunction with the *revenue sharing law* in place. Regarding the *central government taxation level*, because of an affinity between the two relevant predictors in the Argentine case, we should expect an increase in this dimension as well as in the *income, consumption*, and *total taxation levels*. The Brazilian case is more complicated because we do not have this affinity between the *revenue maximizing* assumption and the *revenue sharing law* in place. The latter, as it was discussed, places the central government in a situation of a revenue collection disincentive, which is especially the case for the federal *income* and *consumption taxation levels* and that is why in Table 4.11 the expectation is a decrease in both. Nevertheless, for the *central government taxation level* the prediction is more difficult since even though the *revenue sharing law* creates collecting disincentives for the central government, the issue of the social contributions emerges. These ones can still help increase its *taxation level*, but what we can underscore at this point is the conflicting effects on the *central government taxation level’s behavior*.

Related to the discussion of the prevailing interests during the tax policy reforms of interest in this dissertation, we can hypothesized an increase in the *sub-national consumption taxation level*, with the caveat that the states were also confronted by a
similar predicament as the central government regarding the *revenue sharing law*. This is so (see Chapter 5) because of the increase in mandatory transfers to the municipalities after the 1988 Constitution. Thus, the states ended up being in a middle situation between the extreme disincentive for collecting at the federal level and the municipalities.

Finally, regarding the *total taxation level*, we should expect an increase in the Brazilian case because it is an overall measure and a putting together of the different taxes and tax collecting units. I discuss and analyze these tax policy dimensions’ behavior in detail throughout the next three chapters and they are related to important political processes discussed in Chapter 2 (see also Lieberman 2002).

**Closing Chapter’s Comments**

I presented an argument seeking to provide an understanding of the contingent characteristics of the two studied tax policy reforms that took place in Argentina and Brazil. Nevertheless, doing so through the use of generalized theoretical claims: *veto players theory*. Thus, it has been a combination of general-contingent claims in order to understand tax policy-making and tax policy reform within two fragmented polities: Argentina and Brazil.

Throughout the present chapter, I discussed events of tax policy reform within an environment of multiple veto players. Thus, in order to be able to explain those changes and in order to make use of *veto players theory*, I traced for reductions of veto players which coincided with the studied reforms. Nevertheless, the possibility of predicting the direction and magnitude of those changes in a generalized way is more troublesome (see Chapter 2) and that is why I have insisted on a more contingent approach of the reforms.
under study, without straying away from *veto players theory*\textsuperscript{10}. The purpose of the latter was for underscoring the interests that prevailed after the absorption rule effects on the relevant veto players, which I use throughout the following three chapters for explaining the nature and extent of tax policy decentralization, progressivity, and level (hypotheses presented in Table 4.11) and testing the predictive power of this contingent application of *veto players theory*.

As quoted from Scharpf (1997) at the beginning of this chapter, this dissertation departs from the analytical premise that it is of utmost importance to take into consideration the strategic interactions of the relevant actors involved in the construction of a state’s tax system in order to understand its outcome. In other words, the politics of taxation becomes essential to understand why a tax system has the structure it has and why certain changes take place at certain moments in time and not at others.

Let us now proceed to analyze the implications of the discussed tax policy-making types. I do this departing from the veto players’ analytical framework; by this I mean, that I hypothesize that the prevalent preferences during the tax policy reform moments were crystallized and will help us predict the direction and magnitude of taxation changes (see Table 4.11). Nevertheless, these preferences are not ex-post facto improvisations, but emerge from the veto players analysis done so far and the empirical

\textsuperscript{10} “…while veto players theory sometimes comes to similar conclusions with the existing literature, there are also many disagreements. But most important, there is no direct way of translating existing institutions into the number and distances of veto players. Some institutions have similar effects (federalism increases the number of veto players), while others alter their impact on veto players on the basis of specific institutional provisions (who controls the agenda on referendums, executive decrees). Most important, however, is the fact that the results of veto players analysis depend on the ideological positions of veto players: some of them may be absorbed; even if they are not absorbed, they may converge or diverge, and this will have serious implications for policy stability. Even the importance of agenda setting depends on the positions of veto players and the location of the agenda setter.” (Tsebelis, 2002; 159-160)
evidence provided throughout this chapter. Thus, the three subsequent chapters present an empirical detailed and theoretically guided discussion of three important tax policy dimensions: centralization, progressivity, and overall level. The relevance of these dimensions is because they are good indicators of important political processes of interest to political scientists: state capacity, collective action dilemma, and distributive justice\textsuperscript{11}. Nevertheless, let us start with an analysis of the centralization dimension of tax policy.

\textsuperscript{11} Please refer to Chapter 2 for a more detailed discussion.
CHAPTER 5

CENTRAL GOVERNMENT TAXATION WEIGHT:

THE CASE OF ARGENTINA AND BRAZIL

The tendency...apparently has followed a similar path: the states have been gaining a greater fraction from the federal collections, decreasing the national government’s financial margins. The necessity to harmonize the provinces, states, and central government’s interests has introduced a variety of consequences. Some tax policy decisions, when retrospectively seen, appear to be little less than absurd if the mentioned situation is not taken into account. It could be predicted that the topic will increase in importance even in countries with a unitary organization. Spending decentralization policies will have the side effect of creating the necessity of reexamining the taxing realities of each level of government. In this sense, Colombia appears to open, after its 1991 Constitution, an interesting space for the debate of spending and taxing realms in a country with a unitary organization.¹ (Carciofi, Barris, and Cetrángolo, 1994; 286-287)

In Chapter 3, after quantitatively laying-out Argentina’s tax policy-making behavior, I underscored three questions, which were: what explains these differing types

¹ Translated by author: “La tendencia…parece haber seguido una dirección semejante: los estados han venido ganando una fracción creciente de la recaudación federal, disminuyendo los márgenes financieros del gobierno nacional. La necesidad de armonizar los intereses de las provincias, estados y el gobierno central ha introducido así múltiples consecuencias. Ciertas decisiones en materia tributaria, cuando son observadas retrospectivamente, parecen poco menos que absurdas si no se toma debida nota de esta situación. Hacia el futuro es previsible que el tema adquiera importancia creciente, aún en países de organización unitaria. Las políticas de descentralización de gastos habrán de traer como contrapartida la necesidad de reexaminar los espacios de tributación de cada nivel de gobierno. En este sentido, Colombia parece abrir a partir de la nueva Constitución de 1991, un interesante espacio para el debate de competencias de gastos y tributación en un país de organización unitaria.” (Carciofi, Barris, and Cetrángolo, 1994; 286-287)
of legislation and tax policy production?; what explains these differing types of legislation and tax policy rankings?; and what are the implications of these differing tax policy-making productions? The first two queries were already addressed in the previous chapter. Thus, we now start addressing the last query throughout the present and the next two chapters, without disregarding our discussion up to this point and evaluating the hypotheses presented in Table 4.11.

**Introduction**

The purpose of studying tax policy and its centralization dimension is because it is indicative of the broader political processes of building state-capacity and solving collective action dilemmas (see Lieberman 2002). The centralization dimension specifically addresses the question of *who collects what*, which tends not to be taken into consideration due to its limitations in cross-national research. The amount of federal cases throughout the world is small. Nevertheless, as the opening quote from Carciofi, Barris, and Cetrángolo states, I still think that irrespective of the political power structural arrangement of a polity, an answer to *who collects what* needs to be given. In other words, even though it is a more explicit endeavor in federal countries, it is not exclusive to them. Thus, this chapter studies the centralization dimension of tax policy in order to start uncovering the processes of the central government’s capacity and collective action dilemmas solution (see Chapter 7) and its relative position within the overall state’s revenue system.

In the present chapter I further examine the studied tax policy reforms in Chapters 3 and 4 by focusing on the *central government taxation weight* dimension. I demonstrated that a reduction in the number of veto players occurred in Argentina (1989)
and Brazil (1986-88), which I argue helps us explain and understand the tax policy centralization dimension’s behavior and test the hypotheses included on Table 4.11: increase or status quo in Argentina and decrease or status quo in Brazil. This is so, because by underscoring the interests that prevailed during the tax policy reform events, I am able to explain the direction of change of their respective tax policies regarding the centralization dimension.

Therefore, this chapter addresses the main general question: What are the causes of changes in a tax policy’s centralization dimension? This chapter provides an explanation of the tax policy centralization dimension taking the Argentine and Brazilian tax policy experiences during the 1980s and 1990s as the cases of analysis. The explanation is based upon a contingent application of veto players theory. In addition, I present answers to the following more specific questions: Why and how did the tax policy centralization dimension change in Argentina and Brazil? Why and how did Brazil decentralize more its tax system than Argentina (i.e., rate of change)? Why and how did Brazil have a more decentralized tax system than Argentina (i.e., comparative absolute value)?

Even though an appropriate answer to the last question warrants a deeper historical analysis beyond an analysis of the tax policy reforms that took place during the late 1980s in Argentina and Brazil, I still think that it is important to address it. This is so since the reforms under study here should not be considered completely disconnected and independent from their respective countries’ historical developments.

Hence, even though the analysis and conclusions that I present here are centered specifically on the tax policy reforms (i.e., their causes and decentralization,
characteristics) that took place in the two cases of study, we need to keep in mind their relatedness to broader historical developments and by consequence indicative of these developments and not accidental oddities. I argue that the nature and empirical effect of the absorption rule$^2$ helps us explain the characteristics of the tax policy reform outcome, from a more contingent point of view. And the characteristics I study here are those related to its centralization dimension. In addition, the cross-sectional comparisons of absolute values permit us to evaluate if there is any significant difference or not between our cases and if that difference or similarity changed throughout the two decades of interest for this dissertation.

Let us start with a brief presentation of the proposed contingent veto players’ explanation of the tax policy centralization dimension. Secondly, I pursue the explanation of the two chosen cases, making use of a contingent veto players theory application. Finally, I present some concluding and bridging remarks toward the following next two chapters.

**Veto Players and Tax Policy Centralization**

As I stated in the introductory chapter of this dissertation, it is accepted knowledge that economic development$^3$ is positively correlated with the level of taxation$^4$. Furthermore, economic development is positively correlated with a heavier relative weight on income vis-à-vis consumption taxation. As high-middle level of development

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$^2$ i.e., relevant actors and their interests during the absorption rule effect

$^3$ Usually measured as Gross Domestic Product [GDP] per capita; e.g., Cheibub (1998)

$^4$ Measured as total Taxes as a percentage of GDP
countries, Argentina and Brazil do not contradict the accepted knowledge of economic development by having a greater relative weight of consumption than income taxation.

Nevertheless, if we take GDP per capita as a measure of economic development, then the difference between them cannot be explained. By this I mean that due to Argentina’s much higher GDP per capita than Brazil the expectation would be a higher level of taxation and greater income taxation weight in Argentina (see Table 1.11). Nevertheless, this has not been the case throughout Argentina and Brazil’s respective taxation histories. Thus, it is necessary to pay attention to other explanatory factors in order to understand the partial taxation behavior deviations from accepted knowledge that the cases of Argentina and Brazil represent. I start to pursue part of the answer to this deviation here, taking a closer look at their respective central governments’ roles within the overall revenue generating system. Nevertheless, I do not address this empirical-theoretical conundrum, but I conclude this dissertation proposing ways in order to tackle this question and a preliminary hypothetical explanation of what might be behind such partial taxation behavior deviation.

Understanding the central government’s role and what took place during the reform periods under study, provide us with important connecting information regarding the other two important dimensions for this dissertation: progressivity and overall level of taxation. This is so, as discussed in Chapter 2, because of the central government’s greater taxation weight and its control of the type of taxation with highest potential of affecting distributive justice issues: income and consumption taxation. Thus, let us

\*I state partial since their income-consumption taxation relative weights combination fall within accepted and expected knowledge.*
discuss and elaborate what I explain throughout this chapter: central government taxation weight.

The dependent variable in this chapter is the occurrence of change in tax policy centralization: central government taxation weight. This is a measure of the weight of the central government’s taxation within the overall tax system, which is measured as the amount of tax revenue collected by the central government as a percentage of total tax revenues. Percentages are used in order to have standardized measures of comparisons across cases and time. These percentages from total tax revenues collected, present a comparative tax collecting information between the different levels of government, without explicitly taking into consideration how the economy fare. The interest in this chapter is to understand the division of responsibilities and resources within our cases of study, with special attention to the central government as collective actors. This weight measure can also be understood as a measure of the relevance of the central government within the total system, from the taxation point of view.

Assuming that each governmental unit would want to maximize its revenue, the taxation outcome would depend on the power leverages each unit has during reform moments. Therefore, any change in central government taxation weight depends on the respective governmental units’ power leverages during the reform moment, which can only be gauged contingently. As discussed in Chapters 3 and 4, we should expect a greater decentralization of taxation weight in Brazil than Argentina because of the differing prevailing interests during their respective taxation reforms: legislative-sub-national governments and executive-central government, respectively. Furthermore, because of their differing executive taxation constitutional boundaries (see Chapter 2),
Argentina’s central government was in a better position to defend its interests than Brazil’s, which further underscores the possibility of the latter decentralizing more its taxation than the former.

**Analysis of Cases**

**Tax Policy Centralization**

Table 5.1 presents the medians for the *central government taxation weight*\(^6\) dimension (before transfers) summarizing it by decades and country. Throughout the several figures I present, in this and subsequent chapters, in addition to presenting the listed tax measures in Chapter 2 in order to gauge the dimensions of interest, I include a GDP index (i.e., 1990 = 100) measure for each of our cases. This measure seeks to gauge and demonstrate how the economy in each of our cases behaved with respect to time. The reason for including this pictorial representation side-by-side our tax measures, is because of the usual expectation of the positive impact of economic factors on tax collections.

Figure 5.1 presents together Argentina and Brazil’s *central government taxation weights* throughout the two decades under study. In regard to Brazil, two curves are presented, one for gross revenues collected by the central government and a second one illustrating the central government’s revenues after transfers to the other two lower units of government. From the Table 5.1 and Figure 5.1 we can see that Argentina’s central government had a greater weight than Brazil’s throughout the two decades under study.

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\(^6\) **Central Government Taxation Weight**: Taxes collected by Federal Government as a percentage of the Total Tax Revenue. The values included in this and the following tables and graphs are before transfers’ values because data for the after tax transfers in the Argentine were not available.
Table 5.1: Percentage of Taxes Collected by Central Government (medians): 1980-2000

<table>
<thead>
<tr>
<th></th>
<th>Argentina</th>
<th></th>
<th></th>
<th>Brazil</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Government Taxation Weight</td>
<td>82.90%</td>
<td>84.65%</td>
<td>82.80%</td>
<td>69.89%</td>
<td>73.15%</td>
<td>67.69%</td>
</tr>
</tbody>
</table>

SOURCE: Brazil, Varsano et. al. (1998)\(^7\) and Lemgruber (2001)\(^8\); Argentina, The Conjuncture and Information Sector of the Economic Ministry\(^9\)

Figure 5.2 shows the year of 1989 as an inflection point regarding the Argentine central government taxation weight dimension. From 1980 until 1989 the graph presents an increasing behavior of the percentage of taxes collected by the federal government, but after 1989 the pattern changes to a decreasing one. Nevertheless, the decrease in centralization was a mild one. On the other hand, Brazil’s “before transfers” weights show an increasing or centralizing behavior from 1980-1983 (see Figure 5.3). Nevertheless, the 1983-1986 period shows a decreasing or decentralizing pattern.

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\(^7\) Brazilian 1980-1989 data

\(^8\) Brazilian 1990-2000 data

\(^9\) Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
Furthermore, these two figures present the *central government taxation weight* moving in an opposite direction of the economic trend, which help us underscore the prevailing interest of maximizing revenues, magnified under times of stress.

A possible explanation for the shift in 1983 in Brazil could be attributed to the military regime’s last efforts in catering the sub-units’ support. In 1982 the military regime received an astonishing defeat in the pretty fair municipal elections. The mentioned election was used as a popularity indicator by the military regime, which then tried to make adjustments in order to secure the up-coming presidential elections (i.e., 1985). This argument is supported by the fact that the decentralization that took place after 1983 benefited the states and not the municipalities. The states were the important actors in securing the majority of the votes in the Electoral College used to indirectly elect the Brazilian presidency during the military regime.

An important change took place in 1988 when the new democratic constitution was adopted and a more severe decentralizing pattern was institutionalized in Brazil. With the exception of 1993, the decentralizing trend of the Brazilian tax system was stabilized. The increase in 1993 is correlated with an important jump in the weight of “federal contributions” (see Figure 5.4). This centralizing behavior started to be controlled under Cardoso as Minister of Finance (i.e., 1993-1994) and then under his first administration, but this mild centralizing pattern continued under the second part of his first administration and throughout his second administration (see Eaton and Dickovick 2004).
Figure 5.1: Argentina vis-à-vis Brazil’s Central Government’s Taxation Weight

SOURCE: Brazil, Varsano et. al. (1998)\textsuperscript{10} and Lemgruber (2001)\textsuperscript{11}; Argentina, The Conjuncture and Information Sector of the Economic Ministry\textsuperscript{12};

\url{http://unstats.un.org/unsd/snaama/SelectionBasicFast.asp}

\textsuperscript{10} Brazilian 1980-1989 data

\textsuperscript{11} Brazilian 1990-2000 data

\textsuperscript{12} Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
Figure 5.2: Argentina’s Central Government’s Taxation Weight


\(^{13}\) Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
Figure 5.3: Brazil’s Central Government’s Taxation Weight

SOURCE: Brazil, Varsano et. al. (1998) and Lemgruber (2001) ;


14 Brazilian 1980-1989 data
15 Brazilian 1990-2000 data
Brazil’s “Social Contributions” Weight

Figure 5.4: Brazil’s “Social Contribution” Taxes


\(^{16}\) Brazilian 1980-1989 data

\(^{17}\) Brazilian 1990-2000 data
<table>
<thead>
<tr>
<th></th>
<th>Argentina</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1980-2000</strong></td>
<td>Cent. Gov’t. Tax. Weight</td>
<td>Not significant X**</td>
</tr>
<tr>
<td></td>
<td>Intra-case change</td>
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</tr>
<tr>
<td></td>
<td>Intra-case rate change</td>
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<tr>
<td></td>
<td>Inter-case absolute value</td>
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<tr>
<td><strong>1980s</strong></td>
<td>Cent. Gov’t. Tax. Weight</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Inter-case absolute value</td>
<td></td>
</tr>
<tr>
<td><strong>1990s</strong></td>
<td>Cent. Gov’t. Tax. Weight</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Inter-case absolute value</td>
<td></td>
</tr>
<tr>
<td><strong>1980s vs. 1990s</strong></td>
<td>Cent. Gov’t. Tax. Weight</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Arg80 vs. Bra90</td>
<td>X**</td>
</tr>
<tr>
<td></td>
<td>Arg90 vs. Bra80</td>
<td>X**</td>
</tr>
</tbody>
</table>

Two-tailed tests:
* p ≤ 0.10
** p ≤ 0.05

Table 5.2: Central Government Taxation Weight: Statistical Means Comparisons

SOURCE: Brazil, Varsano et. al. (1998)\(^{18}\) and Lemgruber (2001)\(^{19}\); Argentina, The Conjuncture and Information Sector of the Economic Ministry\(^{20}\)

Thus, Figure 5.3 illustrates the relevance and importance of the 1988 Constitution with respect to the distribution of taxing power and responsibilities. Furthermore, it

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\(^{18}\) Brazilian 1980-1989 data

\(^{19}\) Brazilian 1990-2000 data
implicitly illustrates the importance that “federal contributions” attained and their effects on the overall tax system (i.e., centralizing and regressive behavior; see Figure 5.4).

In order to analyze in a more systematic manner the central government taxation weight dimension, I present a series of statistical means comparisons. I compared the 1980s vis-à-vis the 1990s within each of our two cases and between them. Table 5.2 presents a quick snapshot of the three main questions in this chapter, regarding the central government taxation weight dimension: if change took place; at what pace; and which case was more centralized. Argentina did not have any statistically significant change throughout the two decades under study, while Brazil did experience decentralization. Thus, Brazil had a statistically significant greater decentralizing rate of change. Nevertheless, Argentina had a statistically significant greater central government taxation weight throughout the two decades under study and comparing each individual decade. In summary, the 1980s and 1990s show us a more decentralized tax system in Brazil when compared to Argentina (i.e., 15.72% and 22.32% more centralization in Argentina, respectively). Furthermore, their distance on the central government taxation weight dimension increased (see Tables B.1, B.2, B.3, and B.4 in Appendix B for SPSS results).

Returning to the hypotheses on Table 4.11 regarding the central government taxation weight, both were supported by the evidence presented (i.e., status quo for Argentina and decentralization for Brazil). Hence, from the central government taxation weight dimension point of view: Why change took place in Brazil and not in Argentina?

20 Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
Why Brazil’s rate of change was greater or more drastic than in Argentina? Why their relative distance increased through time? In the next section we proceed to answer these questions.

*Contingent Veto Players Analysis: Argentina vis-à-vis Brazil Tax Policy Centralization*

As shown in Chapters 3 and 4, the temporal inflexion junctures from the point of view of veto players and tax policy in the Argentine and Brazilian cases were: 1989-90 and 1986-88, respectively; we can also see these coinciding changes in the presented figures. Furthermore, both time periods represented election years\(^{21}\) and created a rearrangement of veto players in both cases: a temporary reduction of veto players.

Argentina and Brazil both have three institutional veto players (i.e., one individual and two collectives): the President and two legislative chambers. In the case of Argentina, the Peronist party (*PJ*) won the 1989 Presidential Elections, which gave this party control of all three institutional veto players (see Table 3.6). Thus, by making use of the *absorption rule*, we can explain the occurrence of a tax policy reform, which was not possible before the 1989 election because of the incongruence between institutional and partisan veto players (see discussion in Chapter 3). Immediately previous to 1989, Argentina had the Presidency dominated by the *Unión Cívica Radical* (*UCR*) and both houses of the federal congress dominated by the *PJ* (see Table 3.6). After 1989 the *PJ* dominated all three institutional veto players. Thus, the *PJ*, a partisan veto player, provided the unifying role among the three institutional veto players.

In the case of Brazil, the 1986 Federal Congressional Elections represented a decrease in the number of institutional veto players. This was true since the elected

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\(^{21}\) i.e., 1989 Presidential Elections in Argentina and 1986 Federal Congressional Elections in Brazil
Federal Congress (i.e., both houses) functioned as the *National Constituent Assembly* (i.e., as one) with the responsibility of writing a new constitution for the new democratic regime and legislating (see Table 4.6). In other words, by making use of the *absorption rule* we can explain a reduction of veto players (i.e., from three to two institutional veto players), which then enables us to explain the tax policy reform of interest.

Argentina can be considered to have two main political parties (i.e., *UCR* and *PJ*), which helps understand the formation of almost single-party governments. Nevertheless, in the case of Brazil and its fragmented party system, it has been impossible to form single-party governments. Thus, multi-party governments have characterized Brazil. These comments underscore the higher number of veto players in the Brazilian case. Both cases have three institutional veto players, but in the Argentine case we see single-party governments (or one big and one small party government). The Brazilian case has never had this type of government and always-multiparty governments or shifting coalition governments. Hence, during the tax policy reform, the higher number of partisan veto players in the Brazilian case and the prevailing interests’ difference between Argentina and Brazil can help us explain and understand the greater change, direction and magnitude, in the *central government taxation weight* dimension in Brazil.

In Chapter 2 we presented the variables of interest and their relations (see also Figure C.5 in Appendix C): *executive constitutional taxation boundaries, prevailing interests during reform period*, and *central government taxation weight*. Let us then address the questions of direction and magnitude of change for the discussed taxation measure: *central government taxation weight*. 
Why change took place in Brazil and not in Argentina? Hence, regarding the *central government taxation weight* dimension, the differing prevailing interests in our cases after the *absorption rule* effects within the remaining relevant veto players affected this outcome. In both cases, due to democratization, tax policy decentralization was part of the agenda. A centralized tax policy was perceived as being part of the authoritarian recent past. Nevertheless, even though this democratic ethos was true, a reform did not take place in Argentina or Brazil until a reduction of veto players happened, as I discussed. Furthermore, because of the different predominant interests in both cases, executive-central government in Argentina and legislative-sub-national in Brazil, the hypotheses at the end of Chapter 4 were supported (see Table 4.11). We saw decentralization in the case of Brazil and no significant change in the Argentine case.

Why Brazil’s rate of change was greater or more drastic than in Argentina? This can be explained because of the nature of the reform in both cases, where in Argentina the executive and by consequence the federal government was able to keep an upper hand (i.e., *institutional absorption* by partisan control: PJ). In the case of Brazil, the federal sub-units, through the federal legislative branch, were able to extract more federal resources and taxing power (i.e., *institutional absorption* by a constitutional constituent assembly: Constitutional National Assembly), which dominated the constitutional writing process (see Souza 1997). These differing natures of the reforms in each case needed to be combined with the prevailing democratic ethos and there was no affinity in the case of Argentina, but there was affinity in the case of Brazil. By affinity I mean, the coinciding of intention of decentralizing, which existed in both cases, and the prevailing interest during the reforms: Executive-Central Government (Argentina) vis-à-vis Legislative-
Sub-national Governments (Brazil). Nevertheless, we need to keep in mind that Argentina’s provinces were not defenseless (see discussion in Chapter 3).

Why their relative distance from the *central government taxation weight* dimension point of view increased through time? We were able to verify a greater *central government taxation weight* in Argentine than Brazil throughout the two decades under study. Their distance increase through time since Brazil’s reform was more drastic and Argentina’s central government was able to keep an upper hand, as I have explained. This analysis can be summed-up quoting the following excerpt,

As many observers have noted, coherent parties serve as the mechanism through which presidents can leverage support for centralizing reforms (Willis, Garman, and Haggard 1999). The comparative lesson from our cases is that significant partisan powers can promote rapid stabilization by facilitating the types of fiscal pacts seen in Argentina. Ultimately, however, the evaporation of presidents’ partisan powers in Argentina demonstrated that re-centralization based largely on a strong partisan backing can be exceedingly fragile. Meanwhile, the Brazilian case confirms that subnational assaults on federal coffers will be harder to contain in the absence of strong parties. Nonetheless, central governments can prevail in the context of a wider consensus on the importance of stability as a public good, particularly when bureaucracies are coherent… (Eaton and Dickovick 2004; 111)

Although the quoted authors do not make reference to veto players *per se*, their conclusions remained similar to the ones I have proposed throughout this chapter. They underscore the different institutional realities in Argentina and Brazil after democratization, which presented limits and opportunities within which the relevant actors strategically interact. The quoted authors underscored the first Ménem administration as an important change within Argentina and when compared to Brazil in order to explain change in centralization (i.e., benefiting the central government’s plight with respect to the provinces).
In the case of Brazil, partisan leverage was not possible or available in order for the central government to defend its interest from the lower government sub-units that enhanced their power leverage after the 1988 constitution; but other mechanisms remained at the disposition of the central government (see Chapter 4). Eaton and Dickivick argue for the bureaucratic discipline as an explanation, which I do not discuss, but the strategy that I do underscore was the central government’s increase reliance on social contributions. The central government did so because constitutionally it did not need to transfer any of its revenues to the sub-units and by doing so, being able to address its budget deficit dilemma. Nevertheless, the social contributions’ strategy is related to Eaton and Dickvick’s bureaucratic explanation, because the bureaucracy is the one in- charged of collecting these revenues.

The discussion of why Brazil has had a more decentralized tax system than Argentina has to do with deeper historical influences that I did not research. Nevertheless, I end this dissertation with several research ideas of how to tackle the question of explaining Brazil and Argentina’s central government taxation weights and levels’ differences. Borrowing from Lieberman (2003), I present a research agenda based on a historical-institutionalism methodology in order to compare and differentiate the emergence of Argentina and Brazil’s modern tax state (ibid, 39). The working hypothesis is that their respective taxation differences derive from the different crystallization nature of regional interests within the overall polity at the time of the construction of the modern tax state (see Chapter 8).
Closing Chapter’s Comments

The presented argument sought to provide an understanding of the contingent characteristics of the two studied tax policy reforms that took place in Argentina and Brazil with respect to the central government taxation weight dimension. Nevertheless, doing so through the use of generalized theoretical claims: veto players theory. Thus, it has been a combination of general-contingent claims in order to understand tax policy-making and tax policy reform causes within two fragmented polities: Argentina and Brazil. The understanding of why and how tax policy reforms occur and the characteristics that they take is of extreme importance because of the generalized quality of such findings. In a nutshell, this chapter has presented the effects of the prevailing interests during the reforms underscored in Chapters 3 and 4: executive-central government in Argentina and legislative-sub-national governments in Brazil. The effects of these prevailing interests were hypothesized in Table 4.11).
<table>
<thead>
<tr>
<th>Country</th>
<th>Share of Total Government Tax Revenue Collected by Level of Government</th>
<th>Percentage Change in Revenue</th>
<th>Share of Total Government Expenditure by Level of Government</th>
<th>Percentage Change in Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>central</td>
<td>79.3%                     80.0%</td>
<td>+0.9</td>
<td>63%                                              54%</td>
<td>-(14.3)</td>
</tr>
<tr>
<td>subnational</td>
<td>20.7%                    20.0%</td>
<td>-3.3</td>
<td>37%                                              46%</td>
<td>+24.3</td>
</tr>
<tr>
<td>Brazil</td>
<td></td>
<td></td>
<td>1980-84                                           1990-94</td>
<td></td>
</tr>
<tr>
<td>central</td>
<td>73.7%                     66%</td>
<td>-10.4</td>
<td>74%                                              45%</td>
<td>-(39.2)</td>
</tr>
<tr>
<td>subnational</td>
<td>26.3%                    34%</td>
<td>+29.2</td>
<td>26%                                              55%</td>
<td>+(111.0%)</td>
</tr>
<tr>
<td>Colombia</td>
<td></td>
<td></td>
<td>1980                                              1994</td>
<td></td>
</tr>
<tr>
<td>central</td>
<td>82.2%                     80.1%</td>
<td>-2.7</td>
<td>72.8%                                            66%</td>
<td>-(9.3)</td>
</tr>
<tr>
<td>subnational</td>
<td>17.8%                    19.9%</td>
<td>+11.8</td>
<td>23.2%                                            34%</td>
<td>+(46.6)</td>
</tr>
<tr>
<td>Venezuela</td>
<td></td>
<td></td>
<td>1980                                              1997</td>
<td></td>
</tr>
<tr>
<td>central</td>
<td>95.8%                     96.9%</td>
<td>+1.1</td>
<td>84.5%                                            73.9%</td>
<td>-(12.3)</td>
</tr>
<tr>
<td>subnational</td>
<td>4.1%                     3.2%</td>
<td>-22.0</td>
<td>15.6%                                            26.1%</td>
<td>+(64.1)</td>
</tr>
<tr>
<td>Mexico</td>
<td></td>
<td></td>
<td>1980-84                                           1990-94</td>
<td></td>
</tr>
<tr>
<td>central</td>
<td>90.7%                     82.7%</td>
<td>-8.8</td>
<td>81%                                              71%</td>
<td>-(12.3)</td>
</tr>
<tr>
<td>subnational</td>
<td>9.3%                     17.3%</td>
<td>+86.02</td>
<td>19%                                              29%</td>
<td>+(52.6)</td>
</tr>
</tbody>
</table>

Table 5.3: Revenue and Spending by Level of Government (Before and after Decentralization)

SOURCE: Garman et al., 2001; 217.
Throughout the present chapter I insisted on a more contingent approach of the reforms under study, without straying away from veto players theory\(^{22}\). This was possible by underscoring the interests that prevailed after the absorption rule effects on the relevant veto players, which helped me, explain the nature and extent of tax policy decentralization. Even though these veto players’ reductions were temporary, as Eaton and Dickivick (2004) underscored and concluded without making use of a veto players’ framework, their effects remained relevant and important in order to understand tax policy behavior throughout the decades under study.

Argentina and Brazil present stark differences in their respective political and tax policy decentralization patterns and extent. “[T]he pace and extent of fiscal decentralization in Argentina has not followed a consistent pattern, as progress toward decentralization has often been accompanied by moves toward recentralization. In Brazil…decentralization went far beyond previous levels as state and municipal governments received significant increases over their constitutionally mandated shares of federal revenue. Subnational governments also secured greater debt limits and favorable federal refinancing of existing subnational debt throughout the 1980s and into the 1990s.” (Garman, Haggard, and Willis, 2001; 228) Why is this the case?

\(^{22}\) “…while veto players theory sometimes comes to similar conclusions with the existing literature, there are also many disagreements. But most important, there is no direct way of translating existing institutions into the number and distances of veto players. Some institutions have similar effects (federalism increases the number of veto players), while others alter their impact on veto players on the basis of specific institutional provisions (who controls the agenda on referendums, executive decrees). Most important, however, is the fact that the results of veto players analysis depend on the ideological positions of veto players: some of them may be absorbed; even if they are not absorbed, they may converge or diverge, and this will have serious implications for policy stability. Even the importance of agenda setting depends on the positions of veto players and the location of the agenda setter.” (Tsebelis, 2002; 159-160)
As Garman, Haggard, and Willis continue to argue for the Brazilian case, “[t]he decentralization of revenues without an increase in administrative responsibilities left the central government responsible for activities nominally in subnational hands. The resulting fiscal pressures and mounting and unsustainable subnational indebtedness resulted in crises that prompted attempts to reverse the decentralizing trend.” (ibid, 229) These comments are extremely useful in order to differentiate the Argentine and Brazilian tax policy decentralization experiences. This is so because what I have sought to demonstrate in this chapter is a decentralization of spending powers to the provinces in Argentina through mainly federal transfers of taxes. Nevertheless, in the Brazilian case what is seen is a decentralization of taxing powers and increase federal transfers without an explicit or clear discussion of spending responsibilities. Hence, returning to the why question at the end of the previous paragraph, which is that the different decentralizing fiscal strategies are indicative of Argentina and Brazil’s decentralizing fiscal outcomes. Furthermore, the difference in decentralizing fiscal strategies is explained by the different arrangement of veto players and the impact of varying incentive structures that I have underscored.

Thus, in the Argentine case, as long as tax revenues were on the rise there were no major problems; but with difficulties of raising tax revenues, the system would get complicated as has been illustrated graphically with common central government taxation weight trends opposing the economic ones. This is so, since the central government did not have control over the provinces expenditures (see Table 5.5), but was responsible of providing them with financial resources, even though the central government was running short in financial resources itself. In addition, the tax policy changes that took place in
Argentina made it more dependent on consumption taxes (see Chapter 6), which are much more sensitive to how the economy fares than any other type of taxation. In the Brazilian case, the dilemma centered from the lack of clarity in regard to social spending after the 1988 Constitution and the powerful justification used by the central government for creating social contributions (i.e., fiscal strategy).

This lack of clarity represented a difficult gamble for the central government since it was constitutionally obliged to transfer an increasing amount of collected federal tax revenues in Brazil, even though the subunits also received an increasing amount of independent taxing powers. Thus, the constitutional unspecified social expenditures were deduced as a responsibility of the central government, which represented fiscal deficits for the central governments and explains the possibility of justifying an increase in social contributions by the central government in order to be able to side-step two dilemmas: increased sub-units transfers and increased social spending; which as an unintended consequence impacted the central government taxation weight dimension.

The results from these realities were federal governments constitutionally constrained to transfer tax resources to their respective sub-units of government, but within differing institutional incentives structures. In the Argentine case, I would argue, that constitutional obligation did not undermine the federal government’s incentives to collect taxes because of the reality of controlling the collection of the highest revenue generating taxes (i.e., VAT and income tax; that account approximately 50% of total tax revenues; see Chapter 6). In the Brazilian case, the federal government constitutional obligation of sharing the income tax and federal VAT, provided a contradicting effect
since the sub-units (i.e., states) controlled the highest revenue generating tax (i.e., state’s VAT).

Another indication of the comparative degree of decentralization in Argentina and Brazil arises from the percentage of the transferred tax funds, which are unconditional (see Table 5.4). Argentina and Brazil have the strictest and highest of percentage of unconditional transferred funds (i.e., constitutional and unconditional) in comparison to the other decentralized Latin American cases. And this fact helps feed into the power of the subunits, or an increase of veto players, since power becomes less centralized, which represents difficulties in promoting fiscal policy changes.

<table>
<thead>
<tr>
<th>Distribution</th>
<th>Automatic Constitutional</th>
<th>Automatic Legislated by Law</th>
<th>Discretionary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assignment</td>
<td>Unconditional</td>
<td>Earmarked</td>
<td>Unconditional</td>
</tr>
<tr>
<td>Brazil</td>
<td>88.91%</td>
<td>5.6%</td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>74.98%</td>
<td>19.82%</td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td></td>
<td></td>
<td>84.95%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>44.2%</td>
<td>44.2%</td>
<td>1.04%</td>
</tr>
<tr>
<td>Mexico</td>
<td></td>
<td></td>
<td>49.12%</td>
</tr>
</tbody>
</table>

Table 5.4: Character of Intergovernmental Transfers

SOURCE: Garman et al., 2001; 220.
Nevertheless, from Table 5.5\textsuperscript{23} which portrays which governmental unit performs which budgetary function, Argentina’s peculiarity in regard to the degree of spending decentralization can be observed. This point illustrates the imbalance of provincial spending vis-à-vis taxing powers and from where many of the current budget deficit dilemmas derive. In the Brazilian case, a more balanced division is observed. Nevertheless, the Brazilian dilemmas derive from some constitutional ambiguities of spending responsibilities.

\textsuperscript{23} Legend for Table 5.5: amount refers to the power of setting the monetary quantity to be spent; structure refers to the power of specifying where the assigned monetary quantity is going to be spent; execution refers to the power, responsibility of spending the assigned monetary quantity; supervision refers to the power of monitoring spending of the assigned monetary quantity.
<table>
<thead>
<tr>
<th></th>
<th>Exclusively National</th>
<th>Exclusively Subnational</th>
<th>Mixed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Argentina</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount</td>
<td>13%</td>
<td>60%</td>
<td>27%</td>
</tr>
<tr>
<td>Structure</td>
<td>6%</td>
<td>67%</td>
<td>27%</td>
</tr>
<tr>
<td>Execution</td>
<td>6%</td>
<td>67%</td>
<td>27%</td>
</tr>
<tr>
<td>Supervision</td>
<td>37%</td>
<td>42%</td>
<td>21%</td>
</tr>
<tr>
<td><strong>Brazil</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount</td>
<td>20%</td>
<td>30%</td>
<td>50%</td>
</tr>
<tr>
<td>Structure</td>
<td>20%</td>
<td>30%</td>
<td>50%</td>
</tr>
<tr>
<td>Execution</td>
<td>20%</td>
<td>30%</td>
<td>50%</td>
</tr>
<tr>
<td>Supervision</td>
<td>45%</td>
<td>20%</td>
<td>35%</td>
</tr>
<tr>
<td><strong>Colombia</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount</td>
<td>25%</td>
<td>20%</td>
<td>55%</td>
</tr>
<tr>
<td>Structure</td>
<td>30%</td>
<td>25%</td>
<td>45%</td>
</tr>
<tr>
<td>Execution</td>
<td>20%</td>
<td>30%</td>
<td>50%</td>
</tr>
<tr>
<td>Supervision</td>
<td>80%</td>
<td>15%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Mexico</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount</td>
<td>45%</td>
<td>10%</td>
<td>45%</td>
</tr>
<tr>
<td>Structure</td>
<td>25%</td>
<td>20%</td>
<td>55%</td>
</tr>
<tr>
<td>Execution</td>
<td>30%</td>
<td>35%</td>
<td>35%</td>
</tr>
<tr>
<td>Supervision</td>
<td>70%</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Venezuela</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount</td>
<td>37%</td>
<td>16%</td>
<td>47%</td>
</tr>
<tr>
<td>Structure</td>
<td>37%</td>
<td>16%</td>
<td>47%</td>
</tr>
<tr>
<td>Execution</td>
<td>32%</td>
<td>16%</td>
<td>52%</td>
</tr>
<tr>
<td>Supervision</td>
<td>84%</td>
<td>16%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Table 5.5: Delineation of Expenditure Assignment by Function

SOURCE: Garman et al., 2001; 21Introduction
As quoted from Carciofi, Barris, and Cetrángolo (1994) at the beginning of this chapter, this chapter found that the 1990s showed a trend of taxing decentralization in the Argentine and Brazilian cases, but this trend was clearer and more dramatic in the latter than in the former. In addition, the politics of taxation become essential to understand why a tax system has the structure it has and why certain changes take place at certain moments in time and not at others. The analysis done and the rest of the chapters within this dissertation do not contribute to the understanding of creating the most efficient, fair, and/or neutral tax systems (see Chapter 1 for a more extensive justification of not doing so). This is so, because ideas regarding a tax system’s characteristics are channeled and structured by the decision-making institutions of a particular state. Nevertheless, I argue that the present analysis contributes to the understanding of tax policy reform occurrences and tax policy legislation production and their *central government taxation weight* dimension characteristics, which has been disregarded in tax policy analysis as was quoted from Bird and Oldman (1968) and Bird (992) in Chapter 1.

Hence, the studied reforms had the benefits of increasing level of resources that both countries’ sub-units had at their disposition. In addition, a more debatable aspect of such taxation reforms (i.e., and other world-wide tax reforms) has been a shift away from their progressive quality. Regarding this matter, we turn to throughout the next chapter, while the issue of level of taxation is subsequently discussed in Chapter 7. Let us now proceed to analyze the progressive nature of Argentina and Brazil’s tax policy. This is so, by making joint use of the discussion presented on Chapters 3 and 4, and here, regarding the *central government taxation weight* dimension (see Chapter 2 for more details on this matter). The latter dimension is important because of the characteristic of
the central government’s overwhelming taxing weight and control of income taxation. The relevance of the progressive dimension derives from the possibility of gauging important political processes of interest to political scientists: state capacity, collective action dilemma, and distributive justice\textsuperscript{24}.

\textsuperscript{24} Please refer to Chapter 2 for a more detailed discussion.
CHAPTER 6

PROGRESSIVE TAXATION WEIGHT:

THE CASE OF ARGENTINA AND BRAZIL

As a result of the possible distributive implications associated with tax policy reforms undertaken during the 1980s, it is not possible to say that equity aspects were main priorities. The Chilean Reform of 1990 is clearly an exception. It is not clear if this perspective will be reverted, and if so, which tax policy instruments will be used. Moreover, other public policy dimensions on the spending side, also related to distributive and equity aspects have been reexamined. Probably this represents a framework for the application of new tax policy reforms and adjustments¹. (Carciofi, Barris, and Cetrángolo, 1994; 284)

We continue throughout this chapter addressing the question: What are the implications of these differing tax policy-making productions? Nonetheless, we do so for the progressive taxation weight dimension and make analytical connections to the presented discussion in regard to the decentralization dimension. This is so in order to further gauge Carciofi, Barris, and Cetrángolo beginning quote’s underscoring of taxation

¹ Translated by author: “Como balance de los posibles impactos distributivos asociados a las reformas tributarias realizadas en la década de los años ochenta, no podría afirmarse que los aspectos de equidad hayan constituido una prioridad de las mismas. La reforma de Chile de 1990 es claramente una excepción. No queda claro, hacia el futuro, si esta perspectiva habrá de revisarse y, si así fuere, cuáles habrán de ser los instrumentos tributarios a utilizar. De hecho, otras dimensiones de las políticas públicas por el lado del gasto, que apuntan también sobre los aspectos de distribución y equidad, están siendo reexaminadas. Es probable que sea éste un marco para la aplicación de nuevas políticas de reforma y ajuste a los sistemas tributarios.” (Carciofi, Barris, and Cetrángolo, 1994; 284)
progressivity’s status and direction, which they commented for the 1980s and here we further study the 1990s (see hypotheses presented in Table 4.11).

Introduction

The purpose of studying tax policy and its progressive dimension is because they are indicative of the broader political processes of building state-capacity, distributive justice, and solving collective action dilemmas (see Lieberman 2002). The progressivity dimension specifically addresses the question of from whom/where taxes are collected. This chapter studies the progressive weight dimension of tax policy in order to start to uncover the processes of state’s capacity, distributive justice, and collective action dilemmas solution (see Chapter 7).

The present chapter examines the characteristics of studied tax policy reforms in Chapters 3, 4, and 5. I demonstrated that a reduction in the number of veto players occurred in Argentina (1989) and Brazil (1986-88) and in the previous chapter I analyzed and explained the central government taxation weight dimension by underscoring the interests that prevailed during those tax policy reforms. Thus, throughout this chapter I explain the direction and magnitude of changes of their respective tax policies regarding the tax policy progressive weight dimension (i.e., overall decrease in progressivity) by putting together the cumulative discussion regarding taxation presented on Chapters 3, 4, and 5, which now helps us explain and understand their impacts on the tax policy progressive weight dimension and test the hypotheses included on Table 4.11. In other words, as a reminder, by underscoring the interests that prevailed during the tax policy reforms; I am able to explain the direction and magnitude of changes of their respective tax policies regarding the progressive weight dimension (i.e., regressive characteristic).
Thus, this chapter addresses the main general question: What are the causes of changes in a tax policy’s progressive weight dimension? This chapter provides an explanation of the tax policy progressive weight dimension taking the Argentine and Brazilian tax policy experiences during the 1980s and 1990s as the cases of analysis. The explanation is based upon a contingent application of *veto players theory*. In addition, I present answers to the following more specific questions: why and how a decrease in tax policy progressivity weight occurred in Argentina and Brazil; why and how Argentina decreased the tax policy progressivity weight more than Brazil (i.e., rate of change); and why and how Argentina has a greater tax policy progressivity weight than Brazil (i.e., comparative absolute value).

Even though an appropriate answer to the specific question about Argentina’s tax system having a more progressive weight nature warrants a deeper historical analysis beyond an analysis of the tax policy reforms that took place during the late 1980s in Argentina and Brazil, I still think that it is important to address it. This is so since the reforms under study here should not be considered completely disconnected and independent from their respective countries historical developments.

Therefore, even though the analysis and conclusions that I present here are centered specifically on the tax policy reforms that took place in these cases, we need to keep in mind their relatedness to broader historical developments and by consequence indicative of these developments and not accidental oddities.

I argue that the nature and empirical effect of the absorption rule\(^2\) help us explain the implications on the tax policy reform outcome from a more contingent point of view.

\(^2\) i.e., relevant actors and their interests after the absorption rule effect
And the implications I study here are those related to its *progressive weight* dimension, which in both cases decreased, but to different extents and nature. In addition, the cross-sectional comparisons of absolute values permit us to evaluate if there is any significant difference or not between our cases and if that difference or similarity changed through time (i.e., throughout the two decades of interest for this dissertation).

Thus, I first make a brief presentation of the proposed contingent veto players’ explanation of the *tax policy progressive weight* dimension. Secondly, I pursue the explanation of the two chosen cases, making use of a contingent *veto players theory* application. Finally, I present some concluding remarks.

**Veto Players and Tax Policy Progressivity**

The dependent variable in this chapter is the occurrence of change in tax policy progressive weight. Tax policy progressivity basically entails the share of *tax handles*[^3] (i.e., see Guy Peters, 1991; 22-27), from all *tax handles* used, that takes into consideration socioeconomic characteristics for their collection and the number and rate levels of brackets used within the referred *tax handles* (see Guy Peters, 1991; 28-46). Thus, as that share of *tax handles* increases (decreases), which takes into consideration socioeconomic characteristics, *tax policy progressive weight* will also increase (decrease).

Furthermore, as the number of brackets used and the distance between the rates among brackets increases (decreases), the *tax policy progressive weight* will also increase (decrease). In addition to the accepted fact of tax handles and rates just mentioned, I am

[^3]: This is a metaphor used in the tax policy literature to create a mental physical picture of economic activities that the state could grab (i.e., taxed) in order to generate revenue.
also interested on the weights of consumption and income taxation as a percentage of total tax revenues and their ratio in order to gauge progressivity. By this I mean, the greater the income and lesser consumption taxation weight and the greater the income-to-consumption taxation ratio, the more progressive the taxation would be, at least structurally speaking.

The connection of tax policy progressive weight with veto players theory and the analysis done until this point is grounded on an explanation based on strategic interaction. I already mentioned which units of government controlled which taxes, but let us review. Income taxation is controlled in both cases by their respective central governments. In both cases, the central government is obliged to transfer a pre-established portion of collected income taxes to their respective governmental sub-units⁴. In regard to consumption taxation, our cases differed because Argentina’s central government remained in control of the most important tax, value-added tax, but still remained responsible of transferring portions of its collection to its governmental sub-units.

In the Brazilian case, consumption taxation remained more complicated. This is so because of the existence of two value-added taxes: one at the federal and one at the state level. The state level VAT (i.e., ICMS) is the most important tax within the Brazilian tax system, but the federal government was still constitutionally obliged to transfer a pre-established portion of its federal VAT (i.e., IPI). Thus, based on these differences of which unit of government controls which tax and the rigid nature (or not) of a pre-established transferring mechanism is what I use in order to explain the

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⁴ i.e., with the caveat that in the Argentine case the constitutionality of those transfers has not been finalized, but in Brazil it was.
progressive weight quality behavior of these two tax system throughout a period of two decades.

In a nutshell, the expectation is to observe an increase in both types of taxation weights, income and consumption, in the Argentine case; while observe a certain degree of neglect in the Brazilian case because of its described consumption taxation reality and the relation between deficit control and social debt. Furthermore, these differing taxation expectations are also based on their differing executive taxation constitutional boundaries and revenue sharing mechanisms, which were discussed throughout Chapters 3, 4, and 5. Let us now proceed with the explanation of our cases’ tax policy progressive weight dimension’s behavior.

**Analysis of Cases**

**Tax Policy Progressivity**

Table 6.1 presents a summary of the medians for the different tax measures used for gauging the progressive weight nature of Argentina and Brazil’s taxation throughout the 1980s and 1990s. I first discuss income taxation weight behavior, followed by a discussion of consumption taxation’s behavior. This is so, in order to put together these two discussions and being able to gauge the progressive weight nature of each case taxation system (i.e., income taxation minus consumption taxation).

A quick glimpse at Table 6.1 shows Argentina increasing both taxation weights under discussion, but its progressive taxation weight deteriorated basically due to a more drastic change in its consumption taxation weight. In regard to Brazil, we can see a deterioration of its income and federal consumption taxation weights, while its sub-units’ consumption taxation weights increased. Using both, its federal and sub-units’
consumption taxation weights, Brazil’s progressive taxation weight also deteriorated. Finally, the progressive taxation weight deterioration in both cases was more drastic in the Argentine than in the Brazilian case. After stating this brief general comments regarding the taxes of interest in this chapter, let us proceed with a more detailed account of each type of taxation, cross-sectional and temporally.

<table>
<thead>
<tr>
<th></th>
<th>Argentina</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Tax</td>
<td>8.10%</td>
<td>7.05%</td>
</tr>
<tr>
<td>VAT(^5)</td>
<td>23.10%</td>
<td>15.05%</td>
</tr>
<tr>
<td>VAT(ICMS)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Progressive Weight</td>
<td>-15% pts.</td>
<td>-8% pts.</td>
</tr>
</tbody>
</table>


SOURCE: Brazil, Varsano et. al. (1998)\(^6\) and Lemgruber (2001)\(^7\); Argentina, The Conjuncture and Information Sector of the Economic Ministry\(^8\)

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\(^5\) This refers to the federal VAT in Argentina and Brazil (i.e., IPI).

\(^6\) Brazilian 1980-1989 data

\(^7\) Brazilian 1990-2000 data

\(^8\) Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
Figure 6.1 presents Argentina and Brazil’s income taxation weight throughout the two decades under study. We can observe a convergence behavior between our two cases, which I later explain why this was the case. Nevertheless, let us take a closer look at our individual cases.

Figure 6.2 shows three behavior patterns (i.e., 1980-83, 1984-89, and 1990-2000) regarding Argentina’s income taxation weight behavior. The first pattern shows a constant demeanor with a sharp decrease from 1983-1984. The second pattern shows an increasing behavior until 1989-1990 where the sharpest decrease takes place. Following the mentioned decrease, the third pattern presents a secular increasing behavior. The two “breaking points” (i.e., 1983-1984 and 1989-1990) coincide with the initiation of new governments (i.e., Alfonsín and Ménem respectively). Furthermore, the first “breaking point” coincides with a regime change. In addition, we can see a coinciding direction of trend between income taxation weight and the economy.

The increasing behavior of income taxation weight indicates an improvement on the progressive quality of the overall tax system. Nevertheless, changes on taxing behavior depend on how the economy fare, the rates used, and the collecting administration’s capacity. The latter two can be considered more political in nature (i.e., the importance of agency) than the first one. It is important to keep in mind that income taxes are collected by the federal government. I underscore this in order to take it into consideration when disentangling the tax system’s behavior from the level of centralization and level of taxation dimensions, which are of interest in this study (see Chapter 7).
Figure 6.1: Argentina and Brazil’s Income Taxation Weight


\(^9\) Brazilian 1980-1989 data

\(^{10}\) Brazilian 1990-2000 data

\(^{11}\) Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
Figure 6.2: Argentina’s Income Taxation Weight


12 Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
Regarding Brazil’s income taxation weight, there are two “breaking points” in Figure 6.3: 1985-1987 and 1989-1991. The first and second pattern (i.e., 1980-1985 and

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13 Brazilian 1980-1989 data

14 Brazilian 1990-2000 data
1987-1989, respectively) present an increasing behavior, while the third pattern (i.e., 1991-2001) presents a mild increasing behavior composed of what seem three cyclical-patterns. The two big drops (i.e., “breaking points”) coincide also with transition periods as in the Argentine case. In 1985 the first civilian president was elected. Nevertheless, a full democratic transition did not take place because the authoritarian constitution was still in place and the president was indirectly elected.

The second “breaking point” coincides with two important shifts: a new administration (i.e., Collor) and the functioning of a new democratic constitution. Regarding the progressive nature of the overall tax system, it is more difficult to judge than the Argentine case. The three main patterns present an increasing behavior, but the last one has a less steep slope and the mean weight of income taxation is lower than in the past. Another interesting comparative fact is that Argentina ‘caught-up’ with Brazil regarding the income taxation’s weight.

In 1980 Argentina had a mere 6.6% and Brazil a 12.28%, but in 2000 Argentina had an 18.30% and Brazil a 16.51%. This is an extremely important fact and outcome, which I hypothesize, has more to do not with the degree of benevolence or progressive nature of the Argentine state, but with their respective federal governments’ co-participation realities as was discussed on Chapter 5. Furthermore, I hypothesize that more than redistributive or economic efficient interests, what really predominated in both cases were interests of maximizing tax collections. Their respective variations (i.e., Argentina vis-à-vis Brazil) become clear when the respective institutional realities of both federal governments are taken into consideration. Finally, we can also see that contrary to the Argentine experience, Brazil’s income taxation weight did not always
coincide with the economic trend, which might be related to the institutional realities I have been underscoring throughout this dissertation within which the Brazilian central government was embedded after 1988.
In order to analyze in a more systematic way the *income taxation weight* dimension, I present a series of statistical means comparisons. I compared the 1980s vis-

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15 Brazilian 1980-1989 data

16 Brazilian 1990-2000 data

17 Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
à-vis the 1990s within each of our two cases and between them. Table 6.2 presents a quick snapshot of the three main questions in this chapter, regarding the income taxation weight dimension: if change took place; at what pace; and which case had a greater taxation weight (see Tables B.1, B.2, B.3, and B.4 in Appendix B for SPSS results). Table 6.2 summarizes the statistical comparative means results between Argentina and Brazil. If we compare the two decades under study, Argentina’s income taxation weight experienced a statistically significant change (i.e., it increased), while Brazil’s did not (i.e., non-significant decrease). Thus, Argentina’s rate of change was greater than Brazil, but Brazil’s income taxation weight was still greater than Argentina’s. And this was true even when we compared the different decades (see Table 6.2).

Hence, returning to Table 4.11, the income taxation weight hypotheses were supported: Argentina increasing and Brazil status quo. If we could get to a conclusion regarding overall taxation progressive weight by just studying income taxation weight, Argentina would have increased while Brazil would not have changed their respective taxation progressive weights (i.e., in a statistical significant way). Nevertheless, income taxation is only part of the story regarding the progressive weight nature of taxation. We turn now to another fundamental part of the story, consumption taxation weight.

Consumption Taxation Weight

Figure 6.4 shows a combined graphing of Argentina and Brazil’s main consumption taxes, which presents a more drastic change for Argentina than Brazil. Furthermore, it shows the Argentine case surpassing Brazil’s combined main consumption taxes if we compare 1980 with 2000 (i.e., 1980: Argentina 18% vs. Brazil
28.8%; 2000: Argentina 30.8% Brazil 27.9%). Nevertheless, let us take a closer look at each individual case.
Figure 6.4: Argentina and Brazil’s Consumption Taxation Weight

SOURCE: Brazil, Varsano et. al. (1998)\textsuperscript{18} and Lemgruber (2001)\textsuperscript{19}; Argentina, The Conjuncture and Information Sector of the Economic Ministry\textsuperscript{20};


\textsuperscript{18} Brazilian 1980-1989 data

\textsuperscript{19} Brazilian 1990-2000 data

\textsuperscript{20} Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
Figure 6.5: Argentina’s Consumption Taxation Weight


Figure 6.5 can be divided into two patterns: 1980-1989 and 1989-2000. With the exception of an increase from 1980-1981, the rest of this first pattern is a decreasing one.

21 Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
I suggest that this is strongly related with the bad economic circumstances in Argentina at the end of the military regime (1980-1983) and throughout Alfonsín's administration (1983-1989). Political considerations become important not in explaining the actual behavior of the VAT during this first period, but in the difficulties Alfonsín had in passing a tax reform as discussed in Chapter 3.

The importance of political over economic considerations is underscored by the 1989-1992 period, where the biggest jump takes place. I state political over economic considerations since the weight of the VAT started to increase even before economic growth and hyperinflationary control were achieved. The two last subsets that I would highlight are 1992-1996 and 1996-2000. The 1992-1996 period is one of economic growth showing an increasing behavior in VAT collection, while 1996-2000 is a period of economic stagnation.

Nevertheless, what is important to underscore is that the most important determinant of VAT change was the political one (i.e., 1989-1990 tax reforms), which even after the economy began to sour, the VAT’s weight never got to the pre-reform years. Another important aspect regarding the VAT’s weight is its negative effect on the progressive nature of the overall tax system. By increasing the importance of the VAT with respect to the overall tax system, a decrease in the progressive quality of the overall tax system takes place. I need to underscore the usage of decrease progressivity and not regressivity. This is so because an efficient VAT could end up having a neutral effect and not be necessarily regressive. Nevertheless, I cannot gauge into those specificities with the data analyzed here, but I still can present comments regarding the structural shift in favor of consumption rather than income taxation as we elaborate in the next section.
Furthermore, this indicates also the relevance of increasing tax collecting over any redistributive interest. Nevertheless, nothing can be said at this point with respect an assessment of the balance between economic efficiency vis-à-vis tax collecting interests. Nevertheless, the state’s behavior after 1996 and even more after De la Rúa’s election underscores the relevance of tax collecting interests over economic efficiency.

Figure 6.6 presents five patterns for the federal VAT: 1980-1984, 1984-1987, 1987-1990, 1990-1993, and 1993-2000. Here we have periods of decreasing followed by increasing behavior. Although the possible logic of behavior during the first periods it is less clear, I want to comment with respect to the last period (i.e., 1993-2000). This period presents a clear secular decreasing behavior with a pretty steep slope.

I would attribute this fact to the purposive action by the federal government under the Cardoso administration. Contrary to Argentina, the discussion of consumption taxation becomes more cumbersome in Brazil. This is so because of the commented divided collecting responsibilities. In Argentina this power resides in the federal government, but in Brazil this power is divided between the federal and states’ governments. Furthermore, the states have the upper-hand regarding this issue and this is considered one of the biggest victories for the state governments during the 1987-1988 constitution writing process.

The two VATs in Brazil are the: IPI (federal) and ICMS (states). Nevertheless, the ICMS is a far greater and important tax than the IPI. In addition, even though the IPI is collected by the federal government, it needs to be shared with the states and municipalities (i.e., constitutionally mandated). It is worth-the-while underscoring that this is also true for the income tax. Thus, my point is that the decline we see regarding
the IPI and the turtle-pace increase in income tax collection has more to do with an active, purposive, and intentional action of the federal government. Why?

**Figure 6.6:** Brazil’s Federal Consumption Taxation Weight


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22 Brazilian 1980-1989 data

23 Brazilian 1990-2000 data
I think this was the federal government’s pressure on the sub-units in order to pass a tax policy reform and maximize its revenues, which for the Cardoso administration meant, among other aspects, creating a unified national VAT control by the federal government and then distributed to the sub-units through transfers. With the benefit of the hindsight, this did not work because the mentioned reform never took place under either of Cardoso’s administrations. The federal government could not just relinquish its responsibility of collecting the mentioned taxes (i.e., IPI and income tax) because it was constitutionally bounded to do so. Nevertheless, it could “slack” on its responsibility. Why “slacking?”

I argue that it was because of the central government’s obligation to share with the sub-units the fruits of its efforts. In order to strengthen this explanation I can document the increase importance of what became to be called “social contributions” as was discussed in Chapter 5 (see Figure 5.4). These “social contributions” had the benefit of not needing to be shared with the sub-units. The down-side would be the inflexible spending nature of these “social contributions” and their temporary nature. By this I mean that the federal government could not just use the collected revenues from these “social contributions” for anything it wanted, it needed to dedicate those resources for the pre-specified intentions when collected. Tied to these debates we have the dilemmas of the social security and pension systems, for which many of the “social contributions” were created to ameliorate their respective deficits.

The paradox of these “social contributions” is that they had some appearance of progressivity due to their ties with social issues, but the contributions per se were regressive in their collecting nature. That is why some people, among them Varsano et
al. (2001), have been able to propose the unification of those “social contributions” and converting them into a VAT (a non-progressive form of taxation). The ideas behind the unification and conversion into a VAT are for giving permanent status to a temporary collection and for eliminating the negative economic effect that these “contributions” suffer known as cascading (or cumulative taxing effects).

Figure 6.7 presents the sub-units’ VAT weight during our two decades of interest. We can divide Figure 6.7 into two distinct periods: 1980-1990 and 1990-2000. The first one having an increasing behavior, while the second a decreasing one. In 1990 Collor attained presidential power and I would argue that a much more assertive federal government’s behavior commenced (i.e., this is including the Cardoso administrations). When I state assertive, I mean a much more independent behavior (i.e., trying to break away from the “patrimonial state” using Roett (1999) terminology or eliminating patron-client relationships) from the sub-units which was not true under the military regime or Sarney’s presidency.

Another possibility could be because of the nature of the ICMS. Within taxation theory, and more specific for VAT, there is a difference between origin and destination taxation. The theoretically economic efficient recommendation is destination taxation and this is even more important for within country-markets. Besides the rarity already in Brazil with respect to the handling of the VAT at the sub-national level (i.e., no other country does this), the sub-national VAT uses a combination of both origin and destination taxation of the VAT.

The criticisms toward origin taxation are two-fold (i.e., especially for within country markets): the tendency of trade wars and the conversion of a consumption tax
into a production-incentive tool. Thus, another interactive possibility with the assertiveness of the federal government would be the states demeanor of bidding-out their competition and giving tax credits, incentives in order for industries to locate within their state’s borders. Lastly, the 1988 Constitution benefited the municipalities the most and not necessarily the states. Hence, in addition to these two effects, the states found themselves in a similar position that I am here portraying the central government was; thus, it might have accounted for the decreasing trend illustrated in Figure 6.7.
Figure 6.7: Brazil’s State’s Consumption Taxation Weight

SOURCE: Varsano et. al. (1998) \textsuperscript{24} and Lemgruber (2001) \textsuperscript{25} ;

\textsuperscript{24} Brazilian 1980-1989 data

\textsuperscript{25} Brazilian 1990-2000 data
In order to analyze in a more systematic way the consumption taxation weight dimension, I present a series of statistical means comparisons. I compared the 1980s vis-à-vis the 1990s within each of our two cases and between them. Tables 6.3, 6.4, and 6.5 present a quick snapshot of the three main questions in this chapter, regarding the

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26 Brazilian 1980-1989 data

27 Brazilian 1990-2000 data

28 Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
consumption taxation weight dimension: if change took place; at what pace; and which case had a greater consumption taxation weight. (see Tables B.1, B.2, B.3, and B.4 in Appendix B for SPSS results).

From Table 6.3 we can observe that Argentina experienced a statistically significant increase in its consumption taxation weight when we compare the 1990s and 1980s. Nevertheless, Brazil’s consumption taxation weight did not have any statistically significant change with the exception of the sub-units (i.e., states) VAT, which increased but at a 0.1 significance level. Consequently, Argentina had a more drastic change in its consumption taxation weight when we compare the 1990s and 1980s. If compare across cases throughout the two decades of interest, Argentina’s VAT was greater than Brazil’s federal VAT, lower than Brazil’s combined federal and states’ VAT, and there was no statistical significance difference with respect to Brazil’s states’ VAT.

Table 6.4 shows that during the 1980s Argentina’s VAT was greater than Brazil’s federal VAT, but lower than Brazil’s states-VAT and Brazil’s combined federal and states’ VAT. During the 1990s Argentina’s VAT was greater than Brazil federal and states’ VAT (i.e., when compared alone). Nevertheless, there was no statistically significant difference between Argentina’s VAT with Brazil’s combined federal and states’ VAT. This change demonstrates Argentina’s dramatic change of consumption taxation weight and relevance in contradistinction to Brazil.

Table 6.5 basically presents a comparison between our cases of analysis and different decades. It shows Argentina’s VAT (1980s) being greater than Brazil’s federal VAT (1990s), but lower than Brazil’s states’ VAT (1990s) and Brazil’s combined federal and states’ VAT (1990s). In addition, it shows that Argentina’s VAT (1990s) was greater
than Brazil’s federal (1980s) and states’ VAT (1980s), while there was no statistical significant different with respect to Brazil’s combined federal and states’ VAT (1980s). These last comparisons again underscore the dramatic increase of Argentina’s VAT from 1980s to the 1990s, which also indicate a reduction of Brazil’s combined VATs advantage over Argentina when the 1990s are compared to the 1980s.

<table>
<thead>
<tr>
<th></th>
<th>Argentina</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IPI</td>
<td>ICMS</td>
</tr>
<tr>
<td>1980s</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inter-case absolute value</td>
<td>X**</td>
<td></td>
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<tr>
<td>1990s</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inter-case absolute value</td>
<td>X**</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X*</td>
<td></td>
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</tbody>
</table>

Two-tailed tests:
* p ≤ 0.10
** p ≤ 0.05

Table 6.4: Consumption Taxation Weight (1980s & 1990s): Statistical Means Comparisons

SOURCE: Brazil, Varsano et. al. (1998)\(^{29}\) and Lemgruber (2001)\(^{30}\); Argentina, The Conjuncture and Information Sector of the Economic Ministry\(^{31}\)

\(^{29}\) Brazilian 1980-1989 data
### Table 6.5: Consumption Taxation Weight (1980s vs. 1990s): Statistical Means Comparisons

<table>
<thead>
<tr>
<th>1980s vs. 1990s</th>
<th>Argentina</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IPI</td>
<td>ICMS</td>
</tr>
<tr>
<td>Arg80 vs. Bra90</td>
<td>**</td>
<td></td>
</tr>
<tr>
<td>Arg90 vs. Bra80</td>
<td>**</td>
<td></td>
</tr>
<tr>
<td>Not Sig.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Two-tailed tests:
* $p \leq 0.10$
** $p \leq 0.05$

SOURCE: Brazil, Varsano et. al. (1998)\(^{32}\) and Lemgruber (2001)\(^{33}\); Argentina, The Conjuncture and Information Sector of the Economic Ministry\(^{34}\)

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\(^{30}\) Brazilian 1990-2000 data

\(^{31}\) Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data

\(^{32}\) Brazilian 1980-1989 data

\(^{33}\) Brazilian 1990-2000 data

\(^{34}\) Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
Hence, returning to Table 4.11, the consumption taxation weight hypotheses were supported: Argentina increased while Brazil’s federal VAT did not change (i.e., decrease in a non-significant way) and states’ VAT increased. If we could get to a conclusion regarding overall taxation progressive weight by just studying consumption taxation weight, Argentina would have decreased while Brazil would not have changed their respective taxation progressive weights (i.e., in a statistical significant way). Nevertheless, consumption taxation is only part of the story regarding the progressive weight nature of taxation. After having individually reviewed the two important taxation components for determining its progressive weight, we can put them together in order to draw some evaluative conclusions. Thus, the next section pursues this task.

**Progressive Taxation Weight**

Figure 6.8 presents a visual picture of Argentina’s income and VAT weights throughout the 1980s and 1990s, which further underscores the dramatic increase in consumption taxation weight and its prevailing relevance over income taxation weight.

Figure 6.9 summarizes Argentina’s progressive taxation weight behavior throughout the 1980s and 1990s. The graph can be divided into two sections: pre-1989 and post-1989. Overall, the pre-1989 portion shows a movement toward progressivity, while the post-1989 section shows a movement away from progressivity. Nevertheless, we need to keep in mind that only positive numbers imply progressivity, which was only achieved once (i.e., in 1989). Another change started to take place after 1996 toward improved progressivity. What happened in 1996? In 1996 the Argentine economy started to go sour and consequently the difference between income and consumption
taxation started to decrease because consumption taxes are much more sensitive to changes in the economy than income taxation.

Figure 6.8: Argentina’s Income and Consumption Taxation Weight

SOURCE: The Conjuncture and Information Sector of the Economic Ministry

35 Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
Figure 6.9: Argentina’s Progressive Taxation Weight


\textsuperscript{36} Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
Figure 6.10: Brazil’s Income and Consumption Taxation Weight

SOURCE: Varsano et. al. (1998)\textsuperscript{37} and Lemgruber (2001)\textsuperscript{38}

\textsuperscript{37} Brazilian 1980-1989 data

\textsuperscript{38} Brazilian 1990-2000 data
Figure 6.11: Brazil’s Progressive Taxation Weight (Federal)


\(^{39}\) Brazilian 1980-1989 data

\(^{40}\) Brazilian 1990-2000 data
Figure 6.10 presents a visual picture of Brazil’s income and VATs weights throughout the 1980s and 1990s. From Figure 6.11 we can perceive always a positive difference between income and federal consumption taxation, which implies a progressive weight nature. There are five distinct trends: 1980-1984 (increasing progressivity); 1984-1987 (decreasing progressivity); 1987-1989 (increasing progressivity); 1989-1991 (decreasing progressivity); 1991-2000 (increasing progressivity). Another important fact that we can appreciate from this figure is the apparent independence between how the economy fare and the progressive weight dimension’s behavior. The economy shows a secular increasing trend, while the progressive weight dimension portrays dramatic increases and decreases.

Figure 6.12 always portrays a negative difference between income and state-level consumption taxation, which implies a regressive weight nature. There are five distinct trends: 1980-1985 (increasing progressivity); 1985-1987 (decreasing progressivity); 1987-1988 (increasing progressivity); 1988-1991 (decreasing progressivity); 1991-2000 (increasing progressivity) from which we can appreciate an independent behavior between how the economy fare and the progressive weight dimension’s behavior by the economy showing a secular increasing trend, while the progressive weight dimension portrays dramatic increases and decreases.

Figure 6.13 always portrays a negative difference between income and a combined federal and state-level consumption taxation, which implies a regressive weight nature. There are three distinct trends: 1980-1984 (increasing progressivity); 1984-1991 (decreasing progressivity); 1991-2000 (increasing progressivity) from which we can appreciate an independent behavior between how the economy fare and the
progressive weight dimension’s behavior by the economy showing a secular increasing
trend, while the progressive weight dimension portrays dramatic increases and decreases.
Nevertheless, at no point in time did Brazil achieve a positive number or even zero (i.e.,
neutrality).
Figure 6.12: Brazil’s Progressive Taxation Weight (State)


41 Brazilian 1980-1989 data

42 Brazilian 1990-2000 data
Figure 6.13: Brazil’s Progressive Taxation Weight (Federal and State)

SOURCE: Varsano et. al. (1998) \(^{43}\) and Lemgruber (2001) \(^{44}\); 


\(^{43}\) Brazilian 1980-1989 data

\(^{44}\) Brazilian 1990-2000 data
Figure 6.14: Brazil’s Direct and Indirect Taxation Weight


45 Brazilian 1980-1989 data
46 Brazilian 1990-2000 data
The interesting summary that Figure 6.14 presents is the 1988-1989 inflection point of direct and indirect taxation behavior. Although it is an aggregation of many different taxes, in general direct taxes tend to have more progressive qualities than indirect taxes. Thus, with the acknowledgement of the necessities to take into consideration a more specific oriented differentiation in order to better pin-point the progressive weight’s nature of the Brazilian tax system, we can observe a shift toward a more regressive overall tax system in Brazil after the mentioned inflection point.

Making a connection with the discussion of income and consumption taxation, we could argue that the decrease behavior of income taxation and the increase importance of consumption taxation have produced this inflection toward a less progressive overall tax system. Nevertheless, I want to restate that more than the ideological orientations of the administrations in power, this shift is better understood by understanding the incentive structures within which the federal government is embedded.

In a more specific sense, I am referring here to the different constitutional bounded nature of the revenue sharing law in Argentina and Brazil. In Argentina the revenue sharing law is supposed to be constitutionally bounded, but have never been formally adopted (see Chapter 3). Thus, the mentioned revenue sharing law has been a series of political pacts, which strengthened the federal government’s power leverage in protecting its interest (i.e., although dependent on which party was in power). In addition, it is important to mention the control of the most important tax, the VAT.

It is a given that both federal governments have to share their revenues, but the Argentine federal government has the leverage of both being able to make political pacts and controlling the two most important taxes (i.e., income tax and VAT). By this I am
stating that it has an incentive of maximizing revenue collection of both of them. In the Brazilian case, as stated, there is an incentive to “slack” on the collection of income taxes and federal VAT. The former diminishes while the latter increase the progressive quality of the overall tax system and as Figure 6.11 showed, the federal VAT was the one that suffered the most in its collection.

Nevertheless, due to the small weight of the federal VAT its positive impact apparently was diluted. To this discussion regarding the progressive weight nature of the overall tax system, we need to include in our assessment the rates and number of brackets used within income taxation. In both cases there was a reduction in the rates and number of brackets, more dramatic in the Argentine case. This was a tendency toward simplifying the tax system in order to improve revenue collection, but it had a negative impact on its progressive nature.

This is not a comprehensive assessment of the progressive quality of the Argentine and Brazilian tax systems, but relevant comments regarding two very important aspects influencing the progressive nature of a tax system (i.e., income and consumption taxation). In reality both tax systems, as in most other developing economies, are regressive in nature because of the higher weights of consumption taxation when compare to income taxation. Thus, the evaluation needs to depart from this empirical reality and find out toward what tendency, regarding progressivity, these two tax systems evolved during the two decades of study and present an explanation of their taxing behavior.

In order to analyze in a more systematic way the progressive taxation weight dimension, I present a series of statistical means comparisons. I compared the 1980s vis-
à-vis the 1990s within each of our two cases and between them. Table 6.6 presents a quick snapshot of the three main questions in this chapter, regarding the *progressive taxation weight* dimension: if change took place; at what pace; and which case had a greater *progressive taxation weight*.

<table>
<thead>
<tr>
<th>1980-2000</th>
<th>Argentina</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Progressive Tax. Weight</strong> (IPI+ICMS)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intra-case change</td>
<td>Yes (decrease)**</td>
<td>Yes (decrease)**</td>
</tr>
<tr>
<td>Intra-case rate change</td>
<td>X**</td>
<td></td>
</tr>
<tr>
<td>Inter-case absolute value</td>
<td>Not Sig.</td>
<td>Not Sig.</td>
</tr>
<tr>
<td><strong>1980s</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Progressive Tax. Weight</strong> (IPI+ICMS)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1990s</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Progressive Tax. Weight</strong> (IPI+ICMS)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1980s vs. 1990s</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Progressive Tax. Weight</strong> (IPI+ICMS)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arg80 vs. Bra90</td>
<td>X**</td>
<td></td>
</tr>
<tr>
<td>Arg90 vs. Bra80</td>
<td></td>
<td>X**</td>
</tr>
</tbody>
</table>

Two-tailed tests:
* p ≤ 0.10
** p ≤ 0.05

Table 6.6: Progressive Taxation Weight: Statistical Means Comparisons

SOURCE: Brazil, Varsano et. al. (1998)\(^{47}\) and Lemgruber (2001)\(^{48}\); Argentina, The Conjuncture and Information Sector of the Economic Ministry\(^{49}\)

\(^{47}\) Brazilian 1980-1989 data
Table 6.6 presents the results from the paired-means comparisons of our cases. Argentina and Brazil both decreased their *progressive taxation weight* throughout the two decades under study, but Argentina had a more drastic change than Brazil. Nevertheless, there was no statistical significant difference between them when the averages for the two decades under study are used. The same was true when we compare their respective within-decades’ means. Nevertheless, Argentina’s progressive weight (1980s) was greater than Brazil’s (1990s), while Brazil’s progressive weight (1980s) was greater than Argentina’s (1990s). Consequently, the last comments again underscore their overall decrease in taxation progressive weight throughout the last twenty years of the twentieth century (see Tables B.1, B.2, B.3, and B.4 in Appendix B for SPSS results).

Returning to Table 4.11, the included hypotheses were presented individually for *income* and *consumption taxation* and not for the *progressive weight* as a whole as have been discussed and constructed throughout the presented discussion. Thus, individually they were supported: increase income and consumption taxation weight in the Argentine case; income and consumption taxation weight status quo in the Brazilian case. The interaction between these two types of taxation becomes what I have identified as *progressive taxation weight*, which I have relied in more contingent and empirical analysis than theoretical deductions. Hence, from the point of view of income, consumption, and progressive taxation weights: Why clearer change took place in Argentina and not in Brazil? Why Argentina’s rate of change was greater or more drastic

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48 Brazilian 1990-2000 data

49 Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
than in Brazil? Why their relative distance decreased through time? In the next section we proceed to address these queries.

**Contingent Veto Players Analysis: Argentina vis-à-vis Brazil Tax Policy Progressivity**

As was shown in Chapters 3 and 4, the temporal inflexion junctures from the point of view of veto players and tax policy in the Argentine and Brazilian cases were 1989-90 and 1986-88, respectively. Both time periods represent election years\(^{50}\) and created a rearrangement of veto players in both cases: a temporary reduction of veto players.

Argentina and Brazil both have three institutional veto players (i.e., one individual and two collectives): the President and two legislative chambers. In the case of Argentina, the Peronist party (PJ) won the 1989 Presidential Elections, which gave this party controlled of all three institutional veto players. Thus, by making use of the *absorption rule*, we can explain the occurrence of a tax policy reform, which was not possible before the 1989 election because of the incongruence between institutional and partisan veto players. Immediately previous to 1989, Argentina had the Presidency dominated by the *Unión Cívica Radical* (UCR) and both houses of the federal congress dominated by the PJ (see Table 3.6). After 1989 the PJ dominated all three institutional veto players. Thus, the PJ, a partisan veto player, provided the unifying role among the three institutional veto players.

In the case of Brazil, the 1986 Federal Congressional Elections represented a decrease in the number of institutional veto players. This was true since the elected Federal Congress (i.e., both houses) functioned as the National Constituent Assembly

\(^{50}\) i.e., 1989 Presidential Elections in Argentina and 1986 Federal Congressional Elections in Brazil
(i.e., as one) with the responsibility of writing a new constitution for the new democratic regime and legislating. In other words, by making use of the absorption rule we can explain a reduction of veto players (i.e., from three to two institutional veto players), which then enables us to explain the tax policy reform of interest (see Table 4.6).

Argentina can be considered to have two main political parties (i.e., UCR and PJ), which helps understand the formation of almost single-party governments. Nevertheless, in the case of Brazil and its fragmented party system, it has been impossible to form single-party governments. Thus, Brazil has been characterized by multi-party governments. These comments underscore the higher number of veto players in the Brazilian case. Both cases have three institutional veto players, but in the Argentine case we see single-party governments (or one big and one small party government). The Brazilian case has never had this type of government and always multiparty governments or shifting coalition governments. Hence, during the tax policy reform, the higher number of partisan veto players in the Brazilian case and the prevailing interests difference between Argentina and Brazil can help us explain the greater change in the taxation weight dimensions of interest in this chapter in Argentina.

In Chapter 2 we presented the variables of interest and their relations (see Figures C.4, C.5, C.6 and C.7 in Appendix C): central government, income, consumption, and progressive taxation weights. Let us then address the questions of direction and magnitude of change for the discussed taxation measures: income, consumption, and progressive taxation weights.

The progressive taxation weight dimension decreased (i.e., in a statistically significant way) in both of our cases due to the prevailing interests of the remaining
relevant veto players after the absorption rule effects. Those predominant interests were an executive-central government in Argentina and a legislative-sub-national in Brazil. Nevertheless, in order to better explain this so-called progressive taxation weight decrease behavior, we need to keep in mind its components: income and consumption taxation. Furthermore, we should also keep in mind the discussion presented throughout Chapter 5 in regard to the central government taxation weight dimension, which helps us understand the outcome of interest in this chapter (i.e., progressive taxation weight).

Basically, a progressive taxation weight decrease means that the distance between consumption and income taxation weight increase with a skew toward the former rather than the latter. We need also to understand that an increase (decrease) in progressive taxation weight does not imply necessarily that a taxation structure is progressive (regressive) in an absolute sense. This is so because we need to take into consideration the departing point of comparison. In other words, a progressive tax system could decrease its progressivity without becoming regressive and a regressive tax system could increase its progressivity without becoming progressive.

As stated in the introductory chapter, our cases of analysis have regressive tax systems. Thus, our observed change has been an increase of their respective regressive characteristics. The questions here then are, why was that the case in both of our cases and how did they differ? Although the easiest explanation for a progressive taxation weight decrease outcome would derive from an opposite direction of income and consumption taxation weight behavior (i.e., decrease and increase, respectively), this was not the case. In both of our cases, these two types of taxation moved in the same direction.
In the Argentine case, both experienced statistical significant increases, while in the Brazilian case both experienced a decreasing behavior. Nevertheless, the Brazilian case did not present a statistical significant trend (i.e., when analyzed separately). Nevertheless, we need to keep in mind that the Brazilian progressivity analysis was based on three taxes instead of just two. The third one was the sub-units’ VAT, which is Brazil’s most important tax and it experienced an increase\textsuperscript{51}.

Thus, the only way this \textit{progressive taxation weight} decrease could have taken place in the Argentine case was with a greater \textit{consumption} than \textit{income taxation weight} increase, which that was the case. In the Brazilian case, the explanation arises from a greater decrease in \textit{income} than federal \textit{consumption taxation weight} and with an increase in the sub-units \textit{consumption taxation weight}. Why this happened in our cases?

In order to address this question, it is important to make use of the discussion in Chapters 3, 4, and 5. We saw a decrease in the \textit{central government’s taxation weight} in the case of Brazil, but no significant change in the Argentine case. In both cases, due to democratization, tax policy decentralization was part of the agenda. A centralized tax policy was perceived as being part of the authoritarian recent past. Nevertheless, even though this democratic ethos was true, a reform did not take place in Argentina or Brazil until a reduction of veto players happened, as I discussed. Furthermore, the prevailing interests, after their veto players’ reduction, in both cases differed: an executive-central government in Argentina and a legislative-sub-national in Brazil.

\textsuperscript{51} Analyzing Brazil’s federal VAT and income taxation alone do not change the trend toward less progressivity.
In the Argentine case, it was in the interest of the central government to collect income and consumption taxes, especially after its veto players’ reduction with Pres. Ménem’s election. I mention this because the revenue sharing mechanism was still open for debate and the Ménem administration took advantage of this fact and party discipline as discussed in Chapter 3 in order to maximize the retained central government’s revenues. The opposite was true in the Brazilian case, where a decentralization of taxation took place.

Thus, in the Brazilian case, in connection with this lost of relevance by the central government from the point of view of taxation, we need to underscore the constitutionally required increase amount of tax revenue transfers from the central government to the states and municipalities. This is important because the central government became immersed within a disincentive structure of collecting income and its consumption tax because it was obliged to share them with the other sub-units even though the central government had already lost taxation relevance due to decentralization.

Consequently, in connection to the explanation of why and how change took place regarding income, consumption, and progressive taxation weight; we can present an explanation to the degree of change that took place in our two cases. Overall, Argentina’s change was greater or more dramatic than Brazil’s. This rate of change was much greater in the Argentine case to the extent that when we compared their respective progressive taxation weights, Argentina became less progressive than Brazil during the 1990s when the opposite was true during the 1980s.

Nevertheless, I need to underscore that this difference came up not being statistically significant. Yet, it still underscores the rate of change between our cases of
analysis with respect to the progressive taxation weight dimension. This was also true for the rate of change regarding income and consumption taxation weights when analyzed individually. The explanation that I present for this greater rate of change in the Argentine vis-à-vis the Brazilian case is related to the one already offered: their respective central governments’ taxation relevance or the incentive structures within which their respective central governments were embedded.

Comparing our two cases’ absolute values, Brazil’s income and consumption taxation weights were always greater than Argentina’s, but their relative distance decreased over time. This was so, because the rate of change which was greater in Argentina, in addition to their respective opposite direction of change. Thus, because of the greater rate of change and opposite direction of change in Argentina and Brazil, we can understand the catching-up and even surpassing of Argentina’s progressive taxation weight, which ended-up becoming less progressive than Brazil.

The discussion of why Brazil had greater income and consumption weights, had to do with deeper historical influences that I did not research. Nevertheless, I end this dissertation with several research ideas of how to tackle the question of explaining Brazil and Argentina’s taxation weights and levels’ differences. Borrowing from Lieberman (2003), I present a research agenda based on a historical-institutionalism methodology in order to compare and differentiate the emergence of Argentina and Brazil’s modern tax state (ibid, 39). The working hypothesis is that their respective taxation differences derive from the different crystallization nature of regional interests within the overall polity at the time of the construction of the modern tax state (see Chapter 8).
Closing Chapter’s Comments

I presented an argument seeking to provide an understanding of the contingent characteristics of the two studied tax policy reform moments that took place in Argentina and Brazil in order to understand their respective taxation behavior from the *progressive taxation weight* point of view. Nevertheless, doing so through the use of generalized theoretical claims: *veto players theory*. Thus, it has been a combination of general-contingent claims in order to understand tax policy-making and tax policy reform causes within two fragmented polities: Argentina and Brazil.

Throughout the present chapter I discussed the tax policy changes elaborated in Chapters 3 and 4 and their effects on the progressive weight characteristics of taxation within an environment of multiple veto players. Thus, in order to be able to explain those changes and in order to make use of *veto players theory*, I traced for reductions of veto players in Chapters 3 and 4, which coincided with the studied reforms. Nevertheless, the possibility of predicting the direction and magnitude of change of these reforms’ outcomes in a generalized way is more troublesome and that is why I have insisted on a more contingent approach of the reforms under study, without straying away from *veto players theory*. The purpose of the latter was for underscoring the interests that prevailed after the absorption rule effects on the relevant veto players, which I used

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52 “…while veto players theory sometimes comes to similar conclusions with the existing literature, there are also many disagreements. But most important, there is no direct way of translating existing institutions into the number and distances of veto players. Some institutions have similar effects (federalism increases the number of veto players), while others alter their impact on veto players on the basis of specific institutional provisions (who controls the agenda on referendums, executive decrees). Most important, however, is the fact that the results of veto players analysis depend on the ideological positions of veto players: some of them may be absorbed; even if they are not absorbed, they may converge or diverge, and this will have serious implications for policy stability. Even the importance of agenda setting depends on the positions of veto players and the location of the agenda setter.” (Tsebelis, 2002; 159-160)
throughout Chapter 5 and in this chapter in order to explain the nature and extent of tax policy decentralization and progressivity weights (see hypotheses presented in Table 4.11) and testing the predictive power of this contingent application of veto players theory.

As quoted from Carciofi, Barris, and Cetrángolo (1994) at the beginning of this chapter, this chapter found that the 1990s accelerated the trend of taxation moving away from progressive characteristics in the Argentine and Brazilian cases. In addition, the politics of taxation become essential to understand why a tax system has the structure it has and why certain changes take place at certain moments in time and not at others. The analysis done and the rest of the chapters within this dissertation do not contribute to the understanding of creating the most efficient, fair, and/or neutral tax systems. This is so, because ideas regarding a tax system’s characteristics are channeled and structured by the decision-making institutions of a particular state. Nevertheless, I argue that the present analysis contributes to the understanding of tax policy reform occurrences, tax policy legislation production, and their progressive weight dimension, which has been disregarded in tax policy analysis as was quoted from Bird and Oldman (1968) and Bird (1992) in Chapter 1.

Let us now proceed to analyze the behavior of the level of taxation dimension. I do this departing from the veto players analytical framework; by this I mean, that I hypothesize that the prevailing preferences during the tax policy reforms were crystallized and combined with a revenue maximizing assumption, will help us predict the direction of the level of taxation (see Table 4.11). Nevertheless, these preferences are not ex-post facto improvisations, but emerge from the veto players analysis juxtaposed to
the empirical evidence presented up to now. The relevance of the level of taxation dimension derives from the possibility of gauging an important political process of interest to political scientists: state capacity\textsuperscript{53}.

\textsuperscript{53} Please refer to Chapter 2 for a more detailed discussion.
CHAPTER 7

LEVEL OF TAXATION: THE CASE OF ARGENTINA AND BRAZIL

The comparison between the Latin American countries seems more interesting within the 86 sample countries...There is a contrast within the total data: the Latin American countries have an inferior level of taxation (almost 1.5% of the GDP) than the rest of the sample, however the GDP per capita of the six Latin American countries is superior (35.1%) to the average of the 86 countries. If it is considered that the six Latin American countries are representative of the region, then the conclusion would be that Latin America had, during the early eighties, a pattern of low taxation in relation to what was observed in the rest of the developing world.¹ (Carciofi, Barris, and Cetrángolo, 1994; 294-295)

We continue throughout this chapter addressing the question: What are the implications of these differing tax policy-making productions? Nonetheless, we do so for the level of taxation dimension and make analytical connections to the presented discussions regarding the central government and progressive taxation weight dimensions.

¹ Translated by author “Reviste mayor interés la comparación de los países latinoamericanos en el conjunto de la muestra de 86 países...Contrastan...los datos totales: los países latinoamericanos poseen un nivel de carga tributaria inferior (casi 1.5% del PIB) al resto de la muestra, no obstante que el PIB per cápita de los seis países es superior (35.1%) al promedio de los 86 países. Si se considera que los seis países son representativos de la región, la conclusión sería que América Latina tenía, a comienzos de los ochenta, un patrón de baja tributación en relación con lo que se observa en el resto de los países en desarrollo.” (Carciofi, Barris, and Cetrángolo, 1994; 294-295)
Introduction

The opening quote for this chapter underscores the historical predicament for the Latin American region, which was also commented on Chapter 1: low level of taxation. As Carciofi, Barris, and Cetrángolo state in opening quote, this was even true when we control for economic development. Succinctly, at least empirically-wise, the Latin American region should have a higher taxation level according to its level of economic development. In this chapter I focus on two Latin American cases, Argentina and Brazil, in order to assess their level of taxation behavior during the 1980s and 1990s making analytical connections to the previous chapters’ discussions regarding their tax policy reforms at the end of the 1980s.

The purpose of studying tax policy and its level dimension is because they are indicative of the broader political processes of building state-capacity, distributive justice, and solving collective action dilemmas (see Lieberman 2002). The level of taxation dimension specifically addresses the question of how much is collected. This chapter studies the level of taxation dimension in order to continue uncovering the processes of state’s capacity, distributive justice, and collective action dilemmas solution.

I continue examining here the characteristics of the studied tax policy reforms in Chapters 3, 4, 5, and 6. I demonstrated that a reduction in the number of veto players occurred in Argentina (1989) and Brazil (1986-88) in Chapters 3 and 4. I analyzed and explained the central government taxation weight (Chapter 5) and progressive taxation weight dimensions’ behavior (Chapter 6) by underscoring the interests that prevailed during the tax policy reforms of interest to this dissertation. Thus, throughout this chapter I explain the direction and magnitude of changes of their respective tax policies.
regarding the level of taxation dimension (overall increase) by putting together the cumulative discussion regarding taxation presented on Chapters 3, 4, 5, and 6, which now helps us explain and understand their impacts on the taxation level dimension and test the hypotheses included on Table 4.11. In other words, as a reminder, by underscoring the interests that prevailed during the tax policy reform events and a maximizing revenue assumption; I am able to explain the direction and nature of changes of their taxation level dimension (an increase level with less progressive characteristics).

Thus, this chapter addresses the main general question: What are the causes of changes in the level of taxation dimension? This chapter provides an explanation of the level of taxation dimension taking the Argentine and Brazilian tax policy experiences during the 1980s and 1990s as the cases of analysis. The explanation is based upon a contingent application of veto players theory. In addition, I present answers to the following more specific questions: why and how an increase in taxation level occurred in Argentina and Brazil; why and how Argentina increased its taxation level more than Brazil (rate of change); and why and how Brazil has a greater taxation level than Argentina (comparative absolute value).

Even though an appropriate answer to the specific question about Brazil’s level of taxation being greater than Argentina warrants a deeper historical analysis beyond an analysis of the tax policy reforms that took place during the late 1980s in Argentina and Brazil, I still think that it is important to address it. This is so since the reforms under study here should not be considered completely disconnected and independent from their respective countries historical developments.
Therefore, even though the analysis and conclusions that I present here is centered specifically on the tax policy reforms (their causes and taxation level characteristics) that took place in these cases, we need to keep in mind their relatedness to broader historical developments and by consequence indicative of these developments and not accidental oddities.

I argue that the nature and empirical effect of the absorption rule (relevant actors and their interests after the absorption rule effect) help us explain the characteristics of the tax policy reform outcome, but from a more contingent point of view. And the characteristic I study here is its taxation level dimension, which in both cases increased, but to different extents and nature. In addition, the cross-sectional comparisons of absolute values permit us to evaluate if there is any significant difference or not between our cases and if that difference or similarity changed throughout the two decades of interest for this dissertation.

Thus, I first make a brief presentation of the proposed contingent veto players’ explanation of the taxation level dimension. Secondly, I pursue the explanation of the two chosen cases, making use of a contingent veto players theory application. Finally, I present some concluding remarks.

**Veto Players and Level of Taxation**

The dependent variable in this chapter is the occurrence of change in the level of taxation. The level of taxation basically entails the amount of tax handles\(^2\) and the rates used within them (see Guy Peters, 1991; 22-27). Thus, as the amount of tax handles and

\(^2\) This is a metaphor used in the tax policy literature to create a mental physical picture of economic activities that the state could grab (i.e., taxed) in order to generate revenue.
the rates used within them increases (decreases), the level of taxation will also increase (decrease). An extreme case milieu would be an infinite number of actors with equal power of veto and diametrically opposed interests. It is expected that a policy outcome from this extremely fragmented milieu needs to take into account and consideration the mentioned diversity of interests since they have similar power leverages; thus, increasing the probability of the creation of many tax-handles in order to satisfy the mentioned diversity of equal power interests.

Hence, the basic logic behind the positive relation of political fragmentation with the level of taxation is that of generating complexity and specificity on the tax policy structural outcome. This mentioned complexity and specificity derives from the amount, diversity, and equal power leverage to defend their respective interests, within a presumed extreme case of political fragmentation. Thus, the mentioned complexity and specificity is translated into a high amount of tax handles in order to incorporate the mentioned diversity.

It is important to emphasize again what was stated in Chapter 2 regarding our discussion of the level of taxation. I divide the discussion into three main sections: central government; progressive; and total taxation level. And I do so, in the stated order because in order to have a sense of what explains each state’s global taxation level we analyze first more individual taxation behaviors and then put them together in order to account for their respective overall taxation level changes and directions. In addition, as throughout the rest of this dissertation, the relevance of the central government is underscored because of the relative importance on taxation matters within the overall tax system.
Hence, in addition to these comments on tax handles and rates, it is also important to understand the central government, consumption, and income taxation revenues as a percentage of the gross domestic product and the ratio of the last two in order to gauge progressivity. By this I mean, the greater the income and lesser consumption taxation level and the greater the income-to-consumption taxation ratio, the more progressive taxation would be, at least structurally speaking.

The analytical connection of taxation level with veto players theory and the analysis done until this point is grounded on an explanation based on strategic interaction. I already mentioned which units of government controlled which taxes, but let us review. Income taxation is controlled in both cases by their respective central governments. In both cases, the central government is obliged to transfer a pre-established portion of collected income taxes to their respective governmental sub-units. This is true with the caveat that in the Argentine case the constitutionality of those transfers has not been finalized, but in Brazil it was. In regard to consumption taxation, our cases differed because Argentina’s central government remained in control of the most important tax (value-added tax), but still remained responsible for transferring portions of its collection to its governmental sub-units.

In the Brazilian case, consumption taxation remained more complicated. This is so because of the existence of two value-added taxes: one at the federal and one at the state level. The state level VAT (i.e., ICMS) is the most important tax within the Brazilian tax system, but the federal government was still constitutionally obliged to transfer a pre-established portion of its federal VAT (i.e., IPI). Thus, based on these differences of which unit of government controls which tax and the rigid nature (or not)
of a pre-established transferring mechanism, I explain the increase taxation level behavior with less progressive qualities of these two tax system throughout a period of two decades (see Chapter 2 for more details).

**Analysis of Cases**

**Level of Taxation**

*Central Government’s Taxation Level*

Table 7.1 presents the medians for the central government’s tax collecting level summarizing it by decades and country. We can observe Brazil’s constant greater tax collecting level than Argentina throughout the two decades under study. In a graphic form, we can see Figure 7.1 which presents together Argentina and Brazil’s central government’s level throughout the two decades under study. The measure of the central government’s tax revenue as a percentage of the gross domestic product (GDP) (i.e., central government’s taxation level) can be used in order to disentangle central government taxation weight and total taxation level effects on the central government’s capacity to tax. In addition, this measure as a percentage of the GDP explicitly relates the chosen tax measures and the economic situation.

In regard to Brazil, two curves are presented, one for gross revenues collected by the central government and a second one illustrating the central government’s revenues after transferring to the other two lower units of government. From the Figure 7.1 we can see that Brazil’s central government had a higher level than Argentina’s throughout the

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3 Central Government Taxation Level: Taxes collected by Central Government as a percentage of the Gross Domestic Product. The values included in this and the following ones are before transfers’ values because data for the after tax transfers in the Argentine case were not available.
two decades under study. Nevertheless, Argentina’s data are for before transfers to the other lower units of government.

<table>
<thead>
<tr>
<th>Central Government Taxation Level</th>
<th>Argentina</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-2000</td>
<td>15.17%</td>
<td>19.04%</td>
</tr>
<tr>
<td>1980s</td>
<td>13.51%</td>
<td>18.12%</td>
</tr>
<tr>
<td>1990s</td>
<td>17.36%</td>
<td>20.01%</td>
</tr>
</tbody>
</table>

Table 7.1: Central Government’s Tax Collection Level (medians): 1980-2000

SOURCE: Brazil, Varsano et. al. (1998)\(^4\) and Lemgruber (2001)\(^5\); Argentina, The Conjuncture and Information Sector of the Economic Ministry\(^6\)

Figure 7.2 shows five patterns of behavior in regard to the Argentine central government’s taxation level dimension: 1980-1984 (decreasing); 1984-1985 (increasing); 1985-1990 (constant); 1990-1992 (increasing); and 1992-2000 (constant). Nevertheless,

\(^4\) Brazilian 1980-1989 data

\(^5\) Brazilian 1990-2000 data

\(^6\) Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
since 1984 the Argentine central government’s taxation level has been an increasing one, but the biggest changes took place on 1984-1985 and 1990-1992 periods.

Figure 7.3 presents three broad patterns in regard to Brazil’s central government’s taxation level behavior: 1980-1983 (increasing); 1983-1988 (decreasing); and 1988-2000 (increasing). The 1990 represents an anomalous jump and is related to Pres. Collor’s bank accounts’ freeze. An important change took place on 1988 when the new democratic constitution was adopted and an increasing pattern was institutionalized in Brazil, which was correlated with an important jump in the level of “federal contributions.” (see Figure 7.4) Thus, Figure 7.3 illustrates the relevance and importance of the 1988 Constitution with respect to the distribution of taxing power and responsibilities. Furthermore, it implicitly illustrates the importance that “federal contributions” attained and their effects on the overall tax system from the central government taxation level stance point: greater and more regressive (see Figure 7.4 and Eaton and Dickovick 2004).
Figure 7.1: Argentina vis-à-vis Brazil’s Central Government’s Taxation Level


\(^7\) Brazilian 1980-1989 data

\(^8\) Brazilian 1990-2000 data

\(^9\) Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
Figure 7.2: Argentina’s Central Government’s Taxation Level


\[\text{Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data}\]
Figure 7.3: Brazil’s Central Government’s Taxation Level

SOURCE: Varsano et. al. (1998)\textsuperscript{11} and Lemgruber (2001)\textsuperscript{12} ;

\texttt{http://unstats.un.org/unsd/snaama/SelectionBasicFast.asp}

\textsuperscript{11} Brazilian 1980-1989 data

\textsuperscript{12} Brazilian 1990-2000 data
Figure 7.4: Brazil’s “Social Contribution” Tax Level

SOURCE: Varsano et. al. (1998) \(^{13}\) and Lemgruber (2001) \(^{14}\) ;

The Argentine and Brazilian cases represent an example of an increase in the central government’s taxation level when the 1980s and 1990s are compared, which

\(^{13}\) Brazilian 1980-1989 data

\(^{14}\) Brazilian 1990-2000 data
might seem contradicting our discussion in Chapter 5 regarding the central government’s taxation weight dimension. In both of our cases this dimension decreased (i.e., decentralization), but more dramatic in the Brazilian than in the Argentine case, which ended up not having statistical significance. I think it is important to underscore the difference between taxation weight and level measures once more in order to avoid interpretative confusions. The former gauges the relevance of the unit or tax under discussion with respect to the total amount of taxes collected; while the latter gauges at the capacity of the unit under discussion to collect taxes or a particular type of tax with respect to the economy as a whole. Thus, level measures permit us to encounter empirically the reality of decrease relevance with an increased capacity and vice versa.

When this disjunction takes place, it forces us to look deeper into the taxing realities at stake in order to put forth valid and illuminating explanations. They represent analytical puzzles that caution us to take matters at their face value. The Brazilian case presents us with this opportunity and challenge of questioning our expectations and assumptions. Nevertheless, what we can argue at this point is that the tax collection decentralization throughout these two decades was not negative toward the central government’s capacity to collect taxes as shown. This is so because the central government taxation level increased throughout these two decades. Thus, as discussed later, the increase in overall state capacity to collect taxes weighted heavier than the lost of tax revenues by the central government. In addition, it further underscores the prominence of a maximizing revenue interest taking into consideration institutional realities (i.e., possibilities and limitations).
### Table 7.2: Central Government Taxation Level: Statistical Means Comparisons

<table>
<thead>
<tr>
<th></th>
<th>YES (increase)**</th>
<th>Not significant</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1980s</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cent. Gov’t. Taxation Level</td>
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<tr>
<td>Inter-case absolute value</td>
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<td></td>
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<tr>
<td><strong>1990s</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cent. Gov’t. Taxation Level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inter-case absolute value</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1980s vs. 1990s</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cent. Gov’t. Taxation Level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arg80 vs. Bra90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arg90 vs. Bra80</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Two-tailed tests:
* $p \leq 0.10$
** $p \leq 0.05$

In order to analyze in a more systematic way the *central government taxation level* dimension, I present a series of statistical means comparisons. I compared the

---

15 Brazilian 1980-1989 data

16 Brazilian 1990-2000 data

17 Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
1980s vis-à-vis the 1990s within each of our two cases and between them. Table 7.2 presents a quick snapshot of the three main questions in this chapter, regarding the central government taxation level dimension: if change took place; at what pace; and which case had a greater central government taxation level. Brazil did not have any statistically significant change throughout the two decades under study, while Argentina did experience an increase in the central government taxation level. Thus, Argentina had a statistically significant greater rate of change: increased central government taxation level (see Tables B.1, B.2, B.3, and B.4 in Appendix B for SPSS results).

Nevertheless, Brazil had a statistically significant greater central government taxation level throughout the two decades under study and comparing each individual decade. The exception to this trend was when we compared Brazil’s (1980) with Argentina’s central government taxation level (1990) where the latter was greater than the former. In summary, the 1980s and 1990s show us a greater central government taxation level in Brazil when compared to Argentina (see Table 7.2). Nevertheless, their distance with respect to the central government taxation level dimension decreased.

Returning to the hypotheses on Table 4.11 regarding the central government taxation level, both were supported (i.e., increase for Argentina and status quo for Brazil). Hence, in regard to the central government taxation level dimension: Why did change take place in Argentina and not in Brazil? Why Argentina’s rate of change was greater or more drastic than in Brazil? Why did their relative distance decrease through time? Nevertheless, let us first proceed to discuss the progressive level of taxation throughout the next sections.
Progressive Level of Taxation

Table 7.3 presents a summary of the medians for the different tax measures used for gauging the progressive level of Argentina and Brazil’s taxation throughout the 1980s and 1990s. I first discuss income taxation level behavior, followed by a discussion of consumption taxation level behavior. This is so, in order to put together these two discussions and being able to gauge the progressive level of each case’s taxation system (i.e., income taxation minus consumption taxation). The measure of the progressive taxation level can be used in order to disentangle changes in progressive taxation weight and total taxation level effects on the state’s ability or willingness to collect more progressive type of taxes. In addition, this measure as a percentage of the GDP explicitly relates the chosen tax measures and the economic situation.
Table 7.3: Income Taxes and VAT: 1980-2000

SOURCE: Brazil, Varsano et al. (1998)\textsuperscript{20} and Lemgruber (2001)\textsuperscript{21}; Argentina, The Conjuncture and Information Sector of the Economic Ministry\textsuperscript{22}

A quick glimpse at Table 7.3 shows Argentina increasing both taxation levels under discussion, but its progressive taxation level deteriorated basically due to a more drastic change in its consumption taxation level. In regard to Brazil, we can see a slight increase in its income taxation level, a decrease in its federal consumption taxation level, and an increase in its sub-units’ consumption taxation level. Using both, its federal and sub-units’ consumption taxation levels, Brazil’s progressive taxation level also deteriorated. Finally, the progressive level of taxation deterioration in both cases was

\textsuperscript{18} This refers to the federal VAT in Argentina and Brazil (i.e., IPI).

\textsuperscript{19} The units of measure presented here are percentage points.

\textsuperscript{20} Brazilian 1980-1989 data

\textsuperscript{21} Brazilian 1990-2000 data

\textsuperscript{22} Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
more drastic in the Argentine than in the Brazilian case. After stating these brief general comments regarding the taxes of interest in this section, let us proceed with a more detailed, cross-sectional and temporal, account of each of these types of taxes.

**Income Taxation Level**

Figure 7.5 presents Argentina and Brazil’s *income taxation levels* throughout the two decades under study. We can observe a narrowing of the distance between our two cases and an increasing behavior during the 1990s, which I explain why this was the case. Nevertheless, let us take a closer look at our individual cases. The measure of the *income taxation level* can be used in order to disentangle changes in *income taxation weight* and *total taxation level* effects on the state’s ability or willingness to collect income taxes. In addition, this measure as a percentage of the GDP explicitly relates the chosen tax measures and the economic situation.

Figure 7.6 shows a breaking point at 1989-1990 regarding Argentina’s income taxation level behavior. This breaking point coincides with the initiation of Ménem’s government. The increasing behavior of income taxation level indicates an improvement on the progressive capacity of the state to collect taxes. It is important to keep in mind that income taxes are collected by the federal government. I underscore this in order to take it into consideration when disentangling the *central government level of taxation* behavior and the *total level of taxation* effects.
Figure 7.5: Argentina vis-à-vis Brazil’s Income Taxation Level

SOURCE: Brazil, Varsano et. al. (1998)\textsuperscript{23} and Lemgruber (2001)\textsuperscript{24}; Argentina, The Conjuncture and Information Sector of the Economic Ministry\textsuperscript{25};

\texttt{http://unstats.un.org/unsd/snaama/SelectionBasicFast.asp}

\textsuperscript{23} Brazilian 1980-1989 data

\textsuperscript{24} Brazilian 1990-2000 data

\textsuperscript{25} Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data

275
Figure 7.6: Argentina’s Income Taxation Level


\textsuperscript{26} Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
Figure 7.7: Brazil’s Income Taxation Level


Figure 7.7 shows five distinct patterns of income taxation level behavior in Brazil:

1980-1985 (increasing); 1985-1987 (decreasing); 1987-1989 (increasing); 1989-1991

\(^{27}\) Brazilian 1980-1989 data

\(^{28}\) Brazilian 1990-2000 data
(decreasing); and 1991-2000 (increasing). The 1985-1987 and 1989-1991 represent a decreasing behavior, which coincided with new administrations and partial transition periods, Sarney and Collor, respectively. In order to understand this taxation behavior we need to take into consideration the federal governments’ co-participation reality as was discussed in Chapter 5. Furthermore, I hypothesize that more than redistributive or economic efficient interests, what really predominated in both cases were interests of maximizing tax collections. Their respective variations (i.e., Argentina vis-à-vis Brazil) become clear when the respective institutional realities of both federal governments are taken into consideration.

In order to analyze in a more systematic way the income taxation level dimension, I present a series of statistical means comparisons. I compared the 1980s vis-à-vis the 1990s within each of our two cases and between them. Table 7.4 presents a quick snapshot of the three main questions in this chapter, regarding the income taxation level dimension: if change took place; at what pace; and which case had a greater income taxation level (see Tables B.1, B.2, B.3, and B.4 in Appendix B for SPSS results).

From Table 7.4 we can observe that throughout the two decades under study, Argentina’s income taxation level experienced a statistically significant change (i.e., it increased), while Brazil’s did not. Thus, Argentina’s rate of change was greater than Brazil, but Brazil’s income taxation level still was greater than Argentina’s. And this was true even when we compared the different decades.
### Table 7.4: Income Taxation Level: Statistical Means Comparisons

<table>
<thead>
<tr>
<th>1980-2000</th>
<th>Argentina</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intra-case change</strong></td>
<td>YES (increase)**</td>
<td>Not significant</td>
</tr>
<tr>
<td><strong>Intra-case rate change</strong></td>
<td>X**</td>
<td>X**</td>
</tr>
<tr>
<td><strong>Inter-case absolute value</strong></td>
<td></td>
<td></td>
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<th>1980s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Taxation Level</td>
</tr>
<tr>
<td><strong>Inter-case absolute value</strong></td>
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<th>1990s</th>
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<tbody>
<tr>
<td>Income Taxation Level</td>
</tr>
<tr>
<td><strong>Inter-case absolute value</strong></td>
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<tr>
<th>1980s vs. 1990s</th>
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</thead>
<tbody>
<tr>
<td>Income Taxation Level</td>
</tr>
<tr>
<td>Arg80 vs. Bra90</td>
</tr>
<tr>
<td>Arg90 vs. Bra80</td>
</tr>
</tbody>
</table>

Two-tailed tests:
* $p \leq 0.10$
** $p \leq 0.05$

Hence, returning to Table 4.11, the income taxation level hypotheses were supported: Argentina increasing and Brazil status quo. If we could get to a conclusion
regarding *overall taxation progressive level* by just studying *income taxation level*, Argentina would have increased while Brazil would not have changed their respective *taxation progressive levels* (i.e., in a statistical significant way). Nevertheless, income taxation is only part of the story regarding the *progressive taxation level*. We turn now to another fundamental part of the story, *consumption taxation level*.

**Consumption Taxation Level**

Figure 7.8 shows a combined graphing of Argentina and Brazil’s main consumption taxes, which presents a more drastic change for Argentina than Brazil; it shows the Argentine case closing its gap with respect to Brazil’s combined main consumption taxes if we compare 1980 with 2000 (i.e., 1980: Argentina 3.18% vs. Brazil 7.78%; 2000: Argentina 6.67% Brazil 9.27%). Nevertheless, let us take a closer look at each individual case. The measure of the *consumption taxation level* can be used in order to disentangle changes in *consumption taxation weight* and *total taxation level* effects on the state’s ability or willingness to collect consumption taxes. In addition, this measure as a percentage of the GDP explicitly relates the chosen tax measures and the economic situation.

Figure 7.9 can be divided into two *consumption taxation level* patterns in Argentina: 1980-1989 (decreasing) and 1989-2000 (increasing). With the exception of an increase from 1980-1981, the rest of this first pattern is a decreasing one. I suggest that this is strongly related with the bad economic circumstances in Argentina at the end of the military regime (1980-1983) and throughout Alfonsín’s administration (1983-1989). Political considerations become important not in explaining the actual behavior of the VAT during this first period, but in the difficulties Alfonsín had in passing a tax reform
as discussed in Chapter 3. The importance of political over economic considerations is underscored by the 1989-1992 period, where the biggest jump takes place. I state political over economic considerations since the VAT level started to increase even before economic growth and hyperinflationary control were achieved.
Figure 7.8: Argentina vis-à-vis Brazil’s Consumption Taxation Level

SOURCE: Brazil, Varsano et. al. (1998)\textsuperscript{32} and Lemgruber (2001)\textsuperscript{33}; Argentina, The Conjuncture and Information Sector of the Economic Ministry\textsuperscript{34};

\url{http://unstats.un.org/unsd/snaama/SelectionBasicFast.asp}

\textsuperscript{32} Brazilian 1980-1989 data

\textsuperscript{33} Brazilian 1990-2000 data

\textsuperscript{34} Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
Figure 7.9: Argentina’s Consumption Taxation Level


Nevertheless, what is important to underscore is that the most important determinant of VAT change was the political one (i.e., 1989-1990 tax reforms), which

\textsuperscript{35} Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
even after the economy began to sour the VAT’s level never got to the pre-reform years. Another important aspect regarding the VAT’s level is its negative effect on the progressive capacity of the overall tax system. By increasing the importance of the VAT with respect to the overall tax system, a decrease in the progressive quality of the overall tax system takes place. Nonetheless, a decrease in progressivity is different from categorizing a tax system as regressive. This is so because an efficient VAT could end up having a neutral effect and not be necessarily regressive. Even though there are other taxation technicalities that have an effect on its progressive realization, I still can present comments regarding the structural shift in favor of consumption rather than income taxation as we elaborate in the next section.

Furthermore, this indicates also the relevance of increasing tax collecting over any redistributive interest. Nevertheless, nothing can be said at this point with respect to an assessment of the balance between economic efficiency vis-à-vis tax collecting interests. Nevertheless, the state’s behavior after 1996 and even more after De la Rúa’s election underscores the relevance of tax collecting interests over economic efficiency.

From Figure 7.10 we can observe five patterns for the Brazilian federal VAT: 1980-1983 (constant); 1983-1984 (sharp drop); 1984-1987 (sharp increase); 1987-1993 (ups and downs); and 1993-2000 (decreasing). The last period, 1993-2000, presents a clear secular decreasing behavior with a pretty steep slope. As stated in Chapter 6, I would attribute this fact to the purposive action by the federal government under the Cardoso administration. The two VATs in Brazil are the: IPI (federal) and ICMS (states). Nevertheless, the ICMS is a far greater and important tax than the IPI (see also Chapter 6). In addition, even though the IPI is collected by the federal government, it needs to be
shared with the states and municipalities (i.e., constitutionally mandated). It is worth-the-
while underscoring that this is also true for the income tax.

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**Figure 7.10:** Brazil’s Consumption Taxation Level (Federal)


\(^{36}\) Brazilian 1980-1989 data

\(^{37}\) Brazilian 1990-2000 data
Thus, I reiterate my previous point that the decline we observe, regarding the IPI, and the turtle-pace increase in income tax collection has more to do with an active, purposive, and intentional action of the federal government in order to pass a tax policy reform and maximize its revenues, which for the Cardoso administration meant, among other aspects, creating a unified national VAT control by the federal government and then distributed to the sub-units through transfers. With the benefit of the hindsight, this did not work because the mentioned reform never took place. The federal government could not just relinquish its responsibility of collecting the mentioned taxes (i.e., IPI and income tax) because it was constitutionally bounded to do so. Nevertheless, it could “slack” on its responsibility.

Why “slacking?” I argued in Chapter 6 that it was because of the central government’s obligation to share with the sub-units the fruits of its efforts. In order to strengthen this explanation I documented the increase importance of what became to be called “social contributions” as was discussed on Chapter 5 (see also Figure 7.4). These “social contributions” had the benefit of not needing to be shared with the sub-units. The down-side would be the inflexible spending nature of these “social contributions” and their temporary nature. By this I mean that the federal government could not just use the collected revenues from these “social contributions” for anything it wanted, it needed to dedicate those resources for the pre-specified intentions when collected. Tied to these debates we have the dilemmas of the social security and pension systems, for which many of the “social contributions” were created to ameliorate their respective deficits (see Chapter 8 for brief comments on Lula’s reforms).
The paradox of these “social contributions” is that they had some appearance of progressivity due to their ties with social issues, but the contributions per se were regressive in their collecting nature. That is why some people, among them Varsano et al. (2001), have been able to propose the unification of those “social contributions” and converting them into a VAT (a non-progressive form of taxation). The ideas behind the unification and conversion into a VAT are for giving permanent status to a temporary collection and for eliminating the negative economic effect that these “contributions” create known as *cascading*.

Figure 7.11 portrays the Brazilian federal sub-units of government VAT level of taxation behavior. Three patterns can be identified: 1980-1986 (increasing); 1986-1988 (decreasing); and 1988-2000 (increasing). Nevertheless, there are two peak points after 1988 that stand-out: 1990 and 1994. The former can be associated with Pres. Collor’s confiscatory policy of bank accounts’ freeze, which one of its caveats was that Brazilians could still withdraw money in order to pay taxes; thus, facilitating tax payment monitoring for the government. The latter peak could be associated with victory over inflation because of the *Real Plan*.

In order to analyze in a more systematic way the *consumption taxation level* dimension, I present a series of statistical means comparisons. I compared the 1980s vis-à-vis the 1990s within each of our two cases and between them. Tables 7.5, 7.6, and 7.7 present a quick snapshot of the three main questions in this chapter, regarding the *consumption taxation level* dimension: if change took place; at what pace; and which case had a greater *consumption taxation level*. 
Figure 7.11: Brazil’s Consumption Taxation Level (States)


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38 Brazilian 1980-1989 data

39 Brazilian 1990-2000 data
From Table 7.5 we can observe that Argentina experienced a statistically significant increase in its consumption taxation level when we compare the 1990s and 1980s. Nevertheless, Brazil’s federal consumption taxation level did not have any statistically significant change, but its sub-units and combined federal and sub-units

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40 Brazilian 1980-1989 data

41 Brazilian 1990-2000 data

42 Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
consumption taxation level increased. Consequently, Argentina had a more drastic change in its consumption taxation level when we compare the 1990s and 1980s. If we compare across cases throughout the two decades of interest, Argentina’s consumption taxation level was greater than Brazil’s federal VAT level, while it was lower than Brazil’s combined federal and states’ VAT and states’ VAT levels (see Tables B.1, B.2, B.3, and B.4 in Appendix B for SPSS results).
### Table 7.6: Consumption Taxation Level (1980s & 1990s): Statistical Means Comparisons

<table>
<thead>
<tr>
<th></th>
<th>Argentina</th>
<th>Brazil</th>
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<tr>
<td></td>
<td>IPI</td>
<td>ICMS</td>
</tr>
<tr>
<td>1980s</td>
<td>X*</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>X**</td>
</tr>
<tr>
<td>1990s</td>
<td>X**</td>
<td></td>
</tr>
</tbody>
</table>

Two-tailed tests:
* $p \leq 0.10$
** $p \leq 0.05$

Table 7.6 shows that during the 1980s Argentina’s *VAT level* was greater than Brazil’s federal *VAT*, but it was lower than Brazil’s states’ *VAT* and Brazil’s combined

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43 Brazilian 1980-1989 data

44 Brazilian 1990-2000 data

45 Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
federal and states’ *VAT level*. During the 1990s Argentina’s *VAT level* was greater than Brazil federal *VAT*, but lower than Brazil’s combined federal and sub-units’ *VAT level*. Nevertheless, there was no statistically significant difference between Argentina’s *VAT level* and Brazil’s states’ *VAT level*. This change demonstrates Argentina’s dramatic increase in *consumption taxation level* in contradistinction to Brazil’s.

In Table 7.7 I present the comparative means’ results between our cases of analysis and different decades. It shows Argentina’s *VAT level* (1980s) being greater than Brazil’s federal *VAT* (1990s) but lower than Brazil’s states’ *VAT* (1990s) and Brazil’s combined federal and states’ *VAT level* (1990s). In addition, it shows that Argentina’s *VAT level* (1990s) was greater than Brazil’s federal (1980s) and lower than Brazil’s combined federal and states’ *VAT level* (1980s), while there was no statistical significant different with respect to Brazil’s states’ *VAT level* (1980s). These last comparisons again underscore the dramatic increase of Argentina’s *VAT level* from 1980s to the 1990s, which also indicate a reduction of Brazil’s state’s *VAT level* advantage over Argentina when the 1990s are compared to the 1980s.
<table>
<thead>
<tr>
<th>Consumption Taxation Level</th>
<th>Argentina</th>
<th>Brazil</th>
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<tbody>
<tr>
<td></td>
<td>IPI</td>
<td>ICMS</td>
</tr>
<tr>
<td>Arg80 vs. Bra90</td>
<td>X**</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>X**</td>
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<td>Arg90 vs. Bra80</td>
<td>X**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Not Sig.</td>
<td>Not Sig.</td>
</tr>
</tbody>
</table>

Two-tailed tests:
* p ≤ 0.10
** p ≤ 0.05

Table 7.7: Consumption Taxation Level (1980s vs. 1990s): Statistical Means Comparisons

SOURCE: Brazil, Varsano et. al. (1998)\textsuperscript{46} and Lemgruber (2001)\textsuperscript{47}; Argentina, The Conjuncture and Information Sector of the Economic Ministry\textsuperscript{48}

Hence, returning to Table 4.11, the consumption taxation level hypotheses were supported: there was an increase in Argentina and Brazil’s states’ VAT while Brazil’s federal VAT did not change. If we could get to a conclusion regarding overall taxation

\textsuperscript{46} Brazilian 1980-1989 data

\textsuperscript{47} Brazilian 1990-2000 data

\textsuperscript{48} Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
progressive level by just studying consumption taxation level, Argentina would have decreased while Brazil would not have changed their respective taxation progressive levels (i.e., in a statistical significant way). Nevertheless, consumption taxation is only part of the story regarding the progressive taxation level. After having individually reviewed the two important taxation components for determining its progressive level, we can put them together in order to draw some evaluative conclusions. Thus, the next section pursues this task.

**Progressive Level of Taxation**

Throughout this section we combine our previous discussion of income and consumption taxation levels in order to be able to assess the degree of progressive taxation level. Figure 7.12 presents a visual picture of Argentina’s income and VAT levels throughout the 1980s and 1990s, which further underscores the dramatic increase in consumption and income taxation levels, but we can still notice the predominance of consumption over income taxation level.

Figure 7.13 summarizes Argentina’s progressive taxation level behavior throughout the 1980s and 1990s. The graph can be divided into three patterns: 1980-1989 (increasing); 1989-1993 (decreasing); and 1993-2000 (increasing). Figure 7.14 presents a visual picture of Brazil’s income and VAT levels throughout the 1980s and 1990s, which further underscores the dramatic increase in income and consumption taxation levels on 1990. In addition, it underscores consumption taxation prevailing over income taxation level. Figure 7.15 summarizes Brazil’s progressive taxation level behavior throughout the 1980s and 1990s taking into consideration the federal VAT only. The graph can be divided into five patterns: 1980-1984 (increasing); 1984-1987
(decreasing); 1987-1989 (increasing; 1989-1991 (decreasing); and 1991-2000 (increasing). Nevertheless, it was always positive.

Figure 7.12: Argentina’s Income & Consumption Taxation Level

SOURCE: The Conjuncture and Information Sector of the Economic Ministry

49 Dirección de Información y Coyuntura del Ministerio de Economia (Argentina’s federal government); Argentine 1980-2000 data
Figure 7.13: Argentina’s Progressive Taxation Level

SOURCE: The Conjuncture and Information Sector of the Economic Ministry;  

50 Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
Figure 7.14:  Brazil’s Income & Consumption Taxation Level

SOURCE:  Varsano et. al. (1998)\textsuperscript{51} and Lemgruber (2001)\textsuperscript{52}

\textsuperscript{51} Brazilian 1980-1989 data

\textsuperscript{52} Brazilian 1990-2000 data
Figure 7.15: Brazil’s Progressive Taxation Level (Federal only)

SOURCE: Varsano et al. (1998)\textsuperscript{53} and Lemgruber (2001)\textsuperscript{54};

\url{http://unstats.un.org/unsd/snaama/SelectionBasicFast.asp}

\textsuperscript{53} Brazilian 1980-1989 data

\textsuperscript{54} Brazilian 1990-2000 data
Figure 7.16: Brazil’s Progressive Taxation Level (States’ only)


55 Brazilian 1980-1989 data
56 Brazilian 1990-2000 data
Figure 7.17: Brazil’s Progressive Taxation Level (Federal & States)

SOURCE: Varsano et. al. (1998)\textsuperscript{57} and Lemgruber (2001)\textsuperscript{58};

\url{http://unstats.un.org/unsd/snaama/SelectionBasicFast.asp}

\textsuperscript{57} Brazilian 1980-1989 data

\textsuperscript{58} Brazilian 1990-2000 data
Figure 7.16 summarizes Brazil’s progressive taxation level behavior throughout the 1980s and 1990s taking into consideration the states’ VAT only. The graph can be divided into three patterns: 1980-1985 (increasing); 1985-1990 (decreasing); and 1990-2000 (increasing). Nevertheless, it was always negative. Figure 7.17 summarizes Brazil’s progressive taxation level behavior throughout the 1980s and 1990s taking into consideration both VATs, federal and states. The graph can be divided into three patterns: 1980-1984 (increasing), 1984-1990 (decreasing), and 1990-2000 (increasing). Nevertheless, it was always negative.
<table>
<thead>
<tr>
<th></th>
<th>1980-2000</th>
<th></th>
<th>Argentina</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Progressive Tax. Level (IPI+ICMS)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Intra-case change</strong></td>
<td>Yes (decrease)**</td>
<td>Yes (decrease)**</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Intra-case rate change</strong></td>
<td>X**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Inter-case absolute value</strong></td>
<td>X**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1980s</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Progressive Tax. Level (IPI+ICMS)</strong></td>
<td>X**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1990s</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Progressive Tax. Level (IPI+ICMS)</strong></td>
<td>X*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1980s vs. 1990s</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Progressive Tax. Level (IPI+ICMS)</strong></td>
<td></td>
<td>X**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arg80 vs. Bra90</td>
<td></td>
<td>X**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arg90 vs. Bra80</td>
<td></td>
<td>Not Sig.</td>
<td>Not Sig.</td>
<td></td>
</tr>
</tbody>
</table>

Two-tailed tests:
* p ≤ 0.10
** p ≤ 0.05

Table 7.8: Progressive Taxation Level: Statistical Means Comparisons

SOURCE: Brazil, Varsano et. al. (1998)\(^{59}\) and Lemgruber (2001)\(^{60}\); Argentina, The Conjuncture and Information Sector of the Economic Ministry\(^{61}\)

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\(^{59}\) Brazilian 1980-1989 data

\(^{60}\) Brazilian 1990-2000 data

\(^{61}\) Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
In order to analyze in a more systematic way the *progressive taxation level* dimension, I present a series of statistical means comparisons. I compared the 1980s vis-à-vis the 1990s within each of our two cases and between them. Table 7.8 presents a quick snapshot of the three main questions in this chapter, regarding the *progressive taxation level* dimension: if change took place; at what pace; and which case had a greater *progressive taxation level*.

From Table 7.8 we can observe that Argentina and Brazil both decreased their *progressive taxation level* throughout the two decades under study, but Argentina had a more drastic change than Brazil. In addition, Argentina had a greater *progressive taxation level* than Brazil when the two decades under study are compared. The same was true when we compare their respective within-decades’ means and when Argentina’s *progressive taxation level* (1980s) is compared with Brazil’s (1990s). Nevertheless, there was no statistically significant difference when Argentina’s *progressive taxation level* (1990s) was compared with Brazil’s (1980s). Consequently, the last comments again underscore their overall decrease in *progressive taxation level* throughout the last twenty years of the twentieth century (see Tables B.1, B.2, B.3, and B.4 in Appendix B for SPSS results).

Returning to Table 4.11, the *income* and *consumption taxation* hypotheses were supported individually: increased *income* and *consumption taxation level* in the Argentine case; *income* and *consumption taxation level* status quo in the Brazilian case. The interaction between these two types of taxation becomes what I have identified as *progressive taxation level*, which I have relied in more contingent and empirical analysis than theoretical deductions.
In summary, the 1980s and 1990s showed us a less progressive taxation level in Argentina and Brazil. Furthermore, Argentina had a greater progressive taxation level than Brazil. Nevertheless, their distance on the progressive taxation level decreased. This was because Argentina decreased its progressive taxation level more than Brazil.

Hence, from the point of view of income, consumption, and progressive taxation levels: Why clearer change took place Argentina and not in Brazil? Why Argentina’s rate of change was greater or more drastic than in Brazil? Why their relative distance decreased through time? Nevertheless, let us first proceed to discuss the total level of taxation.

**Total Level of Taxation**

<table>
<thead>
<tr>
<th></th>
<th>Argentina</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of Taxation</td>
<td>18.02%</td>
<td>15.67%</td>
</tr>
<tr>
<td></td>
<td>21.27%</td>
<td>26.19%</td>
</tr>
<tr>
<td></td>
<td>24.43%</td>
<td>29.46%</td>
</tr>
</tbody>
</table>

Table 7.9: Overall Level of Taxation: 1980-2000

SOURCE: Brazil, Varsano et. al. (1998)\(^{63}\) and Lemgruber (2001)\(^{64}\); Argentina, The Conjuncture and Information Sector of the Economic Ministry\(^{65}\)

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\(^{62}\) Total Taxation Level: Total Tax revenues as a percentage of GDP.

\(^{63}\) Brazilian 1980-1989 data

\(^{64}\) Brazilian 1990-2000 data

\(^{65}\) Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
Table 7.9 presents the medians for the total taxation level\textsuperscript{66} summarizing it by decades and country. We can observe Brazil’s constant greater collecting level than Argentina throughout the two decades under study. In a graphic form, we can see Figure 7.18 which presents together Argentina and Brazil’s total taxation levels throughout the two decades under study. This measure as a percentage of the GDP explicitly relates the chosen tax measures and the economic situation.

Figure 7.19 summarizes Argentina’s total taxation level behavior throughout the 1980s and 1990s. It presents five patterns: 1980-1983 (decreasing); 1983-1986 (increasing); 1986-1988 (decreasing); 1988-1992 (increasing); and 1992-2000 (constant). The 1989-1990 period represents an important shift regarding total tax collecting capacity. Besides representing an increase on the overall tax collecting capacity of the state, if compared to the 1980-1989, it stabilized the collecting capacity of the state on an increasing behavior. We need to keep in mind that the 1989-1990 represent the period of tax policy reforms of interest in this study.

\textsuperscript{66} \textit{Total Taxation Level}: Total taxes collected as a percentage of the Gross Domestic Product. The values included in this and the following ones are before transfers’ values because data for the after tax transfers in the Argentine case were not available.
Figure 7.18: Argentina vis-à-vis Brazil’s Total Taxation Level


\textsuperscript{67} Brazilian 1980-1989 data

\textsuperscript{68} Brazilian 1990-2000 data

\textsuperscript{69} Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data
Figure 7.19: Argentina’s Total Taxation Level


70 Dirección de Información y Coyuntura del Ministerio de Economía (Argentina's federal government); Argentine 1980-2000 data
Brazil’s Taxation Level

Figure 7.20: Brazil’s Total Taxation Level


Figure 7.20 summarizes Brazil’s total taxation level behavior throughout the 1980s and 1990s. It presents three main patterns: 1980-1983 (increasing); 1983-1988

71 Brazilian 1980-1989 data
72 Brazilian 1990-2000 data
(decreasing); and 1988-2000 (increasing). As have been underscored throughout this dissertation, I would argue that 1988 represent an important shift regarding state’s tax collecting capacity. Besides representing an increase on the overall tax collecting capacity of the state, if compared to the 1980-1989, it stabilized the collecting capacity of the state on an increasing behavior. We need to keep in mind that 1988 represents the period of tax policy reforms of interest in this study.
In order to analyze in a more systematic way the total taxation level dimension, I present a series of statistical means comparisons. I compared the 1980s vis-à-vis the 1990s within each of our two cases and between them. Table 7.10 presents a quick

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**Table 7.10: Total Taxation Level: Statistical Means Comparisons**

<table>
<thead>
<tr>
<th>1980-2000</th>
<th>Argentina</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of Taxation</td>
<td>YES (increase)**</td>
<td>YES (increase)**</td>
</tr>
<tr>
<td>Intra-case change</td>
<td>X**</td>
<td>X**</td>
</tr>
<tr>
<td>Intra-case rate change</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inter-case absolute value</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| 1980s | | |
| Level of Taxation | | |
| Inter-case absolute value | X** | |

| 1990s | | |
| Level of Taxation | | |
| Inter-case absolute value | X** | |

| 1980s vs. 1990s | | |
| Level of Taxation | | |
| Arg80 vs. Bra90 | X** | |
| Arg90 vs. Bra80 | X** | |

Two-tailed tests:
* p ≤ 0.10
** p ≤ 0.05

SOURCE: Brazil, Varsano et. al. (1998)\(^{73}\) and Lemgruber (2001)\(^{74}\); Argentina, The Conjuncture and Information Sector of the Economic Ministry\(^{75}\)

---

\(^{73}\) Brazilian 1980-1989 data

\(^{74}\) Brazilian 1990-2000 data
snapshot of the three main questions in this chapter, regarding the total taxation level dimension: if change took place; at what pace; and which case had a greater total taxation level. From Table 7.10 we can observe that Argentina and Brazil increased their total taxation level throughout the two decades under study. Nevertheless, Argentina had a statistically significant greater rate of change. Nevertheless, Brazil had a statistically significant greater total taxation level throughout the two decades under study and comparing each individual decade. Nevertheless, their distance with respect to the total taxation level decreased (see Tables B.1, B.2, B.3, and B.4 in Appendix B for SPSS results).

Returning to the hypotheses on Table 4.11 regarding the total taxation level, both were supported (i.e., increased for Argentina and Brazil). Hence, from the total taxation level dimension stance point: Why change took place in Argentina and Brazil? Why Argentina’s rate of change was greater or more drastic than in Brazil? Why their relative distance decreased through time? In the next section we proceed to answer these questions.

**Contingent Veto Players Analysis: Argentina vis-à-vis Brazil Level of Taxation**

As was shown in Chapters 3 and 4, the temporal inflexion junctures from the point of view of veto players and tax policy in the Argentine and Brazilian cases were 1989-90 and 1986-88, respectively. Both time periods represent election years and

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75 Dirección de Información y Coyuntura del Ministerio de Economía (Argentina’s federal government); Argentine 1980-2000 data

76 i.e., 1989 Presidential Elections in Argentina and 1986 Federal Congressional Elections in Brazil
created a rearrangement of veto players in both cases: a temporary reduction of veto players.

Argentina and Brazil both have three institutional veto players (i.e., one individual and two collectives): the President and two legislative chambers. In the case of Argentina, the Peronist party (PJ) won the 1989 Presidential Elections, which gave this party controlled of all three institutional veto players. Thus, by making use of the absorption rule we can explain the occurrence of a tax policy reform, which was not possible before the 1989 election because of the incongruence between institutional and partisan veto players. Immediately previous to 1989, Argentina had the Presidency dominated by the Unión Cívica Radical (UCR) and both houses of the federal congress dominated by the PJ. After 1989 the PJ dominated all three institutional veto players. Thus, the PJ, a partisan veto player, provided the unifying role among the three institutional veto players.

In the case of Brazil, the 1986 Federal Congressional Elections represented a decrease in the number of institutional veto players. This was true since the elected Federal Congress (i.e., both houses) functioned as the National Constituent Assembly (i.e., as one) with the responsibility of writing a new constitution for the new democratic regime and legislating. In other words, by making use of the absorption rule we can explain a reduction of veto players (i.e., from three to two institutional veto players), which then enables us to explain the tax policy reform of interest.

Argentina can be considered to have two main political parties (i.e., UCR and PJ), which helps understand the formation of almost single-party governments. Nevertheless, in the case of Brazil and its fragmented party system, it has been impossible to form
single-party governments. Thus, Brazil has been characterized by multi-party
governments. These comments underscore the higher number of veto players in the
Brazilian case during the tax reform event. Both cases have three institutional veto
players, but in the Argentine case we see single-party governments (or one big and one
small party government). The Brazilian case has never had this type of government and
always multiparty governments or shifting coalition governments. During the tax policy
reform, this characteristic was still the case with Brazil having a higher number of
partisan veto players than Argentina.

In Chapter 2 we presented the variables of interest and their relations (see Figures
C.8, C.9, C.10, and C.11 in Appendix C): executive constitutional taxation boundaries,
revenue maximization interest, and central government, income, consumption,
progressive, and total taxation levels. Let us then address the questions of direction and
magnitude of change for each of the discussed taxation measures: central government,
income, consumption, progressive, and total taxation levels.

We discussed that Argentina increased its central government taxation level,
while Brazil did not, which supports the hypotheses at the end of Chapter 4. I argue here
that an important part of the explanation for this having been the case is a combination of
the prevailing interests within the remaining relevant veto players after the absorption
rule effects, executive-central government in Argentina and legislative-sub-national in
Brazil. In addition, I stated that in order to explain and understand level measure
behaviors we need to underscore the relevance of revenue maximizing in conjunction
with the revenue sharing law in place. Hence, because of an affinity between these
relevant predictors in the Argentine case, we evidenced an increase. The Brazilian case
did not have this affinity between the *revenue maximizing* assumption and the *revenue sharing law* in place.

In both cases, due to democratization, tax policy decentralization was part of the agenda. A centralized tax policy was perceived as being part of the authoritarian recent past. Nevertheless, even though this democratic ethos was true, a reform did not take place in Argentina or Brazil until a reduction of veto players happened, as I discussed.

Furthermore, as discussed in Chapter 5, Brazil’s *central government’s taxation weight* significantly decreased, which that was not so in the Argentine case. I state this because even though *taxation weight* and *level* are different measures they are related. *Revenue maximizing* has been the guiding premise in this dissertation. Thus, this result, the Brazilian *central government* not having significantly increased its *taxation level*, might seem problematic. Nevertheless, we need to further underscore that the Brazilian *central government* did increase its *taxation level*, but not to a significant degree, which might be explained because of its revenue lost after the 1988 reform. Its willingness to maximized revenue was not enough to undue the revenue lost and taxation constraints after 1988. On the other hand, Argentina’s central government situation was completely different as has been discussed. This meaning that its revenue lost was not significant and it remained in control of the most important taxes.

This analysis can be summed-up quoting the following,

As many observers have noted, coherent parties serve as the mechanism through which presidents can leverage support for centralizing reforms (Willis, Garman, and Haggard 1999). The comparative lesson from our cases is that significant partisan powers can promote rapid stabilization by facilitating the types of fiscal pacts seen in Argentina. Ultimately, however, the evaporation of presidents’ partisan powers in Argentina demonstrated that re-centralization based largely on a strong partisan backing can be exceedingly fragile. Meanwhile, the Brazilian
case confirms that subnational assaults on federal coffers will be harder to contain in the absence of strong parties. Nonetheless, central governments can prevail in the context of a wider consensus on the importance of stability as a public good, particularly when bureaucracies are coherent… (Eaton and Dickovick 2004; 111)

Although the quoted authors do not make reference to veto players per se, there conclusions remained similar to the ones I have proposed throughout this chapter. They underscore the different institutional realities in Argentina and Brazil after democratization, which present limits and opportunities within which the relevant actors strategically interact. The quoted authors underscore the first Ménem administration as an important change within Argentina and when compared to Brazil in order to explain change in centralization (i.e., benefiting the central government’s plight with respect the provinces).

In the case of Brazil, partisan leverage was not possible or available in order for the central government to defend its interest from the lower government sub-units that enhanced their power leverage after the 1988 constitution. Nevertheless, as indicated in Chapter 4, other mechanisms remained at the disposition of the central government. Eaton and Dickivick argue for the bureaucratic discipline as an explanation, which I do not discuss, but the strategy that I do underscore was the central government’s increase reliance on social contributions. The central government did so because constitutionally it did not need to transfer any of its revenues to the sub-units and by doing so being able to address its budget deficit dilemma. Nevertheless, the social contributions’ strategy is related to Eaton and Dickvick’s bureaucratic explanation because the bureaucracy is the one in-charged of collecting these revenues.

The progressive taxation level decreased in a statistically significant way in both of our cases due to the prevailing interests of the remaining relevant veto players after the
absorption rule effects. Those predominant interests were an executive-central government in Argentina and a legislative-sub-national in Brazil. Nevertheless, in order to better explain this so-called progressive taxation level decrease behavior, we need to keep in mind its components: income and consumption taxation. Furthermore, we should also keep in mind the discussion presented throughout Chapter 5 in regard to the central government taxation weight, which help us understand this decrease in the progressive taxation level.

In simple terms, a progressive taxation level decrease means that the distance between consumption and income taxation level increase with a skew toward the former rather than the latter. We need also to understand that an increase (decrease) in progressive taxation level does not imply necessarily that a taxation system is progressive (regressive) in an absolute sense. This is so because we need to take into consideration the departing point of comparison. In other words, a progressive tax system could decrease its progressive nature without becoming regressive and a regressive tax system could increase its progressive nature without becoming progressive.

As indicated in the introductory chapter, our cases of analysis have regressive tax systems. Thus, our observed change has been an increase of their respective regressive characteristics. The questions here then are, why was that the case in both of our cases and how did they differ? Although the easiest explanation for these progressive taxation level decreases would derive from an opposite direction of income and consumption taxation level behavior (i.e., decrease and increase, respectively), this was not the case. In both of our cases, these two types of taxation moved in the same direction.
In the Argentine case, both experienced statistical significant increases, while in the Brazilian case both experienced an increasing behavior, but not a statistical significance trend (i.e., when analyzed separately). Nevertheless, we need to keep in mind that the Brazilian progressive analysis was based on three taxes instead of just two. The third one was the sub-units’ VAT, which is Brazil’s most important tax and it experienced an increase.

Thus, the only way that a *progressive taxation level* decrease could have taken place in the Argentine case was with a greater *consumption* than *income taxation level* increase, which it was the case. We can argue the same thing in the Brazilian case, but this was only true when the three separate taxes’ behaviors are put together and not when analyzed separately. Why this happened in our cases?

In order to address the presented question, it is important to make use of the discussion in Chapters 3, 4, 5, and 6. We saw decentralization in the case of Brazil and no significant change in the Argentine case. In both cases, due to democratization, tax policy decentralization was part of the agenda. A centralized tax policy was perceived as being part of the authoritarian recent past. Nevertheless, even though this democratic ethos was true, a reform did not take place in Argentina or Brazil until a reduction of veto players happened, as I discussed. Furthermore, the prevailing interests, after these veto players’ reduction, in both cases differed: an executive-central government interest in Argentina and a legislative-sub-national interest in Brazil.

In the Argentine case, it was in the interest of the central government to collect income and consumption taxes, especially after its veto players’ reduction with Pres. Ménem’s election. I mention this because the *revenue sharing mechanism* was still open
for debate and the Ménem administration took advantage of this fact and party discipline as discussed throughout in Chapter 3 in order to maximize the retained central government’s revenues. The opposite was true in the Brazilian case, where a decentralization of taxation took place.

Thus, in connection with this lost of relevance by the central government from the point of view of taxation, we need to underscore the constitutionally required increase amount of tax revenue transfers from the central government to the states and municipalities. This is important because the central government became immersed within a disincentive structure of collecting income and its consumption tax because it was obliged to share them with the other sub-units even though the central government had already lost taxation relevance due to decentralization.

In the case of Argentina, as we have discussed, an increase took place in all of the discussed taxation level dimensions: central government, income, and consumption taxation levels. Thus, in this way we can understand that when put together, the total taxation level, we have an increase. On the other hand, Brazil’s increase in total taxation level is less clear because of its non-significant statistical changes. Nevertheless, even when it was not statistically significant, all of the analyzed taxation level dimensions increased and when put together, they produce a statistically significant increase in Brazil’s total taxation level.

In regard to the central government taxation level, the reason why Argentina was able to increase it more than Brazil is due to the described tax policy decentralization explained in Chapter 5. By this I mean that Argentina decentralized less its tax policy
than Brazil, but increased more its total taxation level, which has a direct relationship with the central government taxation level.

The change in central government taxation level was greater in Argentina than Brazil because of a lower number of veto players in the former than in the latter (i.e., partisan veto players). Furthermore, this was combined with the nature of the reform event in both cases, where in Argentina the executive and by consequence the federal government was able to keep an upper hand (i.e., institutional absorption by partisan control: PJ). In the case of Brazil, the federal sub-units through the federal legislative branch were able to extract more federal resources and taxing power (i.e., institutional absorption by a constitutional constituent assembly), which dominated the constitutional writing process.

Consequently, in connection to the explanation of why and how change took place regarding income, consumption, progressive taxation level, and total taxation level; we can present an explanation to the degree of change that took place in our two cases. Overall, Argentina’s change was greater or more dramatic than Brazil’s. This rate of change was much greater in the Argentine case to the extent that when we compared all their respective taxation level measures, Argentina’s distance from Brazil decrease through time. The explanation that I present for this greater rate of change in the Argentine vis-à-vis the Brazilian case is related to the one already offered: their respective central governments’ taxation relevance or the incentive structures within which their respective central governments were embedded.

In addition, we presented evidence of greater taxation level measures in Brazil than Argentina throughout the two decades under study. Their distance decrease through
time since Argentina’s central government was able to keep an upper hand because of the presented explanations. Nevertheless, as I have underscored in previous chapters, being able to explain why Brazil has had a greater *central government taxation level, income taxation level, consumption taxation level, and total taxation level* than Argentina has to do with deeper historical influences that I did not research. In the next chapter I present several research ideas of how to tackle the question of explaining Brazil and Argentina’s *taxation weights and levels’ differences*. Borrowing from Lieberman (2003), I present a research agenda based on a historical-institutionalism methodology in order to compare and differentiate the emergence of Argentina and Brazil’s *modern tax state* (ibid, 39). The working hypothesis is that their respective taxation differences derive from the different crystallization of regional interests within the overall polity.

**Closing Chapter’s Comments**

I presented an argument seeking to provide an understanding of the contingent characteristics of the two studied tax policy reforms that took place in Argentina and Brazil in order to understand their respective taxation behavior from the *taxation level* stance point. Nevertheless, doing so through the use of generalized theoretical claims: *veto players theory*. Thus, it has been a combination of general-contingent claims in order to understand tax policy-making and tax policy reform causes within two fragmented polities: Argentina and Brazil.

Throughout the present chapter I discussed the tax policy changes elaborated in Chapters 3 and 4 and their effects on the *level of taxation* within an environment of multiple veto players. Thus, in order to be able to explain those changes and in order to make use of *veto players theory*, I traced for reductions of veto players in Chapters 3 and
4, which coincided with the studied reforms. Nevertheless, the possibility of predicting the direction and magnitude of these reforms’ outcomes in a generalized way is more troublesome and that is why I have insisted on a more contingent approach of the reforms under study, without straying away from veto players theory\textsuperscript{77}. The purpose of the latter was for underscoring the interests that prevailed after the absorption rule effects on the relevant veto players, which I used throughout Chapters 5, 6, and in this chapter in order to explain the nature and extent of tax policy decentralization, progressivity, and level, respectively (see hypotheses presented in Table 4.11) and testing the predictive power of this contingent application of veto players theory.

By having made use of veto players theory, I embedded the Argentine and Brazilian tax policy reform processes within a generalized framework of analysis that is not regionally or culturally bounded. Thus, according to these conclusions, the ongoing Brazilian debates about tax policy reform signify that one can only take place if a reduction of veto players happens (i.e., keeping in mind that a reduction in veto players can occur by making use of the absorption rule; see Chapter 8 for some comments on Lula’s 2004 tax policy reform). In the Argentine case, the main problem has been the increase in spending autonomy the provinces obtained after the democratization process, with an increased dependence on federal transfers (see Tables 5.3, 5.4, and 5.5).

\textsuperscript{77}“...while veto players theory sometimes comes to similar conclusions with the existing literature, there are also many disagreements. But most important, there is no direct way of translating existing institutions into the number and distances of veto players. Some institutions have similar effects (federalism increases the number of veto players), while others alter their impact on veto players on the basis of specific institutional provisions (who controls the agenda on referendums, executive decrees). Most important, however, is the fact that the results of veto players analysis depend on the ideological positions of veto players: some of them may be absorbed; even if they are not absorbed, they may converge or diverge, and this will have serious implications for policy stability. Even the importance of agenda setting depends on the positions of veto players and the location of the agenda setter.” (Tsebelis, 2002; 159-160)
Therefore, following the veto players theory logic presented here, a reduction of veto players will also be needed in order to change or circumvent this predicament in Argentine fiscal politics, which is strongly related to a solution of its sharing revenue laws. Nevertheless, a mere reduction of veto players does not imply an automatic certainty that reform or change would take place. Furthermore, we cannot predict in general terms the directions of those possible reforms, if they take place, because of the more contingent information required (i.e., prevailing interests) in order to ascertain more precisely direction and magnitude, as I have underscored throughout this work.

Returning to Carciofi, Barris, and Cetrángolo (1994) quote at the beginning of this chapter, this chapter found an increase in the level of taxation throughout the 1980s and 1990s in the Argentine and Brazilian cases. In addition, the politics of taxation become essential to understand why a tax system has the structure it has and why certain changes take place at certain moments in time and not at others. The analysis done and the rest of the chapters within this dissertation do not contribute to the understanding of creating the most efficient, fair, and/or neutral tax systems. This is so, because ideas regarding a tax system’s characteristics are channeled and structured by the decision-making institutions of a particular state. Nevertheless, I argue that the present analysis contributes to the understanding of tax policy reform occurrences and tax policy legislation production and their impacts on the level of taxation dimension, which has been disregarded in tax policy analysis as was quoted from Bird and Oldman (1968) and Bird (1992) in Chapter 1. Let us now proceed to present some summarizing and concluding comments about this dissertation’s findings. In addition, present some future research ideas departing from the presented analysis.
CHAPTER 8

CONCLUSION

Strikingly speaking, as it is found in the topic’s literature, the factors influencing over the mentioned variables are of complex interaction. The economic aspects have an important effect, but the constitution and characteristics of the tax system are strongly affected by the institutional and political history of the countries. The data regarding the magnitude and structure of the countries’ tax levels encloses a variety of factors, and the idea of establishing causal relations that derive only from economic variables is excessively partial.¹ (Carciofi, Barris, and Cetrángolo, 1994; 291)

Throughout this chapter I first present a brief recapitulation of the analysis done up to this point. I follow with two future research proposals in order to further extend our understanding of the underlying theme in this dissertation: taxation. I end with some concluding remarks outlining some important insights that I think have been underscored by the present work.

¹ Translated by author: “En rigor, como se encuentra en la literatura sobre el tema, los factores que influyen sobre las variables mencionadas son de compleja interacción. Los aspectos económicos ejercen su importancia, pero la constitución y características de los sistemas tributarios están también fuertemente teñidos por la historia institucional y política de los países. Los datos de la magnitud y estructura de la carga tributaria de los países encierran así una amplia gama de factores, y la tarea de establecer relaciones causales que derivan sólo de variables económicas es excesivamente parcial.” (Carciofi, Barris, and Cetrángolo, 1994; 291)
Introduction

As a means of recapitulating, in Chapters 3 and 4 I presented a detailed qualitative and quantitative tax policy analysis and the general guiding research questions were; what the causes are of tax policy reform and tax policy-making legislation production behavior. In Chapter 5, the general guiding research question was; what the causes are of changes in central government taxation weight. In Chapter 6 the general guiding research question was; what the causes are of changes in taxation progressive weight? In Chapter 7 the general guiding research question was; what the causes are of changes in the level of taxation? And all these questions were explicitly oriented toward the cases of Argentina and Brazil during the 1980s and 1990s.

The understanding of why and how tax policy reforms occur is of extreme importance because of the generalized quality of such findings. In a nutshell, this dissertation has presented the necessity of a reduction of veto players, within a high number milieu, in order for a tax policy reform to take place. It was underscored that a reduction of veto players does not necessarily imply number, but also includes the distance dimension between the existent veto players, which can be translated into an effective number of veto players.

It was not a sufficiency or deterministic argument because of the necessity of agency in order to be able to explain a policy change. Furthermore, as Tsebelis (2002) argues, a high number of veto players are a sufficient, but not a necessary condition in order to explain the opposite of what I have discussed throughout this chapter, policy stability. This is so, because of the necessity of agency in order to explain a policy change (or stability). Thus, even in the situation with one veto player, we cannot a priori
predict that change will take place and that is why I have argued for a more contingent application of *veto players theory*.

The tax policy changes were elaborated in Chapters 3 and 4 and their central government, progressive, and level of taxation characteristics were discussed in Chapters 5, 6, and 7. Nevertheless, in order to be able to explain those changes and in order to make use of *veto players theory*, I traced for reductions of veto players in Chapters 3 and 4, which coincided with the studied reforms. Nonetheless, the possibility of predicting the direction and magnitude of these reforms’ outcomes in a generalized way was more troublesome and that is why I insisted on a more contingent approach of the reforms under study, without straying away from *veto players theory*\(^2\). The purpose of the latter was for underscoring the interests that prevailed after the absorption rule effects on the relevant veto players, which I used throughout Chapters 5, 6, and 7, in addition to a revenue maximizing assumption, in order to explain the nature and extent of *tax policy decentralization, progressivity, and level*, respectively (see hypotheses presented in Table 4.11) and testing the predictive power of this contingent application of *veto players theory*.

As commented at the end of Chapter 2, the studied reforms had the benefit of increasing the state’s capacity to collect taxes (i.e., both the central government and the

\(^2\)“…while veto players theory sometimes comes to similar conclusions with the existing literature, there are also many disagreements. But most important, there is no direct way of translating existing institutions into the number and distances of veto players. Some institutions have similar effects (federalism increases the number of veto players), while others alter their impact on veto players on the basis of specific institutional provisions (who controls the agenda on referendums, executive decrees). Most important, however, is the fact that the results of veto players analysis depend on the ideological positions of veto players: some of them may be absorbed; even if they are not absorbed, they may converge or diverge, and this will have serious implications for policy stability. Even the importance of agenda setting depends on the positions of veto players and the location of the agenda setter.” (Tsebelis, 2002; 159-160)
overall state). Furthermore, they increased the level of resources that both countries’ sub-units had at their disposition, although to different extents. A more debatable aspect of such reforms, and other world-wide tax reforms since 1980s, has been a shift away from their progressive quality. Or in less normative language, the relative weights of direct-socioeconomic-characteristics-considering vis-à-vis indirect taxation with a heavier weight toward the latter. In addition, beyond the issue of progressivity, an emphasis on consumption taxation makes states revenues more volatile and susceptible to economic trends, as has been the case in Argentina since its economy is more open in addition to its strong reliance on consumption taxation. Thus, this is an aspect that we need to take into consideration when judging or evaluating taxation strategies.

By having made use of veto players theory, I have embedded the Argentine and Brazilian tax policy reform processes within a generalized framework of analysis that is not regionally or culturally bounded. According to these conclusions, the ongoing Brazilian debates about tax policy reform signify that one can only take place if a reduction of veto players happens (i.e., keeping in mind that a reduction in veto players can occur by making use of the absorption rule). In the Argentine case, the main problem has been the increase in spending autonomy the provinces obtained after the democratization process (see Tables 5.3, 5.4, and 5.5), with an increased dependence on federal transfers. Thus, following the veto players theory logic presented here, a reduction of veto players will also be needed in order to change or circumvent this predicament in Argentine fiscal politics, which is strongly related to a solution of its sharing revenue laws.
Throughout this chapter, my aim is to present future research ideas that would help to analytically extrapolate some of the insights that have been generated throughout this study with respect to Argentina and Brazil toward other Latin American cases. At the beginning of this dissertation I stated, “[t]hus, how centralized, progressive, and high is Latin American taxation? Did the wave of democratic transitions that take place throughout the region during the 1980s made any difference regarding taxation? In other words, what explains Latin American taxation success and its change (or lack of)?”

As Carciofi, Barris, and Cetrángolo (1994) concluded with respect to Latin America’s taxation over the 1980s, the 1990s followed the same general trend: toward decentralization of spending; a greater reliance on consumption taxation to the detriment of income and other more progressive types of taxation; and a greater overall level of taxation, which indicates an increase in state capacity to collect taxes with the caveat of the already mentioned types of taxation: consumption-wise.

I underscore the last comment in order to bring to the discussion Lieberman’s (2002) differentiation of taxation types and their relations with important political processes like state capacity, distributive justice, and solution of collective action problems. Even though the measure of level of taxation could be used as an indicator of state capacity, a reliance on consumption or indirect type of taxation in order to increase the level of taxation can be considered of less significance because of its less surmountable collective action solution when compared to income or direct type of taxation. And this argument is without taking into consideration the issue of distributive justice in an explicit sense.
Another caveat that I must include here is regarding decentralization, which it has taken place but in a more dramatic and ambitious way with respect to spending than taxation matters. This was true even in cases that were not federal systems (e.g., Colombia). Nevertheless, the decentralization of taxing responsibilities has moved at a slower pace and it has been much more controversial. I want to underscore that these comments are not normative in nature. I am just underscoring the empirical reality regarding taxation changes in Latin America throughout the 1980s and 1990s. I underscore this in order to continue the same thought process and intellectual emphasis with which I have oriented this dissertation, giving relevance to political processes and decisions in order to explain taxation outcomes and not pretending to design or promote the best, ideal, or optimal taxation structure. As important as this goal might be, I argue that it must be embedded within the political, social, and economic reality, with its possibilities and constraints, of the case of study at hand.

With respect to Argentina and Brazil, I specified why and how taxation changes took place. Nevertheless, I did not present comments regarding the repercussions of those changes toward their respective political, economic, and social systems. The main reason for not doing so has been because I lacked the required research material in order to address the mentioned concerns, and not because I thought they were irrelevant. At the end of this chapter, some of my comments make reference to future research in order to address some these issues because as Scharpf (1997) states,

For political scientists, however, the difficulty is reduced by the fact that they will not primarily be involved in disputes over the substantive goodness of public policy. Their professional competence is mainly on call when issues of legitimacy are in dispute. Remember, moreover, that we are still in the context of policy research. The issue therefore will not usually concern regime legitimacy in
the broadest sense but rather the legitimacy of specific structures and procedures through which policy is being produced...The criterion must...be the notion of a “common good.” But what is to be judged now is not the substantive quality of a particular policy choice but rather the general capacity of particular policymaking institutions to produce policy choices that are likely to approximate the common good. These are indeed judgments for which political science and sociology have a unique professional competence. (14-15)

**Future Research**

Throughout this dissertation I worked with the specifics of tax policy reform and three taxation dimensions: centralization, progressivity, and level. Nevertheless, the temporal focus of the study has been 20 years and two countries: Argentina and Brazil. Thus, from the temporal point of view it would be important to lengthen the historical period of study to 100 years (i.e., 20th century) of tax policy-making. In addition, we should include all of the Latin American cases from the point of view of tax policymaking. From a thematic point of view, it would be important to connect the two sides of fiscal policy: spending and revenue collection.

This analytical connection is relevant and important because of the progressivity dimension. Within the taxation side, it would be important to incorporate more of the bureaucratic side that I did not include throughout my dissertation. The relevance of doing so is because a better sense of the intricacies of state capacity can be captured. In other words, doing so would help to fill-up that “black-box,” regarding state capacity, left empty in my dissertation work. Furthermore, this dissertation work can be further improved by updating the analyzed information regarding taxation in my two cases by analyzing the administrations of Presidents Kirchner in Argentina and “Lula” in Brazil. In regard to the latter, he was able to adopt and implement several changes in tax policy. Although the specifics are not completely clear to me at the moment, what is clear is that
those taxation changes that took place in 2003 were not final and not satisfactory for President da Silva’s administration. What I mean by this comment is that his administration is attempting to address the problem I have underscored throughout this dissertation: the VAT battle between the federal government and the states.

In addition to these general ideas and interests, I include here two more delineated projects that relate and extend this dissertation’s work to different extents and natures. This dissertation was about change, direction and magnitude, which can be further tested in the quantitative proposal. Furthermore, the “absolute” difference aspect was not addressed and the historical institutional study addresses it. I embed this study within the current literature and underscore a theoretical gap departing from an empirical puzzle.

**Quantitative Taxation Analysis**

Extending and borrowing from Mahon (2004), we could pursue a cross-sectional time series analysis, in order to test the main argument of this dissertation: the effects of the number of veto players on the possibility of a reform taking place. This is so in order to probe the validity and reliability of the more in-depth analysis of the Argentine and Brazilian cases. Thus, we could further compare and contrast the mentioned tax policy reforms by studying tax policy centralization, progressivity, and taxation level by concentrating on answering what changes on these tax policy dimensions occurred in the selected country-cases; and making use of the contingent *veto players theory* explanatory argument used throughout this study.

**Argentina and Brazil Historical Institutional Analysis**

A central research question that arouse throughout my dissertation work and which I was not able to address properly was: why the Argentine state has always
collected fewer taxes than the Brazilian state, even though, according to its level of
economic development, the expectation would have been otherwise? This question
underscores an analytical puzzle. The puzzle derives from the contradictory expectations
when current theories meet reality, (i.e., when studying the mentioned two states). I
hypothesize that differences in addressing the regional dilemma in their early state-
building efforts, important in both, helps us explain their respective taxing predicaments
today. This is so, since this gives us information on how their respective federal sub-
units were included or appeased (i.e., their respective power leverages).

Lieberman (2003) underscores a similar taxation puzzle when comparing Brazil
and South Africa. Since both states fall within very similar economic development
indicators, this type of explanation could not be used in order to explain the extreme
differences between Brazil and South Africa regarding income taxation. The latter
outperformed many of the world richest states regarding such a measure. He undertook
an historical institutional analysis in order to tackle such a puzzle.

Even though the explanatory model presented by Lieberman enriches our
understanding of the processes determining the state’s capacity to collect taxes, it still
falls short in completely explaining why Brazil and Argentina differ. Even more, it is not
clear why Argentina lags Brazil with respect to tax collecting capacity. According to
Lieberman’s categorizations, Brazil and Argentina fall within the same categories. Both
states are considered racial inclusionary states and the regional cleavage has been
important in both.

The expectation of such a combination is to decrease the capacity of the state to
collect income taxes (i.e., progressive taxation). Those analytical expectations are met,
but to different extents and nature. Thus, even though Lieberman’s model enriches our general understanding and improves our predictive tools regarding a state’s taxing capacity, it still leaves an analytical void. That “analytical void” is what I am proposing to address by undertaking a systematic historical comparison of the rise of the modern tax state in Argentina and Brazil.

As Lieberman (2002) argues, and I did in the introduction to this dissertation, the importance of studying taxation derives from the possibility of gauging through it at important political processes such as, state capacity, collective action dilemma, and distributive justice. Furthermore, Huntington makes a connection of the relevance of taxation to a democratic regime when he provocatively states,

[t]he lower the level of taxation, the less reason for publics to demand representation. ‘No taxation without representation’ was a political demand; ‘no representation without taxation’ is a political reality.” (1991; 65)

Thus, from this discussion follows the more specific implications to the Argentine and Brazilian cases, which can help us understand better the difficulties these states have been experiencing under their new democratic regimes and development strategies.

The research I propose here relates to several important research areas within political science such as: democratization, quality of democracy, development issues, state-society relations, and political economy. The study of taxation creates the opportunity of gauging at the important process of state formation and its capacity, which affects governance. A tax system has social and economic implications (e.g., distributive justice and economic growth). Nevertheless, these are outcomes, which require explanation of their causes. Thus, the research I propose here strives for uncovering those causes by taking a rigorous historical comparison of the emergence of Argentina
and Brazil’s modern tax systems. I propose doing so, by studying the relevant groups involved in the mentioned state construction, taking into consideration the particular institutional milieus, since I hypothesize that they structure the outcomes of interest in important and significant ways.

The method of analysis I think would serve best for the proposed research is historical institutionalism. I hypothesize that the specific differences of the regional cleavages, how they played-out themselves and got embedded into their respective institutional mechanisms, in Argentina and Brazil are connected with their respective taxation outcomes. The underlying theoretical framework is a combination of veto players theory and a critical juncture model of national political community (e.g., Lieberman 2003). The relevant data for this project are: 19th and 20th century tax revenues, debates and conflicts surrounding the 1853 Argentine and 1891 Brazilian constitutional ratifications, and the constitutional rules per se. The first data illustrates the evolution and structure of these cases’ respective taxation systems structures. The second type of data helps us uncover and underscore the relevant cleavages of discussion and crystallization, with a special attention to the regional cleavage, which I hypothesize, is crucial in understanding the taxation outcomes. The third type of data illustrates the institutional mechanisms put in place, in order to structure the different politico-social-economic groups’ interactions.

The regional solution after independence, or how the different regions were united, helps us explain the weaker taxing state’s capacity in Argentina than Brazil. In Argentina the concentration of power, wealth, and population in Buenos Aires’ province/port created a structural dependence of the other regions/provinces on the
center. This can be used to explain the provinces taxing revenue dependence today, but spending independence, which created a vicious incentive structure for collecting taxes. There was no unifying interest for the upper classes in order to facilitate the state’s tax collection. Peronism could be argued, served as a counteraction of this trend, but it did not go so far as to create a unifying interest among the upper class (i.e., export oriented agricultural interests: including its manufacturing sector). Peron’s actions deepened the implicit cleavage between the included upper class and the excluded working class composed of the immigrant mass. This cleavage crystallized itself until the 1983 democratic return; in other words, Peron’s strategy made that class cleavage more explicit, open, and confrontational.

In the case of Brazil, power, wealth, and population was less concentrated than in Argentina, creating the possibilities of a more autonomous and assertive behavior from the sub-units. Nevertheless, the Empire and Vargas’ regimes served as counteraction mechanisms for this centrifugal process, without this implying an eradication of the regional divide. Furthermore, Vargas’ working class inclusion (Collier and Collier, 1991) was different from Perón’s strategy and polarized less the upper classes, which might further indicate Brazil’s greater success in tax collecting than Argentina.

As has been evident throughout this dissertation, my research interests focus on democratization and post-democratization analysis, tax policy-making, state capacity, and socioeconomic inequality. This dissertation examined the causes of the tax policy reforms in Argentina and Brazil that took place during the late 1980s and early 1990s. The analytical puzzle was the occurrence of tax policy reforms where the structural conditions point toward its grave difficulty.
I made use of *veto players theory*, which states that a reduction in the number of veto players increases the probability of change, in order to explain the Argentine and Brazilian tax policy reform events by further studying their centralization, progressivity, and level taxation dimensions. I demonstrated that a reduction in the effective number of veto players occurred in the Argentina (1989) and Brazil (1986), which helped us explain and understand the occurrence of tax policy reforms in both cases. Furthermore, by underscoring the interests that prevailed during the tax policy reform events (i.e., an executive-central government interest in Argentina vis-à-vis legislative-sub-national governments’ interest in Brazil); I was able to explain the direction and magnitude of changes to their respective tax policies.

Within this broader frame, I locate my interest in pursuing the presented research ideas in order to address and extend important questions that I was not able to address in this dissertation. Furthermore, besides being complementary to my dissertation, I think that it will provide a more complete analytical picture of Argentina and Brazil’s tax systems, which have important governance and distributive implications. In addition, with the intellectual hope of contributing, in a more general way also, to our understanding of the political economy of taxation, its causes and consequences.

**Closing Dissertation’s Remarks**

What have we learned? I hope that the analysis presented throughout this dissertation illustrates the possibility of cautious generalizations, meaning that structural determinants of the occurrence of a tax policy reform can be put forth, but without disregarding the specific interests and resources of the relevant actors in order to understand the directions and magnitudes of change undertaken.
A second aspect that was stressed was that the assumption of a maximizing interest strategy is important in order not to rely on a-theoretical contingency assumption for the presented explanations.

A third aspect underscored was the increased importance of consumption over income taxation; or the decrease in the progressive nature of tax policy.

A fourth aspect was the general tendency to decentralize with respect to spending and transfers, but not so regarding independent taxing powers of the sub-units.

A fifth aspect was the relevance of administrative reforms in order to increase the capacity of the state to tax and that a weak pattern of administrative strengthening throughout Latin America exists.

A sixth aspect we underscored was the relevance of political determinants in order to explain a tax policy reform, where economic crises could help but not determine the occurrence of reform.

Hence, overall, this work shows the not so appealing reality, from the generalizing point of view, of the need of scoping interesting analytical arguments. By doing so, we might lose parsimony in our explanations, but we increase our understanding of what we are interested in explaining, and in general, since “soft-patterns” of behavior arise as we try to broaden our explanatory scope.

Furthermore, the functioning, however imperfect, of these Latin American democracies was underscored, in order to help us understand the limits that these less than perfect functioning have on policy-making (i.e., tax policy for the purposes of this dissertation) and vice-versa. This relation between imperfect democratic functioning and taxation pertains to the effects of tax policy consequences on the functioning of these
democracies. And this further pertains, with special strength, to the decrease in progressivity of these tax policies and their continuing detriment of democratic quality because of the historic unfulfilled breaching of the socioeconomic inequality gap. As Domínguez (2003) assesses Latin American democratic performances,

On balance, most of Latin America lived in more open societies and were freer to exercise their political rights, including the right to protest against the government. Their governments worked more effectively. In nearly all countries, these tasks could and still should be performed better. And Latin Americans remained skeptical that the positive changes were real enough or would endure. Democratic pessimism still colored the perspectives of many citizens of the Americas. It is the challenge of the new century to make democratic governance in Latin America more credibly and truly effective. (381)

I agree with Domínguez, change has taken place throughout this region of the world that has been labeled Latin America during the last two decades of the twentieth century. Without entering into categorizations of optimism or pessimism, this region, as the rest of the world, requires the integration of other dimensions of change into this formal political transformation of democratic regimes. It is not for undermining or belittling those formal political changes, but for advocating for the broadening of the scope of changes of dimensions: in theory and in praxis. As Domínguez’s quote underscores, we need to pay close attention to the “occupants” of these democratic shells: to people. The dissatisfaction Domínguez underscores tends to be supported by poverty and inequality indicators. Hence, in addition to praising changes into democratic regimes, we need to pay attention to the workings of those democratic regimes. Furthermore, we also need to include in our analyses and assessments the global interconnections of states. Challenges exist to what we know as the nation state, but also opportunities. And as we saw the global tide toward democratic shells, with its advocates and detractors, we need to contemplate the idea of a global tide of poverty and inequality.
eradication; that is to say, in conjunction with and not in replacement of these democratic shells.

Making a connection with the topic of discussion in this dissertation, taxation and tax reform, Stewart (2002) harshly underscores the characteristics of the tax policy reforms that had taken place and promoted during the time period I have studied. She puts forth the possibility of re-conceptualizing and imagining something different or a different reality among the state, taxation, and the economy in order for them to openly address the issue of injustice, destitution, poverty, and inequality. She states,

Tax reform discourse is not incapable of change, as shown by my survey of the discourse since WWII. In light of the powerful forces of the broader project of economic globalization, tax reform in developing and transition countries has emancipatory potential. This is because taxation occupies a position of tension between the state and the market by virtue of its goal of raising revenues for (re)distribution or for investment in mechanisms of public benefit. Progressive or emancipatory change is always partial and contingent. In the context of continuing efforts of international institutions and developed country governments to constantly expand and reinforce economic globalization, an effective tax system may enable some sharing of the promised benefits and minimisation of the harms of that process, precisely because it enables a state to provide public goods, protect resources and redistribute income. Tax reform discourse provides a space in which the role of the state and redistribution can actually be discussed. However, contemporary tax reform discourse assumes a particular relation of the state to the market and marginalizes the issues of redistribution, inequality and poverty. What is needed in tax reform discourse is a focus on both taxes and expenditures, a wider understanding of the options and limitations of state action in the context of economic globalization and a broader understanding of inequality and the impact of taxation on poverty. Tax reform discourse needs to start conceptualising inequality not only within countries but between countries in the context of globalization. This could help push tax reform beyond the needs of the market to the needs of the people themselves in developing and transition countries. (51)

Thus, beyond hoping for change, as social scientists, intellectuals, and human beings, we can actively contribute in this re-conceptualization of issues, problems, and dilemmas. I
think this is important and possible because as intellectuals we should engage the so-called “real world.” As Unger (2001) states,

The reason for this apparent paradox is simple. The fundamental problems of a society – both those it acknowledges and those it does not – are entangled in its organization, and in the ideas that represent and sustain it. We cannot solve such problems until we reorganize some of the established arrangements and revise some of the entrenched assumptions…To reach such presuppositions, we must imagine them: thus the need for a transformative political practice to be informed by a conception of structural discontinuity and institutional alternatives. To change the presuppositions, we must, both as democrats and as realists, engage large masses of people in political concern and activity: to have transformative force, changing institutional arrangements and ideological assumptions, politics must rise in temperature, and find the institutions that can organize and perpetuate its intensity. To make the change of presupposition last, we must embody reform in institutions. To diminish the dependence of transformation on crisis and radicalize democratic experimentalism, we must energize politics. To energize politics, we must adopt arrangements that keep society at a higher level of organized civic engagement, and favor the rapid resolution of impasse among branches of government and the repeated practice of structural reform. (xciii)

Thus, it is not hope, wishful thinking, and/or naïveté what I am calling for on these last sentences of this dissertation. It is being human and realizing the human potential of understanding our present condition and its causes, in order for delineating a different collective future!

This is so because the present and the past, as institutions, help shape our interests and possibilities, but they do not and cannot exhaust us as human beings in an integral way. I have strived in this dissertation to put forth an understanding of what took place in Argentina and Brazil regarding taxation matters during the last two decades of the twentieth century. Nevertheless, this understanding cannot, and should not, be complete or deterministic because in addition to the less accurate portrayed reality, it would truncate hope and humanity.
APPENDIX A: TAX DIMENSIONS’ DATA
<table>
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<th>Year</th>
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<th>FTICa,t</th>
<th>FTICa,t</th>
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<th>ITa,t</th>
<th>VATa,t</th>
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Table A.1: Argentina

Sources: The Conjuncture and Information Sector of the Economic Ministry
Legend Table A.1:

*TTR_{a,t}*: Total Taxation Level

*FTIC_{a,t}*: Central Government Taxation Weight (before transfers)

*FTIC_{a,t}*: Central Government Taxation Level (before transfers)

*IT_{a,t}*: Income Taxation Weight

*ITA_{a,t}*: Income Taxation Level

*VAT_{a,t}*: Consumption Taxation Weight

*VATA_{a,t}*: Consumption Taxation Level
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Table A.2: Brazil

Legend Table A.2:

$TTR_{b,t}$: Total Taxation Level

$FTIC_{b,t}$: Central Government Taxation Weight (before transfers)

$FATR_{b,t}$: Central Government Taxation Weight (after transfers)

$FTIC_{b,t}$: Central Government Taxation Level (before transfers)

$FATR_{b,t}$: Central Government Taxation Level (after transfers)

$IT_{b,t}$: Income Taxation Weight

$IT_{b,t}$: Income Taxation Level

$VAT(IPI)_{b,t}$: Federal Consumption Taxation Weight

$VAT(ICMS)_{b,t}$: States’ Consumption Taxation Weight

$VAT(IPI)_{b,t}$: Federal Consumption Taxation Level

$VAT(ICMS)_{b,t}$: States’ Consumption Taxation Level
APPENDIX B: SPSS T-TEST PAIRED SAMPLES’ RESULTS
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Table B.1: Argentina '80s vs. '90s: T-Test Paired Samples Test
Legend Table B.1:

aTR - ATT90: Total Taxation Level Decades’ Difference
aFTIC - AFIC90: Central Government Taxation Weight Decades’ Difference (before transfers)
aSTIC - ASTIC90: Subnational Governments’ Taxation Weight Decades’ Difference (before transfers)
aFTICg - AFTICG90: Central Government Taxation Level Decades’ Difference (before transfers)
aSTICg - ASTICG90: Subnational Governments’ Taxation Level Decades’ Difference (before transfers)
aIT - AIT90: Income Taxation Weight Decades’ Difference
aITg - AITG90: Income Taxation Level Decades’ Difference
aVAT - AVAT90: Consumption Taxation Weight Decades’ Difference
aVATg - AVATG90: Consumption Taxation Level Decades’ Difference
APROGW80 - APROGW90: Progressive Taxation Weight Decades’ Difference
APROGLE8 - APROGLE9: Progressive Taxation Level Decades’ Difference
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Continued

Table B.2.: Brazil '80s vs. '90s: T-Test Paired Samples Test
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**Legend Table B.2:**

- **bTTR - BTTR90**: Total Taxation Level Decades’ Difference
- **bFTIC - BFTIC90**: Central Government Taxation Weight Decades’ Difference (before transfers)
- **bSTIC - BSTIC90**: Subnational Governments’ Taxation Weight Decades’ Difference (states; before transfers)
- **bMTIC - BMTIC90**: Subnational Governments’ Taxation Weight Decades’ Difference (municipalities; before transfers)
- **bFATR - BFATR90**: Central Government Taxation Weight Decades’ Difference (after transfers)
- **bSATR - BSATR90**: Subnational Governments’ Taxation Weight Decades’ Difference (states; after transfers)
bMATR - BMATR90: Subnational Governments’ Taxation Weight Decades’ Difference (municipalities; after transfers)
bFTICg - BFTICG90: Central Government Taxation Level Decades’ Difference (before transfers)
bSTICg - BSTICG90: Subnational Governments’ Taxation Level Decades’ Difference (states; before transfers)
bMTICg - BMTICG90: Subnational Governments’ Taxation Level Decades’ Difference (municipalities; before transfers)
bFATRg - BFATRG90: Central Government Taxation Level Decades’ Difference (after transfers)
bSATRg - BSATRG90: Subnational Governments’ Taxation Level Decades’ Difference (states; after transfers)
bMATRg - BMATRG90: Subnational Governments’ Taxation Level Decades’ Difference (municipalities; after transfers)
bDT - BDT90: Direct Taxation Weight Decades’ Difference
bDTg - BDTG90: Direct Taxation Level Decades’ Difference
bIT - BIT90: Income Taxation Weight Decades’ Difference
bITg - BITG90: Income Taxation Level Decades’ Difference
bITDT - BITDT90: Income Taxation Weight Decades’ Difference (as a percentage of direct taxes)
blnT - BINT90: Indirect Taxation Weight Decades’ Difference
blnTg - BINTG90: Indirect Taxation Level Decades’ Difference
bIPI - BIP190: Federal Consumption Taxation Weight Decades’ Difference
bICMS - BICMS90: States’ Consumption Taxation Weight Decades’ Difference
bIPIg - BIPIG90: Federal Consumption Taxation Level Decades’ Difference
bICMSg - BICMSG90: States’ Consumption Taxation Level Decades’ Difference
blnTIPI - BINTIPI9: Federal Consumption Taxation Weight Decades’ Difference (as a percentage of indirect taxes)
blnTICMS - BINTICM9: States’ Consumption Taxation Weight Decades’ Difference (as a percentage of indirect taxes)
BPROGW80 - BPROGW90: Progressive Taxation Weight Decades’ Difference
BROGLE8 - BROGLE9: Progressive Taxation Level Decades’ Difference
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Table B.3: Argentina vs. Brazil (1980-2000): T-Test Paired Samples Test
Legend Table B.3:

- aTTR – bTTR: Total Taxation Level Difference (two decades)
- aFTIC – bFTIC: Central Government Taxation Weight Difference (before transfers; two decades)
- aFTICg – bFTICg: Central Government Taxation Level Difference (before transfers; two decades)
- aIT – bIT: Income Taxation Weight Difference (two decades)
- aITg – bITg: Income Taxation Level Difference (two decades)
- aVAT – bIPI: Federal Consumption Taxation Weight Difference (two decades)
- aVAT – bICMS: Federal (Argentina) v. States’ (Brazil) Consumption Taxation Weight Difference (two decades)
- aVAT – SUMBVAT: Federal (Argentina) v. Combined Federal-States’ (Brazil) Consumption Taxation Weight Difference (two decades)
- aVATg – bIPIg: Federal Consumption Taxation Level Difference (two decades)
- aVATg – bICMSg: Federal (Argentina) v. States’ (Brazil) Consumption Taxation Level Difference (two decades)
- aVATg – SUMBVATG: Federal (Argentina) v. Combined Federal-States’ (Brazil) Consumption Taxation Level Difference (two decades)
- APROGWEI – BPROGWEI: Progressive Taxation Weight Decades’ Difference (two decades)
- APROGLEV – BPROGLEV: Progressive Taxation Level Decades’ Difference (two decades)
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Table B.4: Argentina vs. Brazil (‘80s vs. ’90s): T-Test Paired Samples Test
Table B.4 continued

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Table B.4 continued

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| APROGW80 – BPROGW90 | 6.9690 | 1.59776 | .50526 | 5.8260 | 8.1120 | 13.793 | 9 | .000 |
| APROGLE8 – BPROGLE8 | 1.7890 | .89172 | .28199 | 1.1511 | 2.4269 | 6.344 | 9 | .000 |
| APROGLE9 – BPROGLE9 | .8891 | 1.47646 | .44517 | -.1028 | 1.8810 | 1.997 | 10 | .074 |
| APROGLE8 – BPROGLE9 | 3.2440 | .48983 | .15490 | 2.8936 | 3.5944 | 20.943 | 9 | .000 |
| APROGLE9 – BPROGLE8 | -.5860 | 1.47483 | .46638 | -1.6410 | .4690 | -1.256 | 9 | .241 |

Legend Table B.4:

aTTR – bTTR: Total Taxation Level Difference (1980s)

ATTR90 - BTTR90: Total Taxation Level Difference (1990s)

aTTR – BTTR90: Total Taxation Level Difference (Argentina 1980s vs. Brazil 1990s)

bTTR – ATTR90: Total Taxation Level Difference (Argentina 1990s vs. Brazil 1980s)

aFTIC – bFTIC: Central Government Taxation Weight Difference (before transfers; 1980s)

AFIC90 - BFTIC90: Central Government Taxation Weight Difference (before transfers; 1990s)

aFTIC – BFTIC90: Central Government Taxation Weight Difference (before transfers; Argentina 1980s vs. Brazil 1990s)

bFTIC - AFIC90: Central Government Taxation Weight Difference (before transfers; Argentina 1990s vs. Brazil 1980s)

aSTIC – bSTIC: Subnational Governments’ Taxation Weight Difference (before transfers; 1980s)

ASTIC90 - BSTIC90: Subnational Governments’ Taxation Weight Difference (before transfers; 1990s)

aSTIC – BSTIC90: Subnational Governments’ Taxation Weight Difference (before transfers; Argentina 1980s vs. Brazil 1990s)
bSTIC – ASTIC90: Subnational Governments’ Taxation Weight Difference (before transfers; Argentina 1990s vs. Brazil 1980s)

aFTICg - bFTICg: Central Government Taxation Level Difference (before transfers; 1980s)

AFTICG90 - BFTICG90: Central Government Taxation Level Difference (before transfers; 1990s)

aFTICg - BFTICG90: Central Government Taxation Level Difference (before transfers; Argentina 1980s vs. Brazil 1990s)

bFTICg - AFTICG90: Central Government Taxation Level Difference (before transfers; Argentina 1990s vs. Brazil 1980s)

aSTICg - bSTICg: Subnational Governments’ Taxation Level Difference (before transfers; 1980s)

ASTICG90 – BSTICG90: Subnational Governments’ Taxation Level Difference (before transfers; 1990s)

aSTICg – BSTICG90: Subnational Governments’ Taxation Level Difference (before transfers; Argentina 1980s vs. Brazil 1990s)

bSTICg – ASTICG90: Subnational Governments’ Taxation Level Difference (before transfers; Argentina 1990s vs. Brazil 1980s)

aIT – bI: Income Taxation Weight Difference (1980s)

AIT90 - BIT90: Income Taxation Weight Difference (1990s)

aIT - BIT90: Income Taxation Weight Difference (Argentina 1980s vs. Brazil 1990s)

bIT - AIT90: Income Taxation Weight Difference (Argentina 1990s vs. Brazil 1980s)

aITg – bITg: Income Taxation Level Difference (1980s)

AITG90 - BITG90: Income Taxation Level Difference (1990s)

aITg - BITG90: Income Taxation Level Difference (Argentina 1980s vs. Brazil 1990s)

bITg - AITG90: Income Taxation Level Difference (Argentina 1990s vs. Brazil 1980s)

aVAT – bIPI: Federal Consumption Taxation Weight Difference (1980s)

AVAT90 - BIPI90: Federal Consumption Taxation Weight Difference (1990s)

aVAT - BIPI90: Federal Consumption Taxation Weight Difference (Argentina 1980s vs. Brazil 1990s)

bIPI - AVAT90: Federal Consumption Taxation Weight Difference (Argentina 1990s vs. Brazil 1980s)

aVAT – bICMS: Federal (Argentina) v. States’ (Brazil) Consumption Taxation Weight Difference (1980s)
AVAT90 - BICMS90: Federal (Argentina) v. States’ (Brazil) Consumption Taxation Weight Difference (1990s)

aVAT - BICMS90: Federal (Argentina) v. States’ (Brazil) Consumption Taxation Weight Difference (Argentina 1980s vs. Brazil 1990s)

bICMS - AVAT90: Federal (Argentina) v. States’ (Brazil) Consumption Taxation Weight Difference (Argentina 1990s vs. Brazil 1980s)

aVAT - SUMBVAT8: Federal (Argentina) v. Combined Federal-States’ (Brazil) Consumption Taxation Weight Difference (1980s)

AVAT90 - SUMBVAT9: Federal (Argentina) v. Combined Federal-States’ (Brazil) Consumption Taxation Weight Difference (1990s)

aVAT - SUMBVAT9: Federal (Argentina) v. Combined Federal-States’ (Brazil) Consumption Taxation Weight Difference (Argentina 1980s vs. Brazil 1990s)

SUMBVAT8 – AVAT90: Federal (Argentina) v. Combined Federal-States’ (Brazil) Consumption Taxation Weight Difference (Argentina 1990s vs. Brazil 1980s)

aVATg – bIPIg: Federal Consumption Taxation Level Difference (1980s)

AVATG90 - BIPIG90: Federal Consumption Taxation Level Difference (1990s)

aVATg – BIPIG90: Federal Consumption Taxation Level Difference (Argentina 1980s vs. Brazil 1990s)

bIPIg – AVATG90: Federal Consumption Taxation Level Difference (Argentina 1990s vs. Brazil 1980s)

aVATg – bICMSG: Federal (Argentina) v. States’ (Brazil) Consumption Taxation Level Difference (1980s)

AVATG90 – BICMSG90: Federal (Argentina) v. States’ (Brazil) Consumption Taxation Level Difference (1990s)

aVATg - BICMSG90: Federal (Argentina) v. States’ (Brazil) Consumption Taxation Level Difference (Argentina 1980s vs. Brazil 1990s)

bICMSG - AVATG90: Federal (Argentina) v. States’ (Brazil) Consumption Taxation Level Difference (Argentina 1990s vs. Brazil 1980s)
aVATg - SUBVATG8: Federal (Argentina) v. Combined Federal-States’ (Brazil) Consumption Taxation Level Difference (1980s)

AVATG90 – SUBVATG9: Federal (Argentina) v. Combined Federal-States’ (Brazil) Consumption Taxation Level Difference (1990s)

aVATg - SUBVATG9: Federal (Argentina) v. Combined Federal-States’ (Brazil) Consumption Taxation Level Difference (Argentina 1980s vs. Brazil 1990s)

SUBVATG8 – AVATG90: Federal (Argentina) v. Combined Federal-States’ (Brazil) Consumption Taxation Level Difference (Argentina 1990s vs. Brazil 1980s)

APROGW80 – BPROGW80: Progressive Taxation Weight Decades’ Difference (1980s)

APROGW90 – BPROGW90: Progressive Taxation Weight Decades’ Difference (1990s)

APROGW80 – BPROGW90: Progressive Taxation Weight Decades’ Difference (Argentina 1980s vs. Brazil 1990s)

APROGW90 – BPROGW80: Progressive Taxation Weight Decades’ Difference (Argentina 1990s vs. Brazil 1980s)

APROGLE8 – BPROGLE8: Progressive Taxation Level Decades’ Difference (1980s)

APROGLE9 – BPROGLE9: Progressive Taxation Level Decades’ Difference (1990s)

APROGLE8 – BPROGLE9: Progressive Taxation Level Decades’ Difference (Argentina 1980s vs. Brazil 1990s)

APROGLE9 – BPROGLE8: Progressive Taxation Level Decades’ Difference (Argentina 1990s vs. Brazil 1980s)
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Figure C.2: Effects on Veto Players’ Number

Figure C.3: Veto Players’ Effects on Type of Legislation Production
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Policy Production

Figure C.5: Central Government Taxation Weight Change
Figure C.6: Income and Consumption Taxation Weight Change

Figure C.7: Progressive Taxation Weight Change

Figure C.8: Central Government Taxation Level Change
Figure C.9: Income and Consumption Taxation Level Change

Figure C.10: Progressive Taxation Level Change

Figure C.11: Total Taxation Level Change


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