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Business Elites' Attitudes Toward Taxation and the State

The Case of Chile

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**Overcoming Inequalities in a Fractured World:
Between Elite Power and Social Mobilization**

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List of Acronyms

CASEN	National Socioeconomic Characterization Survey (Encuesta de Caracterización Socioeconómica Nacional)
ECLAC	United Nations Economic Commission for Latin America and the Caribbean
GDP	Gross domestic product
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing power parity
SII	Servicio de Impuestos Internos
UNDP	United Nations Development Programme
VAT	Value-added tax
WEF	World Economic Forum
WGI	World Governance Indicators
WID	World Inequality Database

Abstract

What do the wealthiest groups in society think about tax payment? What is their view of the role of the state? How do these perceptions influence the ways in which the government collects taxes and provides social spending? This paper addresses these questions focusing on the case of Chile. Although Chile is considered one of the countries with highest state capacity in Latin America, its tax policy shares several features with lower-performing countries in the region, such as limited redistribution and a regressive tax structure, showing little ability to tackle economic inequality. Based on extensive analysis of state performance that included a comparison with Uruguay and Portugal as well as 32 in-depth interviews with members of the Chilean economic elite, we show divergences between the quality of government spending and elite perceptions on this issue. Elites' distrust of state action leads to unwillingness to pay taxes, which they see primarily as a cost rather than an instrument to promote solidarity or social cooperation. Taxes are also perceived as too high, though the effective tax rates of high-income taxpayers are on par with that of lower classes. We highlight the need to analyse fiscal performance, taking into account both spending and tax collection—including more opaque indicators such as tax expenditures—and rethink communication strategies to present state performance more clearly.

Keywords

Chile; consent; elites; redistribution; taxation

Bios

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Introduction

Tax collection is a crucial mechanism for tackling inequality from the side of the state. Collection not only aims to raise funds to finance public goods, but it also has a redistributive function defining who should pay, why this contribution is justifiable, and the appropriate amount of money in each case. Based on these functions, tax collection and redistribution are key aspects of building state capacity, thus helping a state become truly representative of a community of citizens (Atria 2014).

From a taxpayer perspective, tax payment is an everyday requirement which, while not always visible, is a form of economic and political participation in society. Following Martin, Mehrotra and Prasad (2009:3), this paper understands taxation as “the obligation to contribute money or goods to the state in exchange for nothing in particular.” As the authors emphasize, although this definition does not contest the fact that in some cases taxes can be intended for specific purposes and that there is an implicit promise that the resources will be spent on collective goods and services, it highlights that they are not “a fee paid in direct exchange for a service, but rather an obligation to contribute that the state imposes on its citizens and, if necessary, enforces” (Martin et al. 2009:3).

What do the wealthiest groups think about tax payment and social spending? What is their view of the role of the state? How do these perceptions influence the ways the government collects taxes and provides social spending?

This paper addresses these questions, focusing on the case of Chile. Although deemed one of the strongest states in Latin America, its tax policy shares several features with lower-performing countries in the region, such as limited redistribution and a regressive tax structure, leading to a fiscal policy regime that has little impact on inequality. Measured in terms of the effective tax rate, the Chilean economic elite has a low tax burden similar to the rate paid by the lower classes (Fairfield and Jorratt 2016; Castelletti 2013).¹ A low tax burden for the elite has previously been related to strong opposition to progressive tax reforms through elite exercise of structural and instrumental power (Fairfield 2010). Thus, knowing the tax perceptions and beliefs of the economic elite—understood here as business people in positions of power and influence²—is necessary to understand how those at the very top of the income distribution make sense of taxation and, based on this, what strategies should be favored to increase redistribution in the future.

This paper is based on the analysis of secondary data sources to examine state performance in Chile in terms of key dimensions related to spending, tax collection and redistribution. In addition, we present data from Uruguay and Portugal concerning the same dimensions for comparative purposes. Subsequently, 32 interviews with members of the Chilean economic elite were

¹ Castelletti (2013) finds similar effective tax rates between the top 10% and the bottom 40%.

² We follow here Khan's (2011:362) definition of elites as: “Those who have vastly disproportionate control over or access to a resource. Within this definition we can think of elites as occupying a position that provides them with access and control or as possessing resources that advantage them—the difference is in our unit of analysis (individuals or the structure of relations). Important for this definition is a secondary point: The resource must have transferable value.”

conducted to examine the social meanings of taxes in their views as well as their perceptions and beliefs about the state.

Our findings allow for the comparison of elite views on fiscal issues with the main fiscal performance indicators of the Chilean state. They also give a glimpse of what tax payment means to the wealthiest groups and their willingness to pay, yielding insights on the levels of consent and the challenges to state spending presented by this group of the Chilean society.

This paper has five sections. Section 2 presents the theoretical framework while discussing the meanings of taxation, redistribution and consent. This section also explains the main features of the Chilean tax system. Section 3 portrays the methodology used and data collection techniques for this study. Section 4 analyses the main findings. This section is presented in two parts: the first compares the state performance regarding tax collection and social spending of Chile, Uruguay and Portugal, and the second examines Chilean economic elite members' perceptions of taxation and the role of the state. Finally, section 5 concludes.

Theoretical Framework and Context

In recent years, there has been a growing interest in studying the social, political and cultural foundations of taxation, taking up the classical concerns of sociologists and economists (Schumpeter 2000; Schultz 1992). This new fiscal sociology helps unveil the reasons why taxes go beyond being a technical issue and a matter of specialists, rather comprising the very foundations of state and citizenship.

First, tax systems are related to the emergence of modern states, embodying the ability to obtain resources from citizens to finance wars and support other state functions (Goldscheid et al. 1976). Second, social relations are affected by tax systems (Campbell 1993), as they establish differentiated obligations according to criteria such as the level of income and wealth, possession of property, or the consumption of certain goods and services. This influence not only lies within an economic dimension, but also within political and social dimensions; tax payment shapes citizenship and also impacts inequality, either maintaining or reducing disparities that jeopardize people's dignity, respect and recognition (Atria et al. 2019). Third, the observation of states is broadened: on one hand, the study of social expenditure is complemented with that of revenue, an integrated perspective which allows to explore processes of contestation and bargaining, changes in social relations and institutions, and pathways toward progressive fiscal contracts (Hujo 2020). On the other hand, such focus allows us to shed light on fiscal legitimacy processes by illustrating the ways in which citizens identify themselves as part of a political community and the role they assign to the state (Grimson and Roig 2011).

The abovementioned definition of tax payment, which underlines the obligation that the state imposes in exchange for "nothing in particular" (Martin et al. 2009:3), is present in this analytical framework for two reasons. On the one hand, it allows distinguishing taxes from prices or rates, thus following a different rationale that goes beyond the notion of taxes merely as an exchange, which prevailed in tax systems preceding the massification of progressive taxation in the twentieth century (Rosanvallon 2012). On the other hand, the inability to link taxes with specific goods and products in exchange impedes individuals' ability to fully estimate the implicit expected return

on the tax payment (Williamson 2017). Hence, taxation exceeds the market logic, making citizens part of a generalized network of reciprocity (Martin et al. 2009).

Consent to pay taxes

From an anthropological approach, taxes can be understood as a sacrifice enabling the existence of a community. The notion of sacrifice (Hubert and Mauss 1964) does not associate the obligation to pay taxes with satisfaction with what has been received, but rather with the recognition of a sovereign entity, to which citizens give up part of their property to improve their own moral condition and also participate in the regeneration of community (Abelin 2012). Thus, paying taxes entails that the state is seen as a worthy distributor of surplus wealth, which in turn relies on the state's ability to project an image of credibility and transcendental authority. That image requires the moral recognition of citizens' generosity towards society, as they seek membership through payment (Abelin 2012). Following this approach, we use the concept of sacrifice to explore the tax payment beyond its economic dimension, thus examining to what extent elite meanings of taxes involve social cooperation and community belonging.

In light of this perspective, consent to pay is part of a broader relationship between the state and citizens: a fiscal bond that involves the dynamics of intersubjective recognition—how the state is perceived and how individuals understand social cooperation, among others (Grimson and Roig 2011; Abelin 2012).

For instance, Lieberman (2001) argues that elites' consent to pay taxes is strongly related to their perception of shared interests within societies. Comparing the tax systems of Brazil and South Africa, he finds that in Brazil, elites' regional identities had sharper differences than those based on race. Inversely, in South Africa, racial differences were more salient. Thus, the Brazilian case prevented cross-class solidarity, whereas a "spirit of sacrifice" in South Africa made possible cross-class empathy within the white polity, favoring progressive taxation. In this regard, consent to pay taxes is based on the sense of belonging to a common nation (Ardant 1975; Rosanvallon 2012), although in South Africa this common nation excluded black people. Hence, taxes reflect citizens' civic engagement and they can be a tool to distribute the burden of financial contributions across the nation (Atria et al. 2019).

Paying taxes and being part of a generalized reciprocity network requires a leap of faith from taxpayers: they must believe that they will receive something in return in the future, and that other taxpayers will contribute as well (Steinmo 2018). While some countries demonstrate low levels

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