The Power of Preferences: Economic Elites and Light Taxation in Mexico

El poder de las preferencias. Las élites económicas y tributación baja en México

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ABSTRACT

In recent years Mexico has had the lightest tax burden in Latin America. Using qualitative, historical analysis, this paper argues that a crucial cause of this phenomenon is the resistance of an exception-ally politically mobilized economic elite, which has resulted in the defeat or dilution of repeated attempts at reform. The intensity of elite resistance reflects, in turn, a strongly anti-state ideology constructed through conflict with the state, especially during the 1930s. This emphasis on the historical construction of preferences clarifies a central paradox of the literature on Latin American taxation: the fact that a number of authors agree that elite cohesion and political connections are important, but disagree on whether they hinder or facilitate revenue-raising reform.

Keywords: taxation; taxes; Mexico; economic elite.

RESUMEN

En años recientes, México ha tenido la carga tributaria más baja de América Latina. Basado en un análisis histórico, este trabajo argumenta que una causa clave de este fenómeno ha sido la resistencia de una élite económica excepcionalmente movilizada, lo cual ha resultado en el fracaso o dilución de repetidos intentos de reforma. Ello, a su vez, es producto de una ideología anti-Estado construida a través de conflictos con el Estado, especialmente durante la década de 1930. Este énfasis en la construcción histórica de las preferencias clarifica una paradoja de la literatura sobre la tributación latinoamericana: el hecho de que varios autores concuerdan en que la cohesión interna y conexiones políticas de la élite son importantes, pero discrepan sobre su impacto.

Palabras clave: tributación; impuestos; México; elite económica

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Introduction

In late October 2013, after a bruising two-month political battle, Mexican president Enrique Peña Nieto secured legislative approval of one of his key goals, a broad-based tax reform meant to bolster revenues. The reform’s passage was a significant victory for Peña Nieto. Since 2000, when his Institutional Revolutionary Party (PRI) lost its 70-year lock on the executive branch, Mexican presidents had repeatedly sought to pass a revenue-raising tax reform, widely viewed as a necessary condition for reducing social inequality, strengthening public security, and allowing Mexican Petroleum (Pemex), the state oil company, to reinvest more of its profits. However, the first two presidents of the democratic era, both representing the conservative National Action Party (PAN), had failed in this task. Peña Nieto’s ability to deliver suggested that Mexico might be turning a corner.

Nevertheless, the 2013 tax reform may well prove to be of little practical significance. The bill finally approved by Mexico’s Congress was expected to raise the tax burden by only 1% of GDP (Unda, 2014: 2). Moreover, barely a week before the reform was to be implemented, the president signed decrees attenuating at least temporarily its impact on some business sectors. The left-leaning Party of the Democratic Revolution (PRD), which had supported the bill, accused him of gutting it after the fact (El Diario, 2013). Not surprisingly, the actual increase in federal tax revenues in 2014 was below official expectations (SHCP, n.d.).

While perhaps surprising given the furor surrounding Peña Nieto’s reform, this outcome is consistent with Mexico’s modern history, which is strewn with tax reform attempts that were defeated, diluted or failed to have the expected impact. For decades Mexico has been one of the most lightly-taxed countries in Latin America, especially compared to other relatively prosperous societies, which generally tax more heavily than poorer ones. Its current tax burden of about 12% of GDP is a third that of Brazil and less than half that of Argentina and Uruguay (CEPALSTAT, n.d.).

In this paper, I examine the causes of Mexico’s anomalously light tax burden and explore their implications for broader discussions on the determinants of tax policy, especially the current debate on the role of economic elites.

Easily the most common explanation of Mexico’s tax exceptionalism is that it reflects the large stream of non-tax revenue from Pemex, which reduces the need for taxation (Martínez-Vasquez, 2001; Tello and Hernández, 2010). While valid to a degree, this account is incomplete. Among other shortcomings, it cannot explain the fact that Mexico’s total fiscal revenues, and not just its tax revenues, are unusually low compared to other relatively prosperous countries in the region. Other explanations offered by scholars of Mexico, highlighting the effects of inequality, tax evasion or the country’s long border with the

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1 The statistical database of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC).
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