Business Interest Groups and Policymaking in Latin America

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Book chapter prepared for Riggirozzi P. and Wylde C. (eds.)
Handbook of South American Governance. Routledge *(forthcoming)*

Abstract

This chapter analyzes the role of business interest groups in the policymaking process in contemporary Latin America. I argue that market liberalization transformed the relationship between business and the state, leading to a more pluralistic model of business political influence. Consequently, diversified business groups have become more influential, relative to traditional business associations. This is especially the case in complex and less salient policy areas like taxation or industrial regulation. Business interest groups' new role in the policymaking process makes governance and equitable economic development goals more difficult to achieve and poses significant challenges to democratic representation in Latin America.

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Introduction

Business interest groups are crucial actors in the policy-making process in Latin America. They participate in different policy discussions and decisions, and spend substantial resources to shape those policies in their interest. There are hundreds of examples of the active role of business interest groups in the policymaking process in Latin America. In 2016, Brazilian industry associations, financial firms, and agro-industrial associations actively supported the recent impeachment process against Dilma Rousseff in Brazil (Leahy and Pearson, 2016). In, 2014, Chilean business interest groups successfully opposed Michelle Bachelet's tax reform and vetoed any significant increases on corporate taxation - e.g., the so-called *Fondo de Utilidades Tributables* (Ruiz Soto, 2016). Similarly, Mexican industrialists fiercely opposed the introduction of a sugar tax that would to fight the growing problem of obesity in the country (Rosenberg, 2015).

Despite their indisputable political influence, literature on business political influence in Latin America is rather limited. Seminal works in the field focused on the role of business elites in authoritarian regimes and the relationship between authoritarianism and corporatism (Malloy, 1977; Schmitter, 1974). These works understand the role of business interest groups from a structural perspective more focused on the state-business relationship and pay little attention to the politics of the policymaking process. For these scholars, the study of business interest groups was embedded in broader debates about the inherent characteristics of development in Latin America (Cardoso and Faletto, 1979; Evans, 1979).

In the 1990s, some scholars distanced themselves from these structural views and expended greater effort in the study of business elites during the regional transition to democracy and the implementation of market-friendly policies (Bartell and

Payne, 1995; Durand and Silva, 1998; Kingstone, 1999; Malloy, 1977; Payne, 1994; Silva, 1998). These studies focused their attention on the strategies that business interest groups used to navigate the recurring crises of the import-substitution-industrialization development strategy and their capacity to adapt to democratic rule and market-friendly policies of the late twentieth century.

Other scholars have studied other aspects of business influence and their political consequences. For example, Schneider (2004) investigated different patterns of business organization and business-government relations in the 20th century Latin America and examined the distributional consequences of those relations. From his point of view, the manner in which Latin American states organized their relations with business interest groups into more or less coordinated encompassing business associations had substantial effects on their capacity to implement effective macroeconomic policies and sector governance. Based on this assumption, Schneider has recently presented a theory about the relationship between hierarchical patterns of corporate governance and the persistent inequality trap in Latin America (Schneider, 2013).

Most recently, scholars have sought to address the particular mechanisms that business interest groups use to influence the policymaking process and the organizational factors that enable them to shape public policy. For example, Castañeda (2017) and Fairfield (2010, 2015) explain the bargaining process between Latin American governments and business interest groups that takes place when defining tax policies. They identified various sources of business political power and discussed the consequences for tax policy in the region. Similarly, Castañeda and Doyle (2017) present a theoretical model to explain how the interaction between business interest groups and informal labor market shapes the ability of left-leaning governments to introduce progressive tax policies. Flores-Macías (2014) also provides empirical evidence that government's ability to implement progressive tax reforms depends on the organizational attributes of business interest groups. From a political economy perspective, all these works seek to understand how business interest groups influence the policymaking process in the region.

Based on this scholarship, this chapter will present a general framework to understand the role of business interest groups in the policymaking process and the mechanisms that enable them to do so. In particular, I contend that the recent transformation of the model of business coordination and political influence (i.e., from a corporatist-like one to a more pluralist-like one) has had a great impact on the relationship between business and the state in the region. Traditional business associations are not the most relevant business actors involved in the policymaking process. In most cases, diversified business groups or economic conglomerates play a more relevant role and use completely different channels and mechanisms to influence policymakers. As a result of the emergence and consolidation of these new actors, the policymaking process has become more and more complex, less centered on the executive branch of government, and consequently any structural policy changes are more difficult to achieve.

In other words, I contend that the increasing number of business veto players with capacity to influence policy decisions makes governance in the region more complicated, but most importantly, it makes equitable economic development more difficult to attain. On one hand, the consolidation of a pluralist model of business representation poses serious difficulties for democratic representation. Instead of opening up policymaking to new actors, this new model of business representation concentrates political power on a few number of firms or economic conglomerates with technical and financial capacity to effectively lobby policymakers. On the other hand, business interest groups are less interested in discussing broad policy issues (e.g., economy-wide industrial policies or national development strategies) and focus their attention on narrow, industry-specific, or particularistic policy domains (e.g., consumer or anti-trust regulation).

This chapter also shows that the new relationship between business and the state has transformed the tools that business interest groups use to influence politics. Campaign finance contributions, lobbying, and outright bribes are increasingly common instruments of business political influence (e.g., Lava Jato/Odebrecht scandal in Brazil); meanwhile, old-school business-government councils seems to be now obsolete or, at least, quite inefficient. In fact, successful channels of public-private collaboration are rather exceptional in the region (Schneider 2015).

This chapter is organized as follows. First, I will briefly describe the patterns of business organization in the region, the recent evolution of traditional business associations and the most recent emergence of economic conglomerates (or diversified business groups) as pivotal actors in the policymaking process. Second, I will discuss how these organizational transformations have shifted business interest groups' policy preferences and their sources of political power. Third, I will briefly illustrate the dynamics of business political influence in Latin America with some examples. Finally, I will discuss the implications of business influence in the policymaking process for sustainable economic development.

The evolution of business interest groups

Most organized business interest groups in Latin America emerged as a result of the state-led industrialization process. After the 1929 economic crisis, most Latin

American governments implemented short-term stabilization programs to reduce fiscal and balance-of-payments deficits (Bertola and Ocampo, 2012). These programs promoted protectionist trade policies to stimulate domestic industrial production, expansionary monetary and fiscal policies aimed to expand the aggregate demand, and proactive exchange rate policies to promote exports (Bulmer-Thomas, 1994; Bertola and Ocampo, 2012). This substantial economic policy shift demanded a more active role of the government in planning industrial strategies and coordinating collective action. Organizing business sectors was a prominent feature of these coordination efforts. Governments in the region not only needed to generate political support for their new industrial policies, but they also required consensus among business actors in order to implement new development strategies (Schneider, 2004, p. 27).

Indeed, government-business relations were far more intertwined after the import-substitution-industrialization policies in the 1930s and 1940s. For example, Schneider (2004) shows that, during the ISI years, several governments in Latin America turned to business interest groups for information and political support, and in return, gave them access to policymaking circles. He also contends that Latin American governments played a major role in promoting business coordination in the early years of the industrialization process. Extensive and institutionalized access to policymaking forums or consultative boards provided strong incentives for business interests to organize themselves around economy-wide and sectoral associations (Schneider, 2004, pp. 31-36).

From this perspective, the strength of business organization in Latin America in the twentieth century depended on the provision of benefits/subsidies from the state to the business sector. In those countries where governments provided business with access to policymaking, business associations were definitively stronger (i.e., they had more resources and more intermediation capacity) than in those countries where governments had no incentives to promote business coordination (Schneider, 2004, p. 54). For example, business associations in Mexico (e.g., *Consejo Mexicano de Hombres de Empresa, Consejo Coordinador Empresarial*), Chile (e.g., *Confederación de la Producción y el Comercio*), or Colombia (e.g., *Federación Nacional de Cafeteros*) often had privileged access to policymaking forums and networks. These solid relationships sustained their collective action over time (Schneider, 2004, p. 32). In fact, business-government relations solidified over time and became less dependent on particular governments. Meanwhile, business associations in Argentina (e.g., *Unión Industrial Argentina*) or Brazil (e.g., *Confederação Nacional da Industria*) had limited or sporadic access to policymaking forums, and their access was often contingent on particular governments (Schneider, 2004, p. 32). For example, Peronist governments sporadically consulted some members of the *Confederación General Económica* or the *Unión Industrial Argentina*, however, they were not regular partners in the policymaking process (Schneider, 2004, chap. 7).

In any case, sectoral and economy-wide business associations played a crucial role in state-led industrialization process. For example, the *Federación de Cámaras de Comercio y Producción (Fedecamaras)*, created in 1944, was an economy-wide, encompassing association that represented business interests across different industrial sectors in Venezuela. *Fedecamaras* was not only a pivotal actor in the policymaking process, but also intervened several times to keep the Venezuelan consociational political regime alive (Urriza, 1984; Karl, 1987; Giacalone, 1997). In the 1960s and the 1970s, Venezuelan governments (especially Christian-Democratic governments) regularly consulted with *Fedecamaras* before implementing new industrial, trade, or oil production policies (Giacalone, 1997). In Mexico, economy-wide associations like the *Consejo Mexicano de Hombres de Negocios (CMHN)* or the textitConsejo Coordinador Empresarial (CCE) dominated the policymaking process throughout the twentieth century. Indeed, their representatives were pivotal players in the design and implementation of the Mexican economic development policy between 1940s and 1960s (Shafer, 1973; Schneider, 2002, 2004). These encompassing business associations were not only influential for decision-making purposes but they also cultivated close relationships with the main political parties, especially the PRI. In fact, between 1970s and 1980s, high-level members of the CMHN and CCE had regular meetings with presidents and economic cabinets to discuss main economic policies and relevant political issues like candidate nominations for presidential campaigns (Ortiz Rivera, 1997). In fact, there is anecdotal evidence that several PRI presidential candidates were interviewed by CMHN members before being selected as official candidates of the party (Ortiz Rivera, 2002, 1997). Similar cases can be documented in Chile for the *Confederación de la Producción y el Comercio (CPC)* or in Colombia for the *Federación Nacional de Cafeteros (Federacafe)* or the industrialist association - *ANDI* - (Menges, 1966; Urrutia, 1983; Dugan and Rehren, 1990; Silva, 1993, 1998; Saenz Rovner, 1992, 2002; Fairfield, 2010).

Before the market reforms, only few non-organized business sectors or individual firms had any significant access to the policymaking process. Business-government relations fitted almost perfectly within the definition of societal-corporatism (Schmitter, 1974; Cohen and Pavoncello, 1987; Kingstone, 1999). The ability of business interest groups to influence economic policies was quite constrained by the attributes of their relationship with the state. Therefore, sectoral and encompassing business associations - or highly centralized business organizations - prevailed as the main political influence tools for business interest groups. This explains why economy-wide business associations flourished during the state-led industrialization period and gained institutional strength and public regard (Schneider 2004).

The collapse of the state-led industrialization in the late 1980s and the subsequent implementation of structural adjustment policies had strong consequences on business interest groups in Latin America. Several studies have demonstrated that sectoral and encompassing business associations effectively lost political influence after the structural adjustment (Haggard and Kaufman, 1995; Viguera, 1996; Giacalone, 1997; Kingstone, 1999). The regional transition to democracy and economic liberalization not only caused substantial political realignments but also drastic organizational changes within the business community. Indeed, scholars have demonstrated that the "anti-statism" discourse that unified business sector in the region in the early 1980s waned in many places as market-friendly policies were implemented and the "losers" within the business community started asking for more government intervention/protection and more compensatory mechanisms (Conaghan et al., 1990; Conaghan, 1988; Conaghan and Malloy, 1994).

The effect of market reform on business interest groups and their political reaction to the adjustment program are still a matter of debate. However, some scholars have demonstrated that "the economic crisis of the 1980s ruptured the existing relationships between business and the state [import-substitution-industrialization-corporatist model]" (Kingstone, 1999, p. xviii) and the implementation of market-friendly policies had differential effects on the industrial sector and their policy preferences (Kingstone, 1999). First, market-friendly policies benefited some sectors and not others. Second, some industrial sectors were more capable to adapt to new policy environments than others. Third, potential losers within the business community had access to different levels of compensation. In fact, compensation mechanisms were more generous for large-scale firms than for small and medium size firms - which explains why small business were less supportive of the neoliberal program (Kingstone, 1999, p. 62). In other words, "market structure, history, and state linkages led to widely differing costs and benefits" (Kingstone, 1999, p. 88) of market reform.

Business interest groups were somewhat unified before the market reform and substantially less unified after it. The process of fragmentation of the business elites and the decline of traditional business associations opened up political space for the consolidation of highly diversified business groups, multinational corporations, and even some individual firms. The change of economic model in the 1990s definitively transformed business-state relations from a corporatist-like model to a more pluralist model of interaction.

Market-friendly policies had particularly negative effects on traditional business organizations and business conglomerates in the tradable sector. The massive entry of capital and new foreign competitors weakened agricultural and industry sectors with no substantial comparative advantages in the global markets (e.g. mostly commodities and low-tech manufacturing sectors). At the same time, market liberalization opened up new rent-seeking opportunities for business groups in the non-tradable sector (Heredia, 2003; Undurraga, 2011, 2012). Widespread privatization and deregulation of public utilities, telecommunications, and the financial sector offered advantageous investment opportunities for emergent business conglomerates and multinational firms (Montero, 1996; Etchemendy, 2011; Freytes, 2013; Garate, 2012; Monckeberg, 2015).

Indeed, emergent business conglomerates adapted quite well to the new policy environment. These family-owned business groups consolidated their industrial activities after 1940s-1950s under the protectionist umbrella of high tariffs and subsidized access to the credit market. Before the market liberalization, these business groups were mainly focused on non-capital intensive (capital intensive industries were usually stated-owned), non-tradable industries in highly protected domestic markets. Many of them were strong advocates of protectionism and were active members of the economy-wide business associations (Durand and Silva, 1998; Silva, 1998). However, after the debt crisis in the early 1980s, the limited access to global credit markets and the implementation of highly restrictive foreign-exchange policies increased the level of financial pressure for the emergent business groups and changed their policy preferences: they rapidly convert to economic liberalism. At the same time, foreign-exchange controls and political volatility provided incentives for these family-owned industries to diversify their activities, enter new domestic markets, and even expand their activities to other countries in the region.

In fact, business groups' flexible and diversified organizational structure allowed them to survive the negative effects of market reform. On the one hand, high levels of vertical and horizontal integration helped them to face new competitors and compensated possible losses in different fragments of the domestic market. On the other hand, business conglomerates were mostly focused on non-tradable industries and these sectors were less affected by market liberalization (Ocampo, 2004).

Strong family and political links to government officials (most of which were built during the protectionist period) also gave them privileged access to the policymaking process in early 1990s and enabled them to protect some of their interests from foreign competition. But most importantly, these networks enabled them to take advantage of the new investment opportunities provided by aggressive privatization and financial liberalization policies. Privileged access to policymakers bought them protection, preferential tax treatment, and better chances to win privatization deals. In other words, these emerging diversified business groups were more capable to adapt to new competitive pressures or even to take advantage of them.

There are numerous illustrations of the prominent role of diversified business in policymaking. For example, the *Grupo Santo Domingo* is one of the biggest diversified business groups in Colombia. Its origins can be traced back to the early years of industrialization in the Andean country. The *Santo Domingo* family owned one of the main breweries in the country *(Bavaria)* since the early-twentieth century and were able to consolidate a domestic monopoly under the umbrella of the ISI protectionism. In fact, the brewery industry in Colombia benefited from high levels of protection via high tariffs, import duties, and other taxes levied on imported alcoholic beverages. They also had privileged access to development loans. Foreign exchange policies to imported capital goods and machinery were also quite favorable to the brewery industry. In mid-1980s, Bavaria started an aggressive process of diversification mainly focused on acquiring companies in the telecommunications sector: they acquired TV and radio broadcasters (*Caracol Radio* and *Caracol TV*), cable television companies, current events magazines, and mobile phone companies. By the mid-1990s, the Santo Domingo group had transformed itself from a successful brewery into a largely diversified and highly integrated economic conglomerate. Most of its activities were focused on the non-tradable sector (e.g., telecommunications) and consequently it benefited greatly from the market reform. In the 2000s, its position was so solid that it managed to expand its activities to South America, Central America, and the US.

The *Grupo Carso*, owned by Carlos Slim, is another good example. *Grupo*

Carso, the biggest economic conglomerate in Mexico, emerged from the merger between Slim's manufacturing companies (mainly *Cigatam*) and the financial holding *Imbursa* in the early 1990s. Slim made his personal fortune as stockbroker in the 1970s and expanded his operations to the tobacco industry in the 1980s. After the meltdown of the Mexican peso in early 1980s, and in the middle of the economic liberalization, Slim diversified his investment portfolio by investing in mining, retail, and telecommunications. Using his political networks, the *Grupo Carso* expanded its holding and took over of privatized *TelMex* in the late 1990s. This operation was crucial for the most recent development of *América Móvil* as one of the major telecommunications operators in Latin America. Like in the case of *Grupo Santo Domingo*, the process of market liberalization favored *Grupo Carso*'s interests in the non-tradable sector. Most importantly, market-friendly policies facilitated its diversification to other industrial activities and its transformation into a multinational corporation (Pozas, 2006).

Towards a new model of business representation

The political decline of encompassing business associations and the consolidation of diversified business groups in the decision-making process has deeply transformed the nature of the relationship between business and state in the region. Business interest groups had a very active role in the design and implementation of industrial/development policies before the market reforms. Encompassing or sectoral associations were, in fact, quite involved in the economic policymaking process and the state actively promoted and protected their interests. Promoting national industrial growth policies not only required state intervention but also high levels of coordination with the business sector (Shapiro and Taylor, 1990).

The transition towards a more pluralist model of business organization in the 1990s made diversified business groups more powerful in the policymaking arena. But most importantly, this process of industrial transformation also changed the policy preferences of business interest groups: they are now less concerned about nationwide development or economic policies, and more focused on specific policy issues like taxation or regulation (Schneider, 2013, pp. 149-153; Jones and Lluch, 2015). Indeed, diversified business groups have a completely different relationship with the state: i) there are new (different) channels to access the policymaking process; ii) business groups are less tied to ideological or policy agendas - they are, indeed, politically pragmatic (Culpepper 2011); and iii) they are also more autonomous from the state.

In the previous period, business influence relied on their structural power and their ad hoc relations with governments in office (O'Donnell, 1988; Malloy 1977; Schneider, 2004). The process of democratization in the 1990s "broke up many cozy back-room relations between business groups and authoritarian governments" (Schneider, 2013 p. 140) and changed the traditional channels of access to the policymaking process. Indeed, the transition to democracy opened up more channels of influence for business interest groups (and other interest groups). For example, the widespread use of open-list proportional representation electoral systems across the region has enhanced business access to the policymaking process and has also increased business incentives to invest in their relations with legislators and local politicians (Schneider, 2013, p. 141-149). Major lobbying activities have shifted from the executive to the legislature. In fact, one can comfortably argue that "the best way for business to and other groups to lobby the executive can be indirectly through the legislature" (Schneider, 2013, p. 144).

As mentioned above, diversified business groups are now mostly focused on specific policy issues that are relevant to their particular economic activity. Unlike the previous corporatist model of interaction between business and government, business influence in policymaking is rather selective and focused on promoting specific industrial policies rather than shaping broad development strategies or macroeconomic policies. Unlike traditional encompassing business associations, diversified business groups do not necessarily want to discuss developmental models, they are more interested in small issues like tax loopholes, industry-level regulations, subsidies, etc.

Emergent business groups do not behave like conventional agenda-setters. On the contrary, they promote and defend their particularistic interests by funding friendly legislators (especially those with leadership positions in relevant legislative committees) and hiring highly-specialized lobbyists. Diversified business groups have adjusted their political strategies to more democratic institutional designs. Consequently, their portfolio of political investments is highly diversified (Schneider 2004, 2013) and, unlike conventional encompassing business associations, they have cultivated alternative channels of access to policymakers in the legislative and executive branches of government.

Conventional encompassing business associations usually had direct access to presidents and some members of the cabinet, and had strong linkages with traditional political parties (Fairfield 2015). High levels of internal coordination and the "corporatist" (and sometimes subordinated) nature of their relationship with the state (Schmitter, 1974; Schneider, 2004) gave them direct access to executive decision-making arenas. Also, the policymaking process was more centralized before democratization (the executive was usually more powerful and had more discretion over economic policy issues) which improved the bargaining position of encompassing business associations. From a conventional point of view, the state had a directive role and the political representation of business interest was more institutionalized (Schmitter, 1974; Schmitter and Streeck, 1999; Schneider, 2004).

The recent transition from a corporatist-like to a more pluralist-like model of business representation changed these patterns of interaction between business and state, and it also transformed the role of business in the policymaking process. On one hand, diversified business groups have replaced encompassing business associations as the most relevant actors in the political arena. On the other hand, legislative bodies (with some few exceptions e.g., Venezuela) have become more relevant policymaking arenas (Stein and Tommasi, 2008; Scartascini et al. 2010). Therefore, the character of the policy bargaining arena changed strikingly over the past few years.

Encompassing business associations continue to lobby in behalf of their members and actively participate in policy forums (Schneider, 2010). However, they are not the only actors involved in the policy bargaining and they are certainly not the most relevant ones. On one hand, diversified business groups have more specific policy targets (industry-specific policies or regulations) and invest their resources in professional lobbying or networking to influence those particular outcomes. On the other hand, the renewed power of legislatures in the region makes that task easier (or at least, cheaper) because even small business interest groups can buy political influence by funding electoral campaigns, providing policy expertise to legislators, or simply mobilizing media resources around specific issues of interest. They use their networks, policy expertise, and professional lobbyist to reach very specific policy goals. All these changes in the business interest groups' political strategy also explain why lobbying and consulting industries are professionalizing in the region.

In other words, low-salience lobbying is becoming predominant. This is not only a major transformation in the relationship between business and state, but also explains the emergence of new forms of state capture and the nature of the new social/political contract in the region.

Policy consequences of the new model

The growing fragmentation of business interest groups has also increased the level of competition among them. More lobbyists and firms are competing for the attention of members of cabinets and legislators. At the same time, economic legislation is becoming more and more complex. Therefore, only business interest groups with substantial amounts of resources, networks, and technical capacity can successfully influence policies. In this environment, only few business groups are major players in the policymaking process. In a highly competitive lobbying environment, only diversified business groups with highly diversified political investment portfolios have the resources to block or move legislation forward.

Let us consider the case of tax reforms in Latin America. It is well known that the lack of fiscal space has been a major constraint for macroeconomic balance in Latin America since the Debt crisis in early 1980s. Most of the governments in the region have proposed raising tax revenues and implemented substantial tax reforms since the early 1990s (Castañeda, 2017; Focanti et al., 2016). However, most of these reforms are not really "structural" and their impact on total tax revenue is rather limited (Focanti et al., 2016, p. Table 3).

Corporate income taxation is still limited (relative to international standards) and top marginal corporate tax rates (i.e., regional average) has decreased from about 37% to 28% between 1990 to 2013 (Alveredo and Velez, 2013; Fairfield and

Jorratt De Luis, 2016). In the meantime, most of these tax reforms increased personal income tax rates and bases (Focanti et al., 2016). However, increasing personal income taxation has proven to be challenging given the high levels of labor informality in the region. In fact, tax policy achievements are still very limited and average income tax rates are still very low for the richest deciles of the population. For example, in 2015 direct tax revenues in Latin America only accounted for 5% of the GDP, while direct taxation corresponds to about 15% of the GDP in OECD countries (ECLAC, 2016).

Given the fiscal constraints described above, most of the recent fiscal effort in the region comes from considerable increases in indirect taxation. Value-added taxes (VAT) and other indirect taxes on goods and services have definitively become the most preferred tax policy tool for governments in the region (Tanzi, 2003, 2013). Consequently, tax policy is not being used as a tool for redistribution (ECLAC, 2016, fig. II.8).

The political influence of business interest groups could partially explain the limitations of tax policy as a redistributive policy tool. As mentioned above, it is increasingly difficult to implement structural tax reforms in the region not only because legislative bargaining is increasingly complex, but also because more business actors are involved in the process. Unlike the previous corporatist-like model, governments and legislators negotiate tax policies with a number of business interest groups with different resources and technical capabilities. Instead of negotiating substantial agendas or high-salience issues, like in the previous model (Castañeda, 2017; Fairfield, 2015), highly-fragmented business interest groups lobby for industry-specific tax exemptions, sector-targeted tax deductions, or specific preferential treatment to capital income. Therefore, only business interest groups with privileged access to policymaking networks or sufficient resources to fund lobbying and media strategies accomplish their goals. Meanwhile, under-resourced business interest groups (or interest groups, in general) are exposed to increasing tax burdens on their economic activity. With fewer resources than diversified business groups, citizen groups and non-organized citizens are often defeated and have to pay the costs of fiscal austerity policies.

Unsurprisingly, large and highly diversified business groups in the region have more resources for policy bargaining than other business or non-business interest groups. Therefore, they are more effective in protecting their economic interests and transferring the costs of taxation to less-organized and less-resourced groups. In fact, highly diversified business groups have been quite successful in blocking major initiatives to increase corporate taxation (Fairfield, 2015) and using their political capability to promote indirect taxation as the main policy tool to increase government revenues (Focanti et al., 2016). Examples are multifold. Chilean business groups have systematically undermined tax reforms proposed by right and left governments in the past fifteen years (Fairfield 2010, 2015; Arenas de Mesa, 2016). Similarly, sectoral business interest groups have repeatedly blocked the legislative approval of an urgently needed structural tax reform in Colombia (Arenas de Mesa, 2016, Castañeda 2017).

The failed implementation of additional taxes on sugared drinks in the region constitutes another good example of this successful strategy. Despite the existence of solid empirical evidence demonstrating that additional tax charges on sugared drinks could prevent public health problems and save substantial government resources invested in treatments for obesity and cardio-vascular conditions (Boseley, 2016; World Health Organization, 2013), the business lobby has blocked or delayed the implementation of the sugar tax in several countries in the region (Colchero et al., 2016). For example, in the most recent political debates about tax reform in Colombia, the *Grupo Ardila Lulle* (one of the most important diversified business groups in the country) effectively blocked the introduction of a sugar tax (America Economia, 2016).

In any case, corporate lobbying and competition among business interest groups are more intense in the current political and economic environment. In a context of increasing electoral fragmentation and weakened political parties, well-resourced business interest groups find it very easy (and cheap) to influence policymakers and promote policies that are beneficial for their constituency but are quite detrimental for income redistribution. This new pluralist-like model of business influence in politics not only concentrate more political power around business community but also within the business community itself (i.e. around some few diversified business groups).

Concluding Remarks

Much of the debate about governance focuses on the effect of institutional settings on policy outcomes. The role of economic or political actors is rarely the center of the debate. This is particularly true in the case of business interest groups. The crucial role that firms and business organizations play in policymaking is generally recognized as an obvious fact but is rarely analyzed systematically (Smith et al. 2014). Scholars and pundits simply argue that money buys influence or that business interest groups have hijacked democratic governments. However, there have been very few attempts to understand the mechanisms that effectively translate business influence into specific policy outcomes.

This chapter also offers a new angle to the debate of governance in Latin America. On one hand, it pays more attention to the role of an overlooked, but yet quite relevant actor in democratic governance: business interest groups. It describes traditional patterns of business coordination and their transformation over the past few decades. But most importantly, this chapter contends that, as result of the remodeling of business-state relationship in the region, economic governance has become more intricate, and consequently, growth and redistribution policies more difficult to reform.

Paradoxically, more pluralism in business political representation (and political representation, in general) has led to situations in which some business groups are extremely powerful and capable to block the passage of policy reforms required to improve economic efficiency and redistribution. In this chapter, I have illustrate these unexpected consequences using the example of tax reforms in the region. Governments find increasingly difficult to deal with powerful and reliable partners within the business sector and negotiate broad or national economic policies. Firms and business interest groups promote narrow interests (policies) and the policymaking is more particularistic and focused on issue-by-issue negotiations. Thus, the rising fragmentation among political parties and business interest groups creates a policy environment that favors status quo policies, undermines democratic representation, and ultimately impedes redistribution.

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