Tasha Fairfield*

Structural power in comparative political economy: perspectives from policy formulation in Latin America

Abstract: Structural power is a critical variable that merits more extensive and more explicit attention in Latin American political economy and in comparative politics more broadly. Assessing structural power in conjunction with its counterpart, instrumental power, can provide strong leverage for explaining variation in policy outcomes that affect business interests. However, structural power must be carefully defined and operationalized in order to capture its core attributes and nuances. This task requires wedding the concept's "structural" underpinnings with policymakers' perceptions and anticipated reactions. Moreover, the relationship between structural power and instrumental power must be carefully theorized. While these concepts encompass distinct channels through which business exerts influence, the two types of power may be mutually reinforcing. I argue that business interests shape policy outcomes when either their structural power or their instrumental power is strong, yet business influence will be more extensive and more consistent when structural power and instrumental power are both strong. However, electoral incentives, and more importantly, popular mobilization, can counteract business power. I illustrate these theoretical points with a case study of Chile's 2014 tax reform proposal, a major policy initiative with important distributive consequences that received international press attention.

DOI 10.1515/bap-2014-0047
Previously published online July 1, 2015

1 Introduction

Shortly after taking office in 2014, Chilean president Michelle Bachelet introduced a sweeping tax reform proposal designed to raise revenue from wealthy capital owners in order to finance education reform and reduce inequality. Newly elected MP Gabriel Boric, a former leader of the student movement that was responsible

***Corresponding author: Tasha Fairfield,** Department of International Development, London School of Economics, London, UK, e-mail: T.A.Fairfield@lse.ac.uk

for placing these issues on the national agenda through a wave of mass protests, offered the following reflections on the subsequently negotiated compromise bill, which was much less objectionable than the original proposal from business's perspective:

> *When entrepreneurs speak out and act accordingly, it's shameful – the power that business has is tremendous. Here entrepreneurs said that there would be no investment, that there would be a slowdown and unemployment would increase. They say it but they are also those who do it. That is, if there is more unemployment or a slowdown it is because they themselves stop investing. So they have a kind of negotiating position that is disgraceful for a democracy.*[1]

These remarks highlight the salience of business power in modern Latin America and offer a cogent lay interpretation of business's privileged position in capitalist democracies. As scholars of business politics have observed, "capital votes twice: once through the organized pressure it can bring to bear on the political process, again through its investment decisions."[2] These two modes of influence correspond to the classic concepts of instrumental power and structural power. Broadly speaking, instrumental power relates to business actors' deliberate political engagement, whereas structural power stems from investors' profit-maximizing responses to market signals.

Several considerations suggest that business power, and structural power in particular, should occupy a central place in research on contemporary Latin American political economy. First, extensive if often incomplete market reforms in the 1980s and 1990s moved Latin America away from a statist model characterized by heavy public ownership, government planning, and state intervention, toward a neoliberal model that places much greater agency in the hands of the private sector.[3] Second, Latin America exhibits a hierarchical variety of capitalism dominated by large, diversified, family-owned domestic business groups.[4] Not only is capital ownership tremendously concentrated, but a small number of wealthy families in essence chart the course of the economy from their perch atop the private-sector hierarchy. Third, Latin American has become increasingly integrated into the global economy and exposed to mobile capital. Investors' ability to exit greatly enhances their influence via structural power. Examples illustrating the devastating consequences of capital flight include Mexico's 1994 peso crisis and Argentina's 2001 crisis.

1 Gabriel Boric, quoted in *Mostrador,* July 14, 2014.
2 Haggard, Maxfield, and Schneider (1997: p. 38). See also Lindblom (1977).
3 E.g. Etchemendy (2011).
4 Schneider (2013).

Latin American scholars have by no means overlooked these developments. Constraints imposed by capital mobility, exit options, and market disciplining mechanisms – all of which fall within the realm of structural power – have received prominent attention in research on market reform, social policy, and redistribution in Latin American democracies, to name a few important topics in political economy.[5] Yet contemporary scholarship rarely invokes the concept of structural power directly, and authors do not always adequately capture its core attributes and nuances.

I argue that structural power is a variable that merits more extensive and more explicit attention in Latin American political economy and comparative politics more broadly. Assessing structural power in conjunction with its counterpart, instrumental power, can provide strong leverage for explaining variation in policy outcomes that affect business interests. Indeed, analyzing structural and instrumental power is essential if we are to fully understand the multiple means and mechanisms of business influence and the extent to which democratic governments can formulate and enact economic policy autonomously of business interests.

This paper proceeds in four parts. Section 2 addresses issues of defining, operationalizing and measuring structural power. Section 3 examines the relationship between structural power and instrumental power, which has not been extensively theorized. Section 4 considers how electoral incentives and popular mobilization can counteract business power. Section 5 examines the role that structural power in combination with instrumental power played in shaping the outcome of Chile's 2014 tax reform proposal, a major policy initiative with important distributive consequences that received international press attention.

2 Defining and operationalizing structural power

Structural power as originally theorized by authors including Block and Lindblom arises from the fact that in market societies, states depend on private-sector agents to invest in ways that generate growth, employment, and prosperity. Firms and capital owners respond to government policies by changing their investment decisions in accord with their own individual profit-maximizing objectives. These individual decisions can have consequential aggregate economic effects. If policymakers anticipate that a reform or a broader policy agenda will provoke

5 E.g. Hirschman (1970); Maxfield (1990); Mahon (1996); Thacker (2000); Kaufman and Segura-Ubiergo (2001); Kaplan (2013); Campello (2015).

reduced investment or other undesirable aggregate economic consequences,[6] they may rule it out in order to avert those undesirable consequences. If policymakers implement policies that subsequently appear to elicit negative economic effects, they may reform those policies in an effort to restore business confidence and productive investment activity. In either scenario, investors, firms, and capital owners influence policy decisions without need for concerted political action. Instead, the market coordinates their individual economic decisions.[7]

This familiar formulation of structural power is logical and compelling, yet it is posed at a high level of generality that is not conducive for comparative analysis.[8] Structural power needs to be operationalized in a way that elucidates variation over time, across countries, among different economic sectors, and across policy areas. This task requires integrating the concept's "structural" underpinnings with policymakers' perceptions and anticipated reactions.

As the term suggests, structural power is grounded in the "structural" economic position that private-sector agents occupy in capitalist societies. At an aggregate level of analysis, structural power depends on the relative weight of the private sector vs. the state in the economy; if the public sector dominates, business's structural power will tend to be weak.[9] Similarly, business's structural power will be weaker in resource-rich countries during commodity booms where public enterprises dominate production. If the relevant level of analysis involves a particular sector, such as finance or construction, structural power will tend to be stronger where that sector contributes a large share of GDP, generates significant employment, or has multiple linkages to other sectors that amplify the economic impact of its investment decisions. The financial sector often occupies an important "structural" position given its role in sustaining productive sectors throughout the economy.[10] Likewise, where capital is mobile, all else equal, structural power will tend to be stronger since investors can exit a jurisdiction that implements unfavorable policies.

6 Structural power more broadly can stem from market-coordinated individual decisions about levels of production, employment, or other such economic activities. I use the term investment throughout for expediency and because investment is often understood as proximate to other consequential business decisions such as hiring or firing.
7 As Winters (1996: pp. 14–15) observes: "the atomized nature of the investor's response is precisely what makes it so devastating. If individual calculations resulted…in …investors relocating their assets abroad, the destructive consequences of such a move… could be both anticipated and prevented if investors were organized and exchanged information on their plans."
8 Hacker and Pierson (2002).
9 These conditions often prevail in Africa (Handley 2008).
10 Woll (2014).

Such "structural" factors are relatively straightforward to operationalize and measure, and they are often treated as important explanatory variables in their own right. A large literature seeks to evaluate the effects of capital mobility and market integration on tax rates and welfare spending through large-N analysis;[11] regressions commonly include a standard index of capital account openness along with FDI and portfolio investment. Turning to market reform literature, Etchemendy draws on "structural" variables including the "economic power" of industrial-sector businesses to explain models of economic adjustment. He argues that the Argentine government selectively compensated dominant business groups in sectors where the domestic bourgeoisie was economically strong relative to the state at the end of the inward-oriented industrialization period. His indicators of economic power include volume of sales, profits, and value generated in relation to the sector's concentration (number of firms).[12] Similarly, recent research on patent policy in Latin America identifies the domestic pharmaceutical sector's size and market strength as key explanatory variables. Shadlen finds that countries where domestic pharmaceutical sectors were well-developed prior to the World Trade Organization's Agreement on Trade-Related Intellectual Property Rights (TRIPS) did not adopt maximalist patent regimes.[13]

While many of these studies make compelling arguments, variables such as capital mobility and economic importance are not always adequate for explaining policy change. In my research on business power and tax politics in Latin America, I find that these variables do not accurately predict when and to what extent business has managed to resist increased taxation of income and wealth.[14] The crux of the problem is that economic importance and capital mobility on their own serve as poor proxies for the classic concept of structural power.[15] On the one hand, the fact that capital *can* exit does not necessarily imply that it *will* exit. Policies may create different signals for investors in different contexts, even when they impose clear costs on firms and capital owners. Consider taxation of interest earnings: whereas it is the norm in most countries, Argentine governments have not ventured to enact this policy for fear that depositors would flee from the banks – a widely-held perception fostered by the country's history of periodic financial crises.[16] The climate created by a broader set of policies affecting

11 E.g. Wibbels and Arce (2003); Hart (2009) on taxes; Kaufman and Segura-Ubiergo (2001); Avelino, Brown, and Hunter (2005), on social spending.

12 Etchemendy (2011: pp. 78–85).

13 Shadlen (Accepted for publication).

14 Fairfield (2015).

15 Nor do they necessarily indicate strong instrumental power (Section 3).

16 Fairfield (2015: chapter 6).

investors matters;[17] for example, income tax increases enacted in the midst of extensive privatization reforms may cause little concern for investors, as was the case in Argentina during Menem's first term in office,[18] whereas investors may flee when leftist candidates lead in the polls, long before any redistributive policies are initiated.[19] On the other hand, structural power does not require capital mobility. Even where assets are sunk, as in extractive resource sectors, the imperative of attracting new investment may shape the set of policies under consideration.[20] Likewise, businesses and sectors that play an important role in the economy do not always have strong structural power. For example, if commodity sectors are highly profitable, investment may continue despite substantial tax increases. Cases here are not restricted to extractive sectors in resource-dependent countries; Argentine governments were able to heavily tax soy from 2001 to 2008 without deterring increased production.[21]

Furthermore, policymakers' perceptions play a key role in how and when structural power acts. Expectations lie at the heart of economics, yet there is a large and often underappreciated margin of uncertainty in formal economic analysis. Predicting how investors will respond to a policy is often difficult, given the complexities of real-world economies and problems of incomplete information. For example, Campello observes that in Latin America: "most financial markets are illiquid, asymmetric and volatile, making it hard for politicians to correctly anticipate investors' behavior."[22] Moreover, economic models used to predict investor responses rely on multiple assumptions that may not hold as well as elasticity parameters that are empirically difficult to estimate.[23] Even experts who agree on basic principles of orthodox economics may disagree on the likely economic impact of a given policy. Consider for example, the very different views about behavioral responses to progressive taxation advanced by the well-known economists Thomas Piketty and Martin Feldstein – whereas the latter cautioned that high marginal income tax rates create consequential work disincentives, the former argues that top marginal rates could be far higher without any negative consequences for growth or productivity.[24] Policymakers' perceptions clearly matter for agenda formulation, which takes place before any actual investment

17 E.g. Hacker and Pierson (2002: p. 282); Gelleny and McCoy (2001); Garrett and Mitchell (2001).
18 Fairfield (2010: p. 55).
19 Campello (2015).
20 Winters (1996).
21 Fairfield (2011).
22 Campello (2015: p. 34).
23 E.g. Gruber and Saez (2000).
24 Piketty, Saez, and Stantcheva (2011, 2014); Feldstein (1995).

response can be observed. Yet perceptions matter even when disinvestment actually occurs. Experts may again disagree on the extent to which a particular policy is responsible for an investment slowdown relative to other policies or even international factors beyond the government's control. The diagnosis matters for whether the particular policy in question is amended or rescinded in future iterations of policymaking.

The centrality of policymakers' perceptions and the difficulty of objectively identifying how investors will react in any given case pose complications for operationalizing structural power. I address the problem as follows.[25] I score structural power as strong at the agenda formulation stage when evidence indicates that policymakers perceived a credible (implicit) threat[26] that a reform would lead to reduced investment with consequential aggregate economic impacts. If policymakers were not concerned over the investment response, I score structural power as weak at the agenda formulation stage. Where structural power keeps a policy off the agenda, further assessment of the underlying "objective" disinvestment threat is not possible – the counterfactual regarding what would have happened to investment cannot be observed.[27] We may refer to "strong *perceived* structural power" in these cases, but the adjective carries little substantive import.[28] However, where policymakers viewed structural power as weak and implemented the policy, observing changes in investment brings additional information that can be used to retrospectively re-assess structural power and update expectations about market responses during future cycles of policymaking. In some cases, policymakers may have mistakenly perceived structural power as weak, and the advent of disinvestment may subsequently motivate them to alter the policy in question. In such cases, structural power operates through what I term a "realized disinvestment threat," and for clarity, we may refer to "weak *perceived* structural power" during the prior agenda formulation stage. Of course, ascertaining why policymakers perceived structural power as weak or

25 This discussion follows Table 2.2: Structural Power and Disinvestment Threats in Fairfield (2015: p. 45).

26 By "threat," I refer to a significant risk, not to any explicit articulation of intent to disinvest or warnings of such consequences by business actors. The latter fall within the realm of instrumental power and may reflect business efforts to instrumentally enhance structural power (Section 3).

27 In game-theoretic terms, the decision node where business chooses how much to invest after the policy is enacted lies off the path of play.

28 It may be possible to reevaluate structural power if similar policies are implemented in a later period, for example, by a new government with different priorities (see Fairfield 2015: pp. 239, 249–250 for Bolivian examples).

strong, relating those perceptions back to the "structural" position of the relevant business actors, and if possible, assessing whether policymakers' perceptions represented an accurate reading of the "objective" disinvestment threat are all important components of the explanatory enterprise.

To reiterate the key points, there is a large margin of uncertainty in analyzing market reactions to policy change – economists, let alone policymakers, may not share common evaluations. It follows that there is no unambiguous measure of structural power, and in most cases it cannot be directly observed; structural power is always at least partly a matter of perception and interpretation. Policymakers' perceptions regarding market responses therefore serve as an important empirical trace of structural power and the extent to which it influences policy decisions. We must also recognize that policymakers sometimes get it wrong – their expectations about how investors will respond, and/or their analyses of why investors responded to an enacted policy in a particular manner, may not be accurate.

If policymakers' perceptions matter, we need to ascertain what those perceptions were as well as the rationale and assumptions that gave rise to them; interviews can be extremely valuable to these ends. Economic training and ideology will clearly affect expectations and interpretations regarding investment responses; behavioral economics and literature on cognitive biases may provide insights as well.[29] However, the question of how perceptions are formed is clearly open for further investigation.

Political economists are often uncomfortable with folding policymakers' perceptions into the operationalization of structural power (the term itself fosters confusion in this regard). Yet if we do not, we are restricted to working with variables like economic importance and capital mobility that do not fully capture the core meaning of structural power and are not always adequate for explaining how and when business influences policy decisions. It is worth emphasizing that perceptions are intrinsic in the classic formulation of structural power given the importance of anticipated reactions, as other authors have also recognized. Winters asserts: "issues of perception and anticipation are... critical to the actions of both investors and state leaders."[30] Hacker and Pierson likewise observe: "If influence depends on fear of disinvestment, then it will vary depending on how credible policy makers *believe* that threat to be" (emphasis added).[31] Despite the

29 See Weyland (2007) on cognitive bias in policy formulation.
30 Winters (1996: p. xv).
31 Hacker and Pierson (2002: p. 282).

importance of policymakers' perceptions, however, structural power remains an attribute of business; it is rooted in the profit-maximizing logic followed by individual private-sector agents. The private sector actors who can be said to "hold" structural power are whichever set of firms, investors, or producers are relevant when policymakers evaluate the economic consequences of a given policy.

The foregoing discussion suggests that structural power varies widely – not only across countries, economic sectors, and classes of investors, but also across distinct policy initiatives.[32] All else being equal, structural power tends to be stronger when reforms entail radical changes, which are more likely to alter investment behavior and provoke negative reactions from the market than moderate or gradual changes. Structural power will also vary over time. For example, changes in government may bring in new policymakers who model investors' market responses differently than their predecessors in office. Fluctuations in the state of the economy also drive temporal changes in structural power. Some authors argue that structural power is strongest during recessions, which focus attention on stimulating investment and job creation;[33] others argue that structural power weakens after economic crisis, since additional disinvestment may have marginal effects beyond the damage already done.[34] I argue that such relationships are highly variable. For example, crisis may either enhance or reduce business's structural power with respect to a particular policy initiative. Argentina's 2001 crisis strengthened the financial sector's structural power against taxing interest earnings but undermined its structural power on tax agency access to bank information.[35]

Overall, I argue that structural power is a variable that takes on different values (from weak to strong) across policymaking episodes. Myriad factors affect how investors interpret and react to policy initiatives, as well as policymakers' expectations about how they will respond. Broad shifts over the past several decades in the relative weight of the state versus the private sector in economic activity and levels of global capital mobility have set the scene for structural power to play a more significant role in policymaking, yet even in Latin America's neoliberal era, structural power it is not the overwhelming force described in early business politics literature.

32 See Fairfield (2015: pp. 42–48) for elaboration of factors driving variation at these levels of analysis beyond those discussed here.

33 Smith (2000: pp. 148–149); Luger (2000: p. 31).

34 Block (1977); Vogel (1987); Hacker and Pierson (2002).

35 Fairfield (2015: chapter 6).

3 Structural power in relation to instrumental power

Any analytical framework designed to study how business shapes policymaking must account for the multiple means and mechanisms through which business can exert influence. Structural power must therefore be assessed in conjunction with instrumental power, which stems from political resources that make deliberate actions to influence policy more effective. These political resources include favorable relationships with policymakers that enhance access and create bias in favor of business interests, such as informal ties to politicians and bureaucrats, appointment or election to government office, and core constituency relationships with political parties[36] (partisan linkages). Additional resources include organization, money, technical expertise, and media access, all of which place business in a stronger position to lobby, orchestrate collective action, command authority in policy debates, finance campaigns, and/or shape public opinion. It is important to stress that political activities like lobbying in and of themselves are not indicators of instrumental power. Rather, the specific relationships and resources identified above serve as indicators – "sources" of instrumental power – that help predict when business's political engagement will be more effective.[37]

Of course, structural power also makes business's deliberate political actions more effective, a point discussed further below. Business actors have a stronger bargaining position when policymakers perceive that postponing or relocating investment is in the economic self-interest of those actors. Yet structural power is conceptually distinct from instrumental power in that it is rooted in individual, profit-maximizing, market-coordinated investment decisions. This is the core feature of structural power that makes it exclusive to business. Labor unions and mass movements may also have sources of political power akin to instrumental power, through organization, relationships with political parties, or government appointments. Yet there is no parallel for structural power. Labor unions can inflict economic damage with the aim of effecting policy change, but doing so requires organization and collective action; market forces create incentives for individuals to return to work.[38]

36 The core constituency is the group that matters most for the party's political agenda and resources (not necessarily votes) (Gibson 1996).

37 This formulation draws on power resource theory to avoid the pitfalls of associating the exercise of power exclusively with overt actions. Influence may instead flow through anticipated reactions or act implicitly when policymakers share business's objectives. See Fairfield (2015: pp. 28–42) on operationalizing instrumental power.

38 E.g. Offe and Wisenthal (1980: p. 74).

I argue that business interests shape policy decisions when either their structural power or their instrumental power is strong. For example, instrumental power in Chile during the early 2000s kept governments from legislating anything but marginal tax increases, even in the absence of structural power; in contrast, structural power kept Argentine governments from eliminating an otherwise technically and normatively unjustified tax exemption for interest earnings despite the banks' weak instrumental power after the 2001 crisis.[39]

Yet while either type of power is sufficient for business influence, business actors will get what they want more extensively and more consistently when structural power and instrumental power are both strong. There can be simple additive effects, where the two types of power can be thought of as forces acting in the same direction. Moreover, structural power and instrumental power can be mutually reinforcing, as elaborated below.

First, instrumental power may enhance structural power: business can actively use its sources of instrumental power to augment policymakers' concern over investment (Figure 1A). Business lobbying and media campaigns may reinforce incipient concerns over investment, legitimate concerns harbored by subsets of policymakers with veto power, or even generate concern among policymakers who initially do not expect that a reform will induce negative economic consequences. Of course, business actors regularly argue that policies they dislike

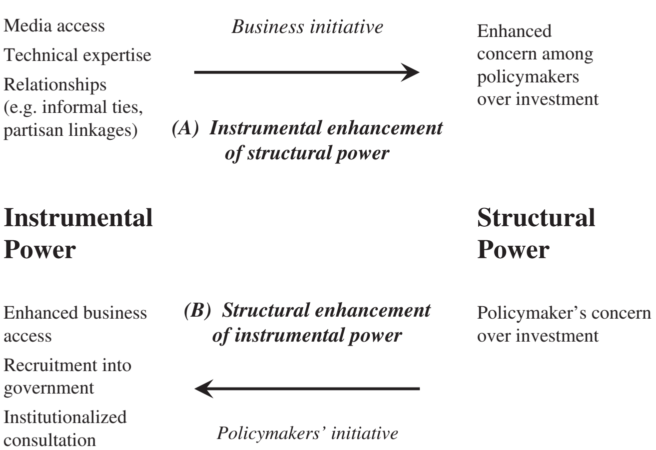

Figure 1: Reinforcing relationships between instrumental power and structural power.

39 Fairfield (2015: chaps. 2, 4, 6).

will harm investment; they may even aim to inflate perceptions of their structural power in their quest to defeat such policies. But policymakers do not always believe those claims. The critical point is that strong instrumental power arising from political resources and relationships with policymakers makes it more likely that the latter will take business's deliberate structural-power arguments seriously instead of writing them off as a transparent strategy for promoting narrow self-interest rather than the public good. Money and media access help business amplify and disseminate the message. Strong relationships with political parties help bring business arguments to the center of debate in congress. Technical expertise confers authority and legitimacy, especially on complex issue areas where politicians lack capacity to independently evaluate claims that reform will harm investment.[40]

Second, structural power can enhance instrumental power (Figure 1B). Policymakers may grant business greater access and participation than would be expected given the latters' extant sources of instrumental power when they are concerned a priori about market reactions. Lindblom's assertion that given structural power, "businessmen cannot be left knocking at the doors of the political systems, they must be invited in" follows this logic. Structural power may even motivate policymakers to grant business new sources of instrumental power or to institutionalize and thereby strengthen existing sources of instrumental power. For example, concerns over investor confidence or attempts to reverse capital flight may lead governments to appoint finance ministers or central bank heads from business circles – such recruitment into government is a classic source of instrumental power. Campello documents contemporary Latin American cases of this phenomenon that ensued where leftist presidents faced currency crises precipitated by anti-market campaign platforms.

Aside from these mutually reinforcing relationships, strong power of one type during an initial period may translate into strong power of the other type in subsequent periods. Relationships with policymakers established in response to structural power (as discussed above) may provide business with enduring sources of instrumental power long after any credible threats of disinvestment have subsided.[41] Conversely, strong instrumental power may help business secure

40 Culpepper's (2011: p. 178) argument that expertise gives business influence on low-salience issues draws on similar logic. See also Ziegler (1997) on technical expertise and power.

41 See, for example, Fairfield (2010: p. 52) on government-business concertation in Chile, and Campello (2015) on the political legacy of currency crises under Gutierrez (Ecuador) and Lula (Brazil).

policies that enhance structural power in the future, for example, by limiting regulations that curtail exit options.[42]

It becomes harder to disentangle instrumental and structural power when business actors deliberately coordinate disinvestment or halt production with the express goal of forcing policy change, or even regime change. If we take market coordination as the defining attribute of structural power, such political collusion to inflict economic damage falls outside the domain of the concept. The market coordination mechanism is central to original conceptualizations of structural power. Block locates structural power in capitalists' "narrow economic rationality," Przeworski and Wallerstein emphasize capital's propensity to "blindly pursue narrow, private self interest," and Haggard et al. identify a focus on private actors' responses to market signals as central to structural approaches in Latin American politics.[43] Winters similarly grounds structural power in: "The sum of investors' separate calculations and actions as profit-driven actors in a market environment …investors need not consciously coordinate their actions to act in concert…"[44] In contrast, politically-coordinated disinvestment, which I term a capital strike, imposes short-term costs on participants. The key distinction from disinvestment as an exercise of structural power is that capital strikes are "a *deliberate* tool of pressure, as opposed to a method of increasing expected return."[45] This conceptualization is analogous to labor strikes, which also require deliberate political coordination and impose costs on participants; if the term capital strike is applied to market-coordinated investment, as some authors do, the analogy is misleading.[46]

Culpepper and Reinke propose a more expansive definition of structural power that encompasses any influence that "flows directly from the role of the capital holder in the economy and its growth and employment capacities, not from the investment in lobbying offices or trade associations."[47] However, organization is a source of instrumental power – not structural power – that has played a key role in facilitating business protest in the economic arena, of which capital strikes are a familiar example. Such economic protest is more likely to occur

42 E.g. Maxfield (1990) on business alliances promoting international financial integration in Mexico.

43 Block (1977: p. 19); Przeworski and Wallerstein (1988: p. 12); Haggard, Maxfield, and Schneider (1997: p. 37).

44 Winters (1996: p. 2).

45 Mahon (1996: p. 20).

46 Offe and Wisenthal (1980: p. 79); Mahon (1996: p. 21).

47 Culpepper and Reinke (2014: p. 6).

precisely where business associations are strong.[48] Given the facilitating role of organization and the expressly political nature of such actions, I advocate locating capital strikes within the realm of instrumental power. These are political strategies that use action in the economic arena as leverage. Ultimately, however, what matters most for analytical purposes is identifying whether market coordination or political coordination predominates. Governments' assessments of which mechanisms operate affect how they respond to disinvestment and how long they are inclined to hold out before altering economic policies.

A few additional comments on the relationship between structural and instrumental power and the manner in which they act are in order. Structural and instrumental power are sometimes distinguished according to whether influence is indirect as opposed to direct or overt. Structural power is usually viewed as "indirectly" setting the agenda, with instrumental power coming into play through "overt" actions during later stages of policymaking.[49] Yet both types of power may operate either directly or indirectly. Instrumental power may influence agenda formulation through anticipated reactions; policymakers may rule out options because they recognize that business has strong political resources that will make an initiative difficult to legislate, just as they may rule out options for fear of disinvestment. Likewise, structural power may operate after a policy proposal has been initiated. Legislators may perceive strong structural power even if the policy's executive-branch authors do not anticipate negative investor reactions (see Section 5). And the mere announcement of a policy may elicit market-coordinated disinvestment, thereby motivating policymakers to update their assessment of structural power.

Empirically, distinguishing between instrumental power and structural power is non-trivial, since either or both may lead to the same policy outcome. However, process tracing, grounded in informal Bayesian analysis, is well-suited for analyzing cases where equifinality and multiple causal mechanisms may be at play.[50] Evidence from interviews with policymakers and business actors,

48 See Fairfield (2011). Economy-wide business associations coordinated business strikes in Guatemala, lockouts against Chávez in Venezuela, and politically-motivated disinvestment under Allende in Chile. If capital owners are few in numbers, collective action problems are easier to overcome, but divergent interests and heterogeneity may still lead an individual profit-maximizing logic to preclude political coordination. This situation occurred among multinationals in Bolivia when governments increased royalties and altered contracts. The multinationals engaged in little collective action beyond joint statements opposing government policy and ultimately renegotiated their contracts independently.

49 E.g. Hacker and Pierson (2002).

50 E.g. Bennett and Checkel (2015); Charman and Fairfield (2015).

as well as internal government or business association documents and public records can provide a wealth of information for identifying causal mechanisms and assessing which of three relevant hypotheses is most likely in cases where policy outcomes reflect business interests: H_1 – instrumental power allowed business to get what it wanted, H_2 – structural power motivated policymakers to take business interests into account, or H_3 – both instrumental and structural power contributed in some substantial degree to the outcome.[51] If H_1 holds, we expect to discover evidence that business's political engagement (either anticipated or actually undertaken) affected policy decisions, whereas if H_2 holds, we anticipate discovering evidence that policymakers were concerned over a reform's effect on investment; if H_3 holds, we expect both types of evidence. As such, careful empirical work allows us to identify parallel or mutually reinforcing contributions of both types of power acting within a single case.

4 Business power in relation to other political considerations: electoral incentives and popular mobilization

Business power is not necessarily the only relevant consideration for policymakers; electoral incentives and pressure from non-elite societal actors (popular sectors loosely speaking) also shape policy outcomes. Electoral incentives can counteract business power, particularly when issues are salient among voters, competition between the main political contenders is strong, and elections are proximate.[52] These conditions make business's instrumental power less effective, and policymakers are more likely to deviate from business interests. Even right parties for which business is a core constituency will occasionally support policies that business dislikes to attract a broader electorate.[53] Policymakers may also pay less attention to structural power when the above conditions prevail; however, concern over investment will likely resume precedence once electoral periods have ended.[54]

51 This is essentially the approach I apply across multiple episodes of tax reform (or non-reform) in Chile, Argentina, and Bolivia (Fairfield 2015).
52 E.g. Culpepper (2011); Jacobs and Shapiro (2000).
53 Gibson (1996).
54 See Campello (2015) on candidates switching to market friendly policies once elected, or even prior to election when markets react strongly against leftist campaign platforms.

When business power is strong, however, deviations from business preferences driven by electoral incentives tend to be modest. Many factors mitigate the countervailing pressure of public opinion; strong partisan identities, cross-cutting voter preferences, charismatic linkages, and clientelism all create opportunities for politicians to win votes even if their policy positions on issues that matter to business deviate from median-voter preferences.[55] In the realm of taxation, public opinion has had only marginal effects in Latin America when business power is strong, even on high salience issues like Chile's 2005 copper royalty initiatives.[56]

Demands from mobilized popular sectors, including labor unions and social movements, create much stronger incentives for policymakers to disregard business interests.[57] Popular mobilization can counterbalance or even overwhelm business power, as policymakers struggle to restore order and governability or even remain in power. Popular mobilization becomes more likely to overwhelm business power as disruptive capacity, scale, duration, and frequency of protest increase. Bolivia's 2005 hydrocarbon royalty illustrates this dynamic; demands from below in a context of massive mobilization and extreme instability drove policymakers to enact a far more radical reform than would be predicted from assessing business power alone.[58]

When public opinion and popular demands conflict with business interests, issue salience and popular mobilization can be placed along an axis corresponding to how significantly policy deviates from business preferences,[59] for a given level of business power. At the low salience end of the axis (Figure 2), business power is the dominant variable, and policymaking is characterized by elite politics. Where business power is strong, reforms are negotiated with business representatives, or remain off the agenda. Where business power is weak, policymakers set the agenda independently of business interests, and business plays a minimal role in the subsequent policy process.

As issue salience increases, elite politics becomes conditioned by public opinion, and electoral incentives may motivate politicians to deviate from business preferences. Whereas reform advocates often aim to mobilize public support and capitalize on heightened issue salience,[60] business opponents use their instrumental power to frame issues in ways that undercut public support or

55 E.g. Luna (2014).
56 Fairfield (2015: chap. 4).
57 See Garay (Accepted for publication); Fairfield and Garay (2013) for elaboration.
58 Fairfield (2015: chap. 8).
59 For a similar treatment focusing exclusively on salience, see Culpepper (2011: p. 190).
60 See Fairfield (2015: chaps. 2, 4) on tax reform strategies.

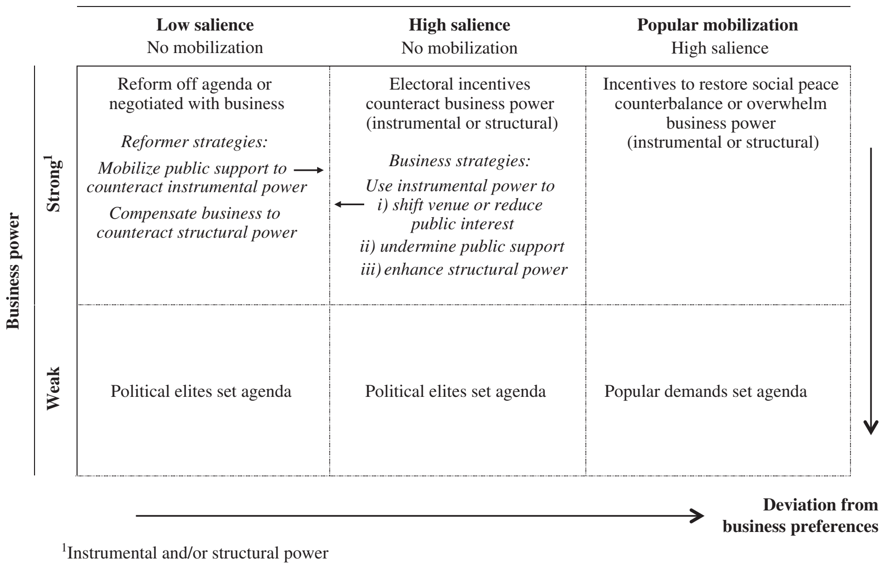

Figure 2: Business power, issue salience, popular mobilization, and deviation from business preferences.

reduce public engagement. For example, business may convert a redistributive issue into a debate on complex technical or legal issues, which voters are less likely to understand or care about (see Section 5). Business may also try to move policymaking into arenas where public opinion matters less, such as constitutional courts or regulatory agencies.[61] If these strategies are ineffective or infeasible, business may accept modest reform to preclude a rising tide of anti-business sentiment, as occurred in Chile when the 2010 earthquake created unexpected revenue needs for reconstruction.[62]

Proceeding toward the right along the horizontal axis in Figure 2, we enter the realm of popular mobilization, where politicians deviate more significantly from business interests and popular demands can shape the agenda. Business power is counterbalanced most effectively when popular sectors actively mobilize on the issue at hand during the policymaking process (holding constant the level of mobilizational capacity). In such cases, popular mobilization may become the dominant variable in policymaking. During such times of extraordinary politics,

61 On shifting between formal and informal institutional arenas, see Culpepper (2011: p. 190), on venue shopping more broadly see Hacker, Pierson, and Thelen (2013).
62 Fairfield (2015: chap. 9).

business will be much less effective at shaping policy outcomes, even if instrumental and/or structural power is strong.[63] Policymakers may even risk or tolerate disinvestment for the sake of preserving social peace and political order. In some cases, business may strategically acquiesce to significant policy change to preclude renewed or escalated protest. If the policy agenda is more radical, open battles may ensue between powerful business actors and popular sectors, as occurred in Chile under Allende and Bolivia during the 1980s.[64] It should also be noted that while business will tend to lose more when policymakers face popular mobilization (holding constant the level of business power), if business power and countervailing mobilization are both strong, there may be significant uncertainty about which side will prevail, and outcomes for any single policymaking episode may be difficult to predict.

5 Chile's 2014 tax reform

The center-left Bachelet administration's 2014 tax reform represents a dramatic break with Chile's prior record of minimal tax policy change in a context of strong business power. This case illustrates the significant impact that popular mobilization can have in counterbalancing business power and creating space for redistributive reform. At the same time, however, structural power, in conjunction with (weakened) instrumental power, helped curtail the government's original more radical reform plans. This section begins with an overview of earlier tax politics and the student movement's role in paving the way for the 2014 reform. I then focus on the role that structural power played in helping business win concessions during the debate in congress.

During the first two decades after Chile's democratic transition, the governing center-left coalition was able to legislate at most modest tax increases despite recurrent revenue needs (Figure 3: 1991–2009). I argue elsewhere that business's strong instrumental power consistently removed significant tax increases from the agenda; executive-branch policymakers anticipated lengthy political battles that were not worth the effort and/or would end in defeat.[65] Business's instrumental power arose primarily from partisan linkages to right parties with substantial

63 If reforms demanded by popular sectors provoke substantial disinvestment, policymakers may eventually revoke them when the damage becomes clear or when popular sectors have demobilized.
64 Conaghan and Malloy (1994).
65 Fairfield (2010, 2015).

Instrumental power	**Low salience** No mobilization	**High salience** No mobilization		**Popular mobilization** High salience
Strong[2]	**1991–2009** Marginal income-tax increases; Significant reform off agenda	**2005** Modest copper royalty created[3]	**2010** Modest temporary corporate tax and copper royalty increases for reconstruction[3]	**2012** Modest corporate tax increases for education spending; Major income tax reform enters national agenda
Intermediate[1]				**March 2014** **Income tax overhaul proposed:** Major revenue-raising initiative entailing significant institutional change
Weak				

Deviation from business preferences

Note: 1991–2009; 2014: Center-left Concertación administrations; 2010–2013: Right-wing Piñera administration.

[1]Organization, media access, technical expertise
[2]Partisan linkages plus the above sources of instrumental power
[3]See Section III.

Figure 3: Chilean tax policy, 1991–2014: instrumental power, issue salience, popular mobilization, and deviation from business preferences.

representation in congress and from strong peak associations that coordinated lobbying across sectors. Structural power tended to play at most a background role; interview evidence indicates that concern over investor responses contributed to removing some initiatives from the agenda, yet business's instrumental power was the more consistent and predominant factor explaining the center-left's reluctance to pursue reform. During this period, taxation was generally a low salience, elite-dominated policy area; occasional electoral incentives produced only minor deviations from business preferences for minimal taxation (Figure 3: 2005).

Massive student protests in 2011–2012 during Chile's first right-wing presidency ruptured the status quo and created an opening for much more significant policy change.[66] Large-scale social mobilization – a factor that had been absent in Chile since democratization – counterbalanced business power. The students' core concern was education, but when the Piñera administration dismissed their demands as too expensive, they responded by explicitly calling on the government to tax economic elites. Piñera responded with modest reform intended to

66 Fairfield and Garay (2013); Fairfield (2015).

close the debate, but the issues of taxation and inequality, along with education, assumed prominent positions on the national agenda (Figure 3: 2012). Politicians who otherwise prioritized business interests faced electoral incentives to moderate their stance and respond to popular demands on these now highly salient issues, and major structural changes to income taxation were proposed for the first time in two decades.

The right's poor performance in the 2013 congressional elections further altered the political landscape by weakening business's instrumental power based on partisan linkages. The right won only 17 out of 38 seats, making partisan linkages much less effective for protecting business interests. Organization remained strong, and business could mobilize other resources like media access and technical expertise. However, the right parties no longer held enough seats to block legislation that business opposed in the senate. Given this consideration, along with a credible threat of renewed popular mobilization, business came to view compromise on taxation as strategically imperative for buying social peace and precluding escalated challenges to the neoliberal economic model.

The newly elected Bachelet administration seized the opportunity to propose a tax system overhaul (Figure 3: 2014). The Pinochet dictatorship established an integrated income tax – the corporate tax (20% in 2012) served as a credit against personal income taxes that capital owners owed upon receiving dividends or distributed profits. Since the top marginal personal income tax rate was much higher (40%), capital owners left most of their profits in the firm, where they paid only the low corporate tax. While this system was intended to promote investment, the large gap between the corporate and personal income tax rates also stimulated massive tax avoidance and evasion, which meant that in practice, capital owners in the top 1% paid low effective tax rates – roughly 15%.[67] To eliminate these problems, the government proposed an innovative imputed profits tax regime – all profits, whether reinvested or distributed to owners, would enter the individual income tax base. The extensive reform package included multiple other measures to curtail evasion and avoidance, many of which were considered in prior years but deemed politically infeasible given business's strong instrumental power. Overall, the government aimed to raise an impressive 3% GDP.

Although the government managed to move the proposal quickly though the lower house of congress with minor modifications, the Finance Ministry drafted a compromise bill in the senate that introduced significant changes. Most importantly, the imputed profits regime was made "voluntary." Taxpayers could instead opt into a partially de-integrated income tax system with a 27% corporate tax,

67 Fairfield and Jorratt (2015).

where 65% of the tax paid by the firm is creditable against the personal income tax. This compromise still entails a major tax increase on the wealthiest Chileans, and the government maintains that it preserves the 3% GDP revenue target. However, the imputed profits tax system would have more effectively eliminated evasion and avoidance and was arguably more equitable and progressive. Moreover, critics warned that the complications of administering two parallel income tax systems could create new opportunities for evasion, undermining revenue yield and progressivity.

Business power played an important role in motivating the executive branch to cede on the imputed profits regime, originally designated as the "heart" of the reform. Structural power clearly did not act at the agenda formulation stage. The authors of the reform were not concerned over its potential impact on investment, because they viewed the gap between the personal and corporate tax rates as a pure incentive for tax avoidance and evasion (Figure 4A: T_1), and the Finance Ministry strongly defended the proposal against arguments to the contrary. However, structural power came into play once the bill entered the senate.

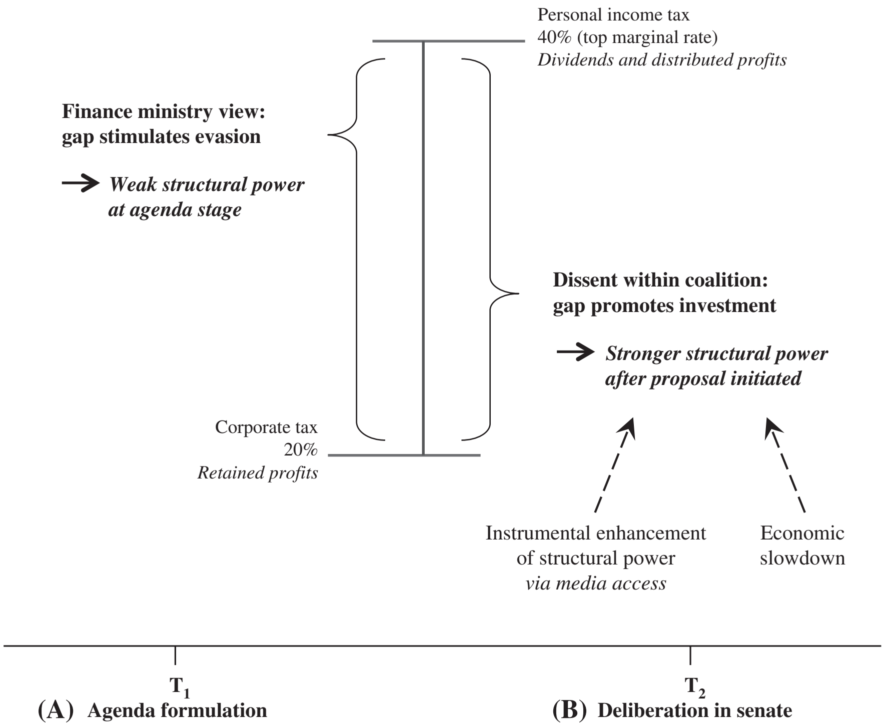

Figure 4: Structural power during different stages of Chile's 2014 tax reform.

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

Whereas the Finance Ministry maintained that Chile's integrated income tax stimulated evasion and avoidance, prominent economists associated with prior center-left administrations embraced the alternative view that this system, with its large gap between the corporate and personal income tax rates and deferred taxation of capital income, was in fact critical for promoting investment (Figure 4B: T_2). Three former finance ministers publicly expressed concern over the reform's impact on investment, criticizing the imputed profits tax regime and arguing that if the integrated income tax system were eliminated, creating alternative investment incentives was imperative.[68] In essence, these economists perceived strong structural power with respect to the government's proposal, given the way that they modeled investor responses. Although which view is "objectively" correct is a matter of debate, studies conducted by the Chilean tax agency and research on capital taxation in the US supported the Finance Ministry's original position that the imputed profits regime would have had only modest, short-term effects on investment.[69] However, dissent from these prominent center-left economists undermined the Finance Ministry's position and helped sow concern among the more conservative wing of the governing center-left coalition (primarily Christian Democrats).[70]

Business advanced similar structural-power arguments against the imputed profits regime, which they adamantly opposed. The tone, intensity, and centrality of these arguments varied over time and across sectors as business tried to refine its opposition strategy. Early during the debate, the head of the industrial association (SOFOFA[71]) issued a strident warning: "If the projects businesses are evaluating become unprofitable because of tax increases, they will be carried out without doubt – in other countries."[72] These words reflected business's defensive position following the right parties' electoral demise and widespread concern within the business sector that the peak associations had lost their capacity to

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

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

70 Interview E.

71 Sociedad de Fomento Fabril.

72 *El Mercurio*, March 21, 2014.

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

Once the reform entered the senate, however, structural-power arguments resumed a prominent place in business' counteroffensive. The president of Chile's encompassing peak association (CPC[76]) opened his remarks to the senate finance committee by highlighting the tax system's importance for promoting investment and warning that the reform's "radical changes" would affect "economic growth, employment, and salaries."[77] SOFOFA, the mining sector, and the trade and commerce association focused their extensive Senate presentations on the reform's purportedly adverse effects on investment and growth. SOFOFA's presentation was reminiscent of its president's early outspoken assertions. After attributing Chile's three decades of progress to the integrated tax system, the presentation concluded: "it is difficult to think that a [proposed] tax system that has created such profound concern could foster growth and form the basis for economic and social development over the next 30 years."[78]

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

73 Interview A.
74 Interview E.
75 Interview B.
76 Confederación de la Producción y del Comercio.
77 Andrés Santa Cruz, June 16, 2014. www.senado.cl/appsenado/templates/tramitacion/index.php?boletin_ini=9290-05#.
78 July 2, 2014, www.senado.cl/appsenado/templates/tramitacion/index.php?boletin_ini=9290-05#.
79 Becerra and Mastrini (2009); Schneider (2013); Boas (2013).

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

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

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

80 Cadem No 21, June 9, 2014. "Track seminal de Opinión Pública."
81 *El Mercurio* June 18, 2014.
82 *Tercera*, July 13, 2014. Widely reported, inaccurate charges that the reform would affect a wide swath of Chileans also took hold among the public. CEP (July 2014) found 29% of respondents believed the reform would worsen their economic situation; CADEM (June 9, 2014) reported that fully 68% believed the reform would hurt the "middle class."
83 *El Mercurio,* June 23, 2014.
84 Informe de Percepciones de Negocios (August 2014), based on 100 interviews between June 30 and July 29. http://www.bcentral.cl/publicaciones/otras/otras48.htm.
85 CPC senate presentation, June 16; *El Mercurio,* June 11, 2014; *Diario Financiero* June 19, 2014.

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

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

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

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

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

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

89 *Tercera*, July 13, 2014.

90 *Ibid*.

91 *El Mercurio,* August 16, 2014.

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

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

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

92 Interview C.

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

94 CUT in Finance Committee; interview D.

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

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

6 Conclusion

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

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

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

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

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

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

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

Author's interviews, Santiago, Chile
A: Business informant, May 28, 2014.
B: Business informant, June 4, 2014.
C: Finance committee member, June 13, 2014.
D: Labor union informant, June 13, 2014.
E: Government informant, June 12, 2014.

References

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

Becerra, Martín, and Guillermo Mastrini. 2009. *Los Dueños de la Palabra*. Buenos Aires: Prometeo.

Bennett, Andrew, and Jeffrey Checkel. 2015. *Process Tracing: From Metaphor to Analytic Tool*. New York: Cambridge University Press.

Block, Fred. 1977. "The Ruling Class Does Not Rule." *Socialist Revolution* 33: 6–27.

Boas, Taylor. 2013. "Mass Media and Politics in Latin America." In *Constructing Democratic Governance in Latin America*, edited by Jorge Domínguez and Michael Shifter, 4th ed. Baltimore: Johns Hopkins University Press.

Campello, Daniela. 2015. *The Politics of Market Discipline in Latin America*. New York: Cambridge University Press.

Charman, Andrew, and Tasha Fairfield. 2015. "Bayesian Probability: The Logic of (Political) Science." Prepared for the Annual Meeting of the American Political Science Association, San Francisco, September 3–6.

Conaghan, Catherine, and James Malloy. 1994. *Unsettling Statecraft: Democracy and Neoliberalism in the Central Andes*. Pittsburgh: University of Pittsburgh Press.

Culpepper, Pepper. 2011. *Quiet Politics and Business Power*. New York: Cambridge University Press.

Culpepper, Pepper, and Raphael Reinke. 2014. "Structural Power and Bank Bailouts in the United Kingdom and the United States." *Politics and Society* 42 (4): 427–454.

Etchemendy, Sebastián. 2011. *Models of Economic Liberalization*. New York: Cambridge University Press.

Fairfield, Tasha. 2010. "Business Power and Tax Reform." *Latin American Politics and Society* 52 (2): 51–71.

Fairfield, Tasha. 2011. "Business Power and Protest." *Studies in Comparative International Development* 46: 424–453.

Fairfield, Tasha. 2015. *Private Wealth and Public Revenue in Latin America: Business Power and Tax Politics*. New York: Cambridge University Press.

Fairfield, Tasha, and Candelaria Garay. 2013. "The Politics of Redistribution in Unequal Democracies: Unexpected Reforms under the Right in Chile." American Political Science Association, Chicago, August 29-September.

Fairfield, Tasha, and Michel Jorratt. 2015. "Top Income Shares, Business Profits, and Effective Tax Rates in Contemporary Chile." *Review of Income and Wealth*, doi: 10.1111/roiw.12196.

Feldstein, Martin. 1995. "The Effect of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform Act." *Journal of Political Economy* 103 (3): 551–572.

Garay, Candelaria. Accepted for publication. *Including Outsiders: Social Mobilization, Electoral Competition, and Social Policy Expansion in Latin America*. New York: Cambridge University Press.

Garrett, Geoffrey and Deborah Mitchell. 2001. "Globalization, Government Spending, and Taxation in the OECD." *European Journal of Political Research* 39: 145–177.

Gelleny, Ronald, and Matthew McCoy. 2001. "Globalization and Government Policy Independence: The Issue of Taxation." *Political Research Quarterly* 54, 3: 509–529.

Gibson, Edward. 1996. *Class and Conservative Parties*. Baltimore: Johns Hopkins University Press.

Gruber, Jon, and Emmanuel Saez. 2000. "The Elasticity of Taxable Income." NBER working paper 7512.

Hacker, Jacob, and Paul Pierson. 2002. "Business Power and Social Policy: Employers and the Formation of the American Welfare State." *Politics and Society* 30: 277–325.

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

Winters, Jeffrey. 1996. *Power in Motion*. Ithaca: Cornell University Press.
Woll, Cornelia. 2014. *The Power of Inaction: Bank Bailouts in Comparison*. Ithaca: Cornell University Press.
Yagan, Danny. 2014. "The Effects of the 2003 Dividend Tax Cut." http://eml.berkeley.edu/~yagan/DividendTax.pdf.
Ziegler, Nicholas. 1997. *Governing Ideas*. Ithaca: Cornell University Press.