Globalization, Taxation, and Burden-Shifting in Latin America

Erik Wibbels and Moisés Arce

Despite multiple hypotheses as to the effects of global markets on domestic politics, relatively little research exists about the distributive consequences of market integration for government policy, particularly with respect to developing nations. It is commonly suggested that increased capital mobility results in governments that are more dependent on the exigencies of markets and therefore more responsive to the structural power of capital.[1] This is an argument linking market integration to reductions in the quality of democracy as less mobile factors (such as labor) are locked out of the political game. In contrast, other scholars hold that the impact of global markets has been muted. National diversities, they argue, are pervasive, and national governments retain significant capacities to respond diversely to the requirements of mobile capital.[2] In such a case, the effects of markets on the relative strength of labor are felt at the margins. Despite the prevalence of the former line of reasoning among developmental scholars,[3] researchers have only begun to examine either theoretical orientation in the context of developing nations.[4]

This research is designed to assess the relative worth of these competing arguments with specific reference to the wave of free-market reform that has swept Latin America in recent decades. This article does so by examining the role of international market integration in shaping the burden of taxation in Latin America and the subsequent response of markets to shifts in tax policy. We focus on taxation as the globalization literature provides a clear set of expectations for the relationship between markets and taxes. Researchers often suggest that falling market restrictions and the increased mobility of capital force national governments

The authors would like to thank Layna Mosley, Kenneth Roberts, and two anonymous reviewers for helpful comments on this article. Erik Wibbels would like to thank Lin Ying for able research assistance. For the data used in this paper, go to http://faculty.washington.edu/ewibbels/

1. Rodrik 1997.
2. See Garrett 1998; and Kitschelt et al. 1999.
3. See Armijo 1999; and Winters 1999.
4. Garrett 2001.

International Organization 57, Winter 2003, pp. 111–136

DOI: 10.1017/S0020818303571041

to lower business taxes at the expense of labor as a means to attract and retain international investment. This dynamic is often described as *tax competition*. As Dani Rodrik argues, "The increasing mobility of capital has rendered an important segment of the tax base footloose, leaving governments with the unappetizing option of increasing tax rates disproportionately on labor income."[5] Despite such suggestions, Duane Swank, and Sven Steinmo and Duane Swank have forwarded evidence that the hypothesized relationship between market integration and burden-shifting is not borne out in the advanced industrial democracies.[6] Instead, they suggest, the exigencies of capital mobility compete with governments' needs to balance budgets. As a result, tax burdens on business do not drop, though tax systems are reformed in a more market-friendly manner. The implication is that critics of the global market have overstated the power of capital in an increasingly global economy.

This article examines these competing hypotheses on the relationship between market integration and tax burdens by expanding the scope of the discussion to include the group of developing nations that has gone farthest in eliminating barriers to the international market, namely those in Latin America. While the most comprehensive studies of the relationship between globalization and taxes suggest that the effect of the former on the latter is modest, we believe these findings are not indicative of a generalizable characteristic of market integration. In particular, we hypothesize that the traditional globalization argument more convincingly describes recent tax reforms in Latin America. We believe this for four reasons: first, international investment in Latin America, particularly in the 1990s, has been more heavily weighted to the highly mobile variety than in the advanced industrial democracies; second, higher levels of vulnerability to financial contagion suggest that market-signaling is more important for Latin American nations; third, the influence of international financial institutions on tax reforms in Latin America generates greater changes in the burden of taxation than Organization for Economic Cooperation and Development (OECD) nations would find politically palatable; and fourth, market reforms in Latin America have spawned an increase in the organizational power of business while weakening organized labor.

It is at this point that most research on the relationship between global markets and national politics stops, failing to specify the causal mechanisms underpinning government policy choices. It is important to recognize, however, that the causal arrows outlined above can flow both ways: not only do governments respond to market incentives, but markets also respond to government policies. As Layna Mosley makes clear in a critique of extant research on globalization, "We must ask, how do financial market participants evaluate government policy choice? Most research to date assumes a model of financial market operation and a pattern of government response to financial market evaluations."[7] In the second phase of

5. Rodrik 1997, 6.
6. See Swank 1998; and Steinmo and Swank 1999.
7. Mosley 2000, 739.

our analysis we follow Mosley's recommendation by examining the responsiveness of capital flows to tax policy. The question becomes: If capital flows and deregulation cause burden-shifting, are governments that reform tax systems rewarded with greater flows? We hypothesize that capital flows do respond to tax policy, but that markets evaluate tax systems as a whole, not just capital's burden of taxation.

To test these propositions, we conduct a cross-sectional time-series analysis on the relationship between market integration and changes in tax burdens on capital in Latin America. In the first section, we briefly outline current research on globalization and government policy. Thereafter, we provide a detailed rationale for expecting globalization to generate tax burden-shifting from capital to labor in some developing nations, with special attention to the unique challenges facing governments in Latin America. In the third and fourth sections we justify our selection of cases and present our research design and analyses. The final section explores the broader implications of our findings for studies of the relationship between global markets, domestic politics, and democratic consolidation.

Globalization, Taxation, and Democracy

In the past twenty years, declining restrictions on capital flows and technological innovations have resulted in a sharp increase in the degree of capital mobility around the globe.[8] While much attention has focused on the importance of such flows to domestic politics in advanced industrial relations, many developing nations have also implemented significant economic-policy liberalization and experienced serious increases in both their trade dependence and the quantities of capital criss-crossing their borders.[9] Between 1980 and 1994, for instance, net capital flows to all developing nations increased by nearly 300 percent.[10]

This fact has spawned significant interest in the effect of such flows on domestic politics. In OECD contexts, researchers have explored the relationship between global market integration and the welfare state,[11] wage-bargaining arrangements,[12] parties of the left,[13] social spending,[14] equality,[15] and the like. Most recent research argues that national institutions and practices are quite resistant to change.[16] Even where there is evidence of some welfare cuts because of globalization,

8. See Frieden 1991; and Simmons 1999.
9. Armijo 1999. As Paul Krugman points out, however, trade and capital flows among developed nations continue to dwarf those among developing and developed nations and among developing nations themselves. See Krugman 1995, 2–3.
10. Data from World Bank 2000.
11. See Iversen and Cusack 2000; and Pierson 2000.
12. Iversen 1998.
13. Garrett and Lange 1991.
14. Garrett 2001.
15. Boix 1998.
16. See Pierson 1996; Garrett and Lange 1991; Garrett 1998; and Kitschelt et al. 1999.

Stephens, Huber, and Ray conclude that ". . . the basic institutional features of the different welfare states were preserved."[17]

Scholarship on the relationship between taxation and market exposure is less unified in its findings. A great deal of research suggests that capital does have significant power in defining the terms of its own taxation.[18] With reference to the effect of mobile markets, Rodrik suggests that "Since the early 1980s, taxes on capital have come down sharply, while taxes on labor have kept increasing at the same rate as before."[19] Likewise, Garrett confirms that social democratic corporatist states have been unable to increase corporate tax rates commensurate with spending increases, though important differences remain between capital tax burdens cross-nationally.[20]

Nevertheless, the persistence of cross-national differences in tax burdens during this period of integrating markets suggests that the power of capital has been overstated. In later research, Garrett and Mitchell provide evidence that rates of capital taxation and the ratio of capital to labor taxes seem resistant to the effects of foreign direct investment, capital restrictions, and financial market integration.[21] Swank, and Steinmo and Swank come to similar conclusions.[22] Swank summarizes that ". . . if anything, direct effects of globalization of capital markets are associated with slightly higher business taxes and, to a degree, the diminution of tax policy responsiveness to the conditions that underpin investment."[23] He argues that while tax increases on capital are unlikely in the current international context, the fiscal health of national treasuries precludes radical redistribution of the tax burden.

Taken together, these findings on the relationship between globalization and the welfare state in general, and progressive taxation in particular, provide support for what is commonly referred to as the *compensation hypothesis*.[24] The hypothesis suggests that increased economic integration, rather than undermining social protections rooted in progressive tax systems, fosters increased welfare provision. As ties to the global economy increase, governments play a larger role in compensating citizens exposed to the vicissitudes of international markets.

In comparison, research on the effects of globalization on developing nations is sparse and considerably less rigorous.[25] Nevertheless, what is striking is how uniformly the conventional wisdom vis-à-vis emerging market nations continues to reflect more pessimistic evaluations of capital mobility's effect on domestic politics.[26] Far from accentuating the compensatory role of government, the move to-

17. Stephens, Huber, and Ray 1999, 191.
18. Przeworski and Wallerstein 1988; Quinn and Shapiro 1991; and Williams and Collins 1997.
19. Rodrik 1997, 64.
20. Garrett 1998, 93.
21. Garrett and Mitchell forthcoming.
22. See Swank 1998; and Steinmo and Swank 1999.
23. Swank 1998, 690–91.
24. See Cameron 1978; and Garrett 2001.
25. For a recent exception, see Kaufman and Segura-Ubiergo 2001.
26. See Winters 1999; and Haley 1999.

ward market deregulation supposedly generates incentives to engage in the arbitrage of labor protections, regulatory loopholes, tax incentives, and the like between capital-hungry developing nations. In the eyes of many, the much-discussed "race to the bottom" characterizes social outlays and protections in the developing world. The expected political results are a weakening of representative institutions, the social bases they have historically represented, political party systems in general, and parties of the left in particular.[27] In short, market integration accentuates the "low intensity citizenship" that Guillermo O'Donnell and others have used to characterize many emerging democracies.[28]

Empirical research supporting these assertions has been scant. Claims as to the negative effects of globalization have rested mostly on the significant increases in inequality and reductions in real wages associated with market reform processes.[29] Nevertheless, there have been few cross-national studies of the distributional impact of specific government policies, as opposed to market reform processes as a whole. Case studies, however, do provide evidence that many tax reforms across Latin America in recent decades have responded to international markets. Perhaps the most striking example of this phenomenon was the regional response to the 1986 U.S. tax reform. The reform, which reduced high and progressive tax rates, "created the immediate need to bring regional [Latin American] tax policies into line so as not to discourage U.S. investment."[30] General data for Latin America as a whole bears out this trend. Most significantly, governments have lowered tax rates and reduced the number of tax brackets on capital while increasing the role of consumption taxes. Across the region, the highest corporate tax bracket was taxed at an average of nearly 40 percent in 1985; that rate declined to a little more than 25 percent by 1999.[31]

At the same time that taxes on capital have been declining, there has been a marked move toward consumption-based taxes, and value-added taxes (VATs) in particular; twenty-one countries in the region now have a VAT. In many countries, VAT rates have increased to double digits, exceeding 20 percent in the case of Argentina. Originally, arguments in favor of VATs emphasized that they are easy to collect, are relatively broad-based, and therefore generate significant revenues.[32] It is clear, however, that VATs are regressive to the extent that lower-income groups consume a greater share of their income than the wealthy.[33] To the degree that VATs may have replaced more progressive taxes and declining

27. Dupuy 1998.
28. O'Donnell 1994.
29. See Oxhorn and Starr 1999; and Barrera 1999.
30. Inter-American Development Bank 1996, 126.
31. Price Waterhouse Center for Transnational Taxation, various years. The same trend holds true for personal income taxes. See Inter-American Development Bank 1998, 183; and Tanzi 2000.
32. Inter-American Development Bank 1996, 130–31.
33. It is worth noting, however, that some Latin American countries exempt food products from the VAT to make produce cheaper, particularly for the poor. See Inter-American Development Bank 1996. Yet tax specialists would agree that the ultimate tax goal is to have a VAT with a broad base, and with a very small number of exemptions. See, in particular, Tanzi 2000.

corporate taxes, fiscal reforms in recent decades suggest burden-shifting and tax policy convergence.[34]

On the Distinctness of Globalization and Taxation in Latin America

This circumstantial evidence, however, does not prove any relationship between globalization and tax burden-shifting in Latin America. Nevertheless, there are several reasons to believe that integration into global markets has been a key factor in fostering the homogenization of tax systems across the region. Chief among these reasons are the fact that many Latin American nations are more dependent on highly mobile forms of capital than the advanced industrial economies, the consequent priority of providing the appropriate market signals to reassure investors, the significant role of international financial institutions in shaping tax reforms across the region in recent decades, and the increased political power of capital vis-à-vis labor in the aftermath of market reforms. We address each of these four factors in detail below.

As Latin American nations have liberalized capital accounts in recent decades, extremely mobile forms of capital, such as portfolio investment in stocks and bonds, have become increasingly important.[35] Highly mobile forms of investment have played a larger role relative to total investment in Latin America as a whole than in OECD nations in recent years. While relatively long-term foreign direct investment (FDI) flows have remained fairly steady since 1980, portfolio investment and short-term debt have exploded, particularly since the early 1990s.[36] As Gunther Held and Raquel Szalachman, the Inter-American Development Bank (IDB), and others have noted, large increases in the quantity of fluid flows have been accompanied by a marked increase in their volatility.[37] The dangers of openness to very mobile forms of capital have become quite clear, and many researchers have pointed to the perils of capital account liberalization in the absence of appropriate regulatory mechanisms in the aftermath of the Mexican peso crisis,[38] the Asian financial crisis,[39] and economic volatility in Eastern Europe and the former Soviet Union.[40]

Of course, most analyses refer to "mobility" as the characteristic of contemporary capital that generates negative distributional consequences. It is mobility that

34. The Inter-American Development Bank argues, with reference to the rebirth of neoliberal reform, that "In the field of taxes, this revitalization has given rise to a relatively homogeneous tax system in the region." See Inter-American Development Bank 1996, 125.

35. See Haggard and Maxfield 1996; Winters 1999; Edwards 2000; and Ibarra 1998.

36. To be precise, between 1980 and 1998 portfolio investment in bonds increased by nearly 300 percent, short-term debt by 76 percent, and equity investment increased from zero to $1.8 billion. Data taken from World Bank 2000.

37. See Held and Szalachman 1998; and Inter-American Development Bank 1995.

38. See Hausmann and Rojas-Suárez 1996; and Weintraub 2000.

39. See McCulloch and Petri 1998; and Winters 1999.

40. See Sobol 1998; and Buyske 1998.

supposedly provides capital the credible exit option with which to threaten governments. There is reason to believe, moreover, that exit threats are accentuated by the fact that much investment in developing nations takes place in product markets, such as assembly and intermediate manufacturing, where pure cost considerations are crucial to competitiveness.[41] In such contexts, taxes on corporate income threaten thin profit margins and augment the exit threats of asset holders, therefore increasing pressure for governments to abandon progressive tax systems. Ceteris paribus it is likely that governments will respond more directly to the interests of mobile capital where economies are more dependent on relatively mobile financial flows.

Increased reliance on mobile capital flows, in turn, points to the greater importance of market-signaling on the part of developing nations.[42] As Maxfield[43] and Armijo[44] have argued, it is important to distinguish among types of capital. While foreign direct investors and international loaners have longer-term relationships with the nations in which they invest, owners of equity shares and bonds are very mobile. Predictably, when compared with investors in advanced industrial economies, investors in Latin American nations have incentives to invest in liquid assets. Such assets are easily moved under conditions of political uncertainty, volatile macroeconomic performance, poor economic information, and other characteristics common to developing nations. To the extent that such investments are very mobile, the incentives for (and possibility of) collecting detailed local information are quite low. Thus as nations are increasingly dependent on these more volatile flows and less patient investors, governments will likely go to greater lengths to provide easily interpretable signals to markets.[45] To the extent that rates of taxation on capital represent a clear sign to investors of a government's market-friendliness, increased reliance on such flows is likely to be associated with declining tax burdens on capital.

The importance of market-signaling is accentuated in most developing nations by the simple fact that they are poor in capital.[46] As a result, a large percentage of total investment in these nations is foreign, whereas domestic capital in developed countries with relatively high tax rates has incentives—such as better information, high worker productivity, and strong educational systems—to remain where it is. Foreign capital has few such incentives vis-à-vis Latin American nations. The result is very sharp competition among developing nations to signal their attractiveness to foreign investors, themselves often represented by a small number of

41. Garrett and Mitchell forthcoming.
42. Haggard and Maxfield 1996.
43. Maxfield 1997.
44. Armijo 1999.
45. Coming from the opposite analytical direction, Mosley argues that capital markets are concerned with a greater number of policy spheres when evaluating developing economies. Consistent with our argument here, markets are therefore more constraining of microeconomic policies in developing than developed nations. See Mosley 2000.
46. The partial exception is East Asia, where a number of nations have very high savings rates. For a seminal discussion of savings and investment in Taiwan and South Korea, see Wade 1990.

extremely competitive emerging market fund managers.[47] In a context of high uncertainty and sharp competition for external investment, governments in developing nations are expectedly more responsive to the tax demands of mobile capital than their counterparts in more established economies.

The strong influence of international financial institutions in designing tax reforms in developing nations, and Latin America in particular, also suggests that burden-shifting has been more prevalent than in advanced industrial economies. In fact, virtually all Latin American countries that have sought tax advice over the past two decades were also engaged in International Monetary Fund (IMF) structural adjustment programs.[48] Likewise, the World Bank provided 120 loans conditional on tax reforms across developing nations in the 1990s alone.[49] The new thinking about taxes places greater emphasis on collection efficiency rather than vertical equity. Whereas in the past, progressive taxation was justified in an effort to redistribute income, today the World Bank advises nations to pursue such goals with better targeted social programs rather than fiscal policy.[50] As Richard Goode points out, governments are advised to avoid "interference with market-directed allocations of resources, disincentives due to high and progressive tax rates, provoking capital flight and discouraging foreign investment by tax rates higher than those of capital-exporting countries."[51] While marginal income tax rates and brackets have been reduced, the saliency of the VAT is unequivocal, and even "ranked ahead of the income tax" as the World Bank's recommended source of revenue.[52]

Finally, at the level of domestic politics, market reforms across Latin America have spawned a surge in business power vis-à-vis organized labor. International and comparative political economists have long suggested that a liberalized global economy empowers mobile factors, such as capital, at the expense of less mobile factors, such as labor.[53] Frieden, for instance, notes that holders of more specific or dedicated assets are more likely to bear the costs of economic adjustment policies, and thus more likely to pose stiff opposition to market reform efforts.[54]

It is not surprising, therefore, that the implementation of market reforms in Latin America has facilitated collective action within the business community.[55] Contrary to conventional views about market initiatives, which have hitherto emphasized the autonomy of state actors, recent research has unveiled substantial interaction between government and business groups during the implementation

47. Winters 1999.
48. See Stotsky 1995; and Tanzi 2000.
49. World Bank 1999.
50. Graham 1994.
51. Goode 1993, 49.
52. See Goode 1993, 49; and Bird 1992, 30.
53. See Frieden 1991; Frieden and Rogowski 1996. This argument as to the benefits of factor mobility in an era of free movement of capital are rooted in Ricardo-Viner's critique of the Heckscher-Olin trade theorem. For a good review of these points of view, see Alt et al. 1996.
54. Frieden 1991.
55. See Silva and Durand 1998; and Schneider 1998b.

of market reforms.[56] Even in countries such as Argentina, where organized labor supported the government's economic adjustment program,[57] business has continued to dominate the policy agenda.

In contrast, labor has fared far worse in recent years. Throughout the region, the transition from import substitution to market-driven economies has resulted in a marked increase in structural unemployment and underemployment. As a result, union membership has declined while unions themselves have been less able to shape wage policies, job protection schemes, and the like. Indeed, unions have been complicit in market reforms in many cases where they have had historical ties with the governing party.[58] To the extent that organized labor is likely to be the strongest opponent of efforts to shift tax burdens from capital to labor, the decline of union movements across the region suggests the difficulty of forming political coalitions of market losers sufficiently strong to resist the demands of the market.[59]

This rapid redistribution of political power is not nearly as evident in the advanced industrial nations that are central to most analyses of the relationship between globalization and domestic politics. In a recent comparison of trade union organizations across the most developed nations, Golden, Wallerstein, and Lange conclude that "our data support the view that industrial relations institutions and trade unions have by and large proved quite resilient in the face of considerable domestic and international economic pressures in the past two decades."[60] Likewise, the political power of the left remains quite prominent in comparison with most of Latin America's moribund social democratic parties. The widespread prescriptions of international financial institutions, along with the facts that Latin American economies are dependent on more mobile forms of capital and their governments must signal more clearly to markets than their advanced industrial counterparts, help explain why domestic political coalitions on the left would be far less able to resist burden-shifting in Latin American nations than in advanced industrial democracies.

Research Design and Methods

The following analysis focuses on the relationship between globalization and tax policy in Latin America. We focus on Latin America for several reasons. First, Latin American nations were the first to make significant moves toward free markets in the aftermath of the 1982 debt crisis. On one hand, these early reforms limit the region's generalizability to the rest of the developing world. On the other

56. See Maxfield and Schneider 1997; Schamis 1999; and Kingstone 1999.
57. Levitsky and Way 1998.
58. See Murillo 2000; and Levitsky and Way 1998.
59. Waisman 1999.
60. Golden, Wallerstein, and Lange 1999, 223. They warn, however, that their findings may mask some decentralization of bargaining and hence a degree of weakening of union confederations.

hand, they may provide insight into dynamics that might come to characterize other regions where market reforms are still evolving. Second, the nations across the region vary tremendously in their levels of integration into global markets. Trade dependence in 1995 varies from a low of slightly more than 16 percent in Brazil to more than 110 percent in Paraguay; similar divergence characterizes each of the other measures of market integration.[61] Third, the countries across the region have seen a significant increase in levels of market dependence, whether measured in terms of trade, foreign investment, or financial markets, since the early 1980s. Trade dependence, for instance, has increased on average by more than 20 percent across the region.[62] As such, the region offers insight into the evolving relationship between global markets and government policy. Fourth, recent decades have witnessed a plethora of tax reforms of varying depths across the region. Since 1991, six nations have comprehensively overhauled tax systems, and an additional six countries have altered important taxes within existing systems. Twelve nations have tinkered with existing tax bases.[63] Fifth, and finally, the data demands of a comprehensive test of the propositions outlined above on the universe of developing nations are prohibitive. As we make clear below, we have supplemented spotty data availability from international sources with a great deal of national sources. Such a process is time-consuming and requires significant country-specific knowledge of tax systems. Nevertheless, the combination of diverse levels of international market integration, multiple yet disparate tax reforms, and a period of profound movement toward free market policies in a context of developing nations offers a good opportunity to test the generalizability of recent findings vis-à-vis advanced industrial democracies.

To test the relationship between market integration and tax burdens, we conduct a cross-sectional time-series analysis of tax policy across the countries of Latin America since 1978. We measure the tax burden, consistent with Garrett and Mitchell, as a ratio of capital taxation to consumption plus labor taxes.[64] Contrary to Garrett and Mitchell, but consonant with Inclán, Quinn, and Shapiro, we focus on actual revenues rather than tax rates because income exclusions and investment incentives make rates unreliable indicators of actual tax burdens.[65] We are interested in the ratio of revenue from capital to labor and consumption taxes, as such

61. Data from World Bank 2000.
62. Data from World Bank 2000.
63. Inter-American Development Bank 1996, 128–31.
64. Garrett and Mitchell forthcoming.
65. Inclán, Quinn, and Shapiro cite the example of President Ronald Reagan's first tax act that significantly lowered corporate income tax rates but resulted in a near doubling of revenues as a percentage of GDP. They chalk up the lower tax revenue in the former period to generous income exclusions. See Inclán, Quinn, and Shapiro 2001. Similar dynamics are even more prevalent in Latin America, where rate increases are commonly met with increases in evasion. See Harberger 1995. For a contrary (but less convincing, in our opinion) argument as to the value of analyzing rates, see Hallerberg and Basinger 1998.

a measure most closely approximates the concern with the relative power of capital and labor in the globalization literature. The capital tax ratio is measured as:

$$\frac{\text{(corporate income tax + employer social security contributions)}}{\text{(personal income tax + employee social security contributions + goods \& services taxes)}}$$ [66]

A high ratio of capital to other taxes would suggest that capital is relatively weak with respect to labor and consumers. As hypothesized above, increased integration into global markets should increase the power of the former over the latter, which if true, should be reflected in declining burdens of taxation on capital. Where available, tax data is taken from the IMF's *Government Finance Statistics*; we filled missing values with reference to national sources whenever possible.

We include five measures of market integration for each nation. Consistent with the recommendation of Maxfield, we disaggregate "globalization" into its component parts under the expectation that various kinds of investors are likely to have different preferences vis-à-vis domestic policy.[67] The first three measures are based on flows of capital: trade, foreign direct investment, and portfolio investment. Trade dependence, measured as imports plus exports as a percentage of the gross domestic product (GDP), is included as researchers have widely hypothesized that increased trade dependence reflects the power of internationally competitive sectors within national economies. The second measure, foreign direct investment as a percentage of GDP, is included to assess the importance of relatively long-term, foreign investment in national economies. Third, we include portfolio (the sum of bond and equity) investment as a percentage of GDP in order to test whether highly liquid investments have a particularly strong hold on national governments.[68]

Given important suggestions that capital flows may not be a good measure of market integration,[69] our fourth measure is a policy-based indicator of financial openness. This measure is calculated on the basis of the IMF's *Exchange Arrangements and Exchange Restrictions*. Consistent with the tables reported at the end of each volume, each of five reported restrictions is added to form a 0–5 index where 0 represents no financial market restrictions and 5 represents the maximum number of such restrictions.[70] Though Quinn, and Brune, Garrett, Guisinger, and Sorens

66. Goods and services taxes include VAT and excise tax revenues. Because social security tax revenue is not broken down into employer and employee contributions for many nations in the IMF data, we used the legal contributions as outlined in the U.S. Department of Health and Human Services' annual publication *Social Security Programs Throughout the World* to generate the values for employers and employees.

67. Maxfield 1997.

68. Each of these three measures is taken from World Bank 2000.

69. See Frankel 1993; and Feldstein and Horioka 1980.

70. To be precise, *Exchange Arrangements and Exchange Restrictions* reports on five capital restrictions: Restrictions on Payments of Current Transactions, Restrictions on Payments of Capital Transactions, Import Surcharges, requirements for Advance Import Deposits, and Surrender or Repatriation Requirements for Export Proceeds. In each case, the volume provides a simple yes/no answer as to whether the capital control exists. For each control, we assign a "1" if the control exists. For each country-year we then sum the number of controls, yielding a score ranging from 0–5.

have developed alternative measures using the same IMF publication, the data either does not cover most of our cases or is not yet publicly available.[71] We do, however, test the robustness of our findings by substituting Kim's measure of capital account openness, which is also used by Garrett.[72] Our findings do not change using the Kim measure.[73]

The final measure gauges the influence of the international financial community in a given nation as the percentage of that nation's total debt owed to multilateral institutions.[74] While the IMF focuses on macroeconomic policies and the World Bank on microeconomic policies, in the case of tax policy their conditions for loans are quite complementary. For instance, the IMF—rather than World Bank—calls explicitly for fiscal stabilization, but it is the World Bank that is more involved in the nuts and bolts of tax reform in Latin American nations. As such, the IMF's call for fiscal balance and the World Bank's call for market-conforming tax reforms are quite complementary. As the percentage increases we expect the IMF's and World Bank's policy advice to hold greater sway and result in greater tax burden-shifting. None of these measures are highly correlated, thus underscoring the theoretical need to disaggregate globalization into its component parts.[75]

It is worth emphasizing that while we anticipate higher levels of flows to be associated with lower burdens of taxation on capital, all investors are not likely to be equally demanding of national governments in this regard. Accordingly, we hypothesize that mobile capital, as represented by portfolio flows, is likely to be the most influential agent of globalization to the extent that governments will go to significant ends to attract and retain such investment. Mosley argues, moreover, that financial markets in developing countries are likely much more broadly constraining than their OECD counterparts.[76] In contrast, foreign direct investors have longer-term considerations. Such investors are likely to recognize that radical reductions in capital tax burdens can threaten local political and economic stability. Likewise, multinational firms are likely to have the local political connections to lobby for their own tax breaks rather than requiring that such breaks be spread throughout the economy. The result should be, on aggregate, lower capital tax burdens but far less than in cases where portfolio investment is dominant. Finally, we expect trade dependence to have the least influence on tax burdens. As mentioned above, exporters in developing economies are often concentrated in industries with tight profit margins, hence accentuating their interest in reducing taxes. At the same

71. See Quinn 1997; Brune et al. 2001. Note that while the Brune, Garrett, Guisinger, and Sorens data is not yet available, the authors were kind enough to share their data in order to establish a correlation with our own measure. That correlation is 0.57. This is almost exactly the same correlation (0.58) as between our and Kim's measure mentioned below. See Kim 1997.

72. See Kim 1997; and Garrett 2001.

73. We prefer our measure to Kim's as ours is more continuous and therefore provides more information on the degree of policy openness.

74. Data taken from World Bank 2000.

75. The highest correlation is between the measures of capital openness and foreign direct investment as a percentage of GDP ($r = -0.34$).

76. Mosley 2000.

time, however, widespread evidence from the OECD cases is indicative of a "compensation effect," whereby national governments increase social spending to cushion the buffets of international markets where trade is central to an economy.[77] On balance, compensation mechanisms are less prevalent across Latin America, but such considerations expectedly mediate the effect of trade on tax burdens.

In addition to these measures of globalization, we include a number of salient domestic political and economic variables we hypothesize to influence the degree to which national governments shift tax burdens. To test the notion developed above—that weaker political parties of the left and debilitated labor unions will exaggerate the shifting of tax burdens—we include a left-labor index not dissimilar to those used in the OECD literature. Our measure differs in two important ways. First, our index uses the level of unionization rather than a broader measure of how encompassing labor market institutions are, as data on union density is more reliable than that on organizational concentration in Latin American union movements.[78] Second, given the complexity of party systems in Latin America, our index is weighted for the militancy of labor-mobilizing parties. Thus while the traditional left-right continuum so common in studies of OECD countries is of little use in countries such as Mexico and Argentina, we expect that the origins of labor-mobilizing parties and strong labor movements in Latin America's import substitution industrialization (ISI) era created coalitions that were predisposed to resist burden-shifting tax reforms.

Second, we hypothesize that the higher the number of domestic veto players,[79] the less governments will engage in burden-shifting. As veto players increase, the number of actors whose agreement is required for a change in policy increases. Regardless of international economic pressure for competitive tax harmonization, higher numbers of veto players are likely to reduce the policy flexibility of a given government. Hallerberg and Basinger confirm this hypothesis in a study of tax policy in OECD and suggest that "states with a higher number of veto players clearly do not adjust as well to changing economic conditions and to reductions in tax rates in other states."[80] Consistent with Haggard and Kaufman, we believe that the most important veto players in presidential systems are congressional parties.[81] Where the number of parties increases, fiscal reforms with an eye toward international tax harmonization should be harder to

77. See Cameron 1978; and Swank 1998.

78. Although there is no single source that provides reliable estimates of trade union density for all of our cases over the time period of this study, we have constructed a time series by obtaining unionization figures at the beginning, midpoint, and end of the time period and prorating scores to fill in the gaps. Union density scores at the beginning of the 1980s were taken from the U.S. Department of Labor's *Country Labor Profile* series and Kurian 1982. For the mid-1980s and 1990s, we relied heavily on data provided by the International Labour Organization 1997, with supplementation from Greenfield and Maram 1987; Harper 1987; Upham 1996; McGuire 1997, 268; and Godio, Palomino, and Wachendorfer 1988, 87–88.

79. Tsebelis 1995.

80. Hallerberg and Basinger 1998, 347.

81. Haggard and Kaufman 1995.

implement. The effective number of parties is measured using the Markku Laakso and Rein Taagepara index.[82]

Finally, the economic control variables include lagged GDP growth, GDP per capita, and the lagged current account balance as a percentage of GDP. We include GDP growth because strong growth will mitigate demands by capital that it be liberated from onerous tax burdens. Similarly, wealthier nations should be more attractive to capital and, therefore, experience less pressure to redistribute taxes as a signal to potential investors. We include the current balance as a percentage of GDP with the expectation that strong inflows will weaken pressures for changes in tax policy, while the opposite should also be true.

To summarize, the model can be stated as:

$$\text{TAX}_{it} = \sum(\Sigma)b_j\,\text{GLOBAL}_{jit-1} + \sum(\Sigma)b_k\,\text{DOMPOLITICS}_{kit-1} + \sum(\Sigma)b_l\,\text{ECONCONTROL}_{lit-1}$$

Where TAX refers to the index of capital taxation, the vector of j GLOBAL variables represents the five measures of integration into global markets, the vector of k DOMPOLITICS variables represents the left-labor and veto player measures, and l ECONCONTROL variables are the indicators of GDP growth, per capita GDP, and current account balance. The b's are parameter estimates, and the subscripts i and t denote the country and year of the observations, respectively; $t - 1$ indicates that variables are lagged by one year to avoid problems of endogeneity. We estimate these models using a panel-corrected standard errors procedure as recommended by Nathaniel Beck and Jonathan Katz, which corrects for first-order autocorrelation and includes country dummies to control for different country intercepts.[83]

The second phase of the analysis reverses the relationship between capital flows and tax policy by asking if markets reward governments that implement tax systems in a manner consistent with the globalization literature. Consonant with our interest in disaggregating "globalization" into its component parts, we use three dependent variables as indicators of capital flows: net capital flows as a percentage of GDP, net foreign direct investment as a percentage of GDP, and portfolio flows (including bond and equity investments) as a percentage of GDP. In each case, the crucial independent variable is the capital tax burden as measured above. If globalization pessimists are right, international markets should respond to low capital tax burdens by increasing capital flows to that nation; the converse should also hold. To explore the degree to which markets respond to more general tax

82. Laakso and Taagepara 1979. This index is calculated on the basis of partisan distribution in lower houses of national congresses. The measure is calculated as: $1/Ss^2$, where s = the share of seats of each party in Congress. Electoral data was taken from Nohlen 1993, and the Europa World Yearbook.

83. Beck and Katz 1995. We use the xtpcse command in Stata 6.0.

policy, we also test a measure of the overall market-friendliness of tax systems developed by researchers at the Economic Commission for Latin America and the Caribbean.[84] We suspect that markets may respond more clearly to the overall market consistency of tax policy rather than the narrower measure of tax burdens. Consistent with recent models developed by Leonardo Hernández, Pamela Mellado, and Rodrigo Valdés and rooted in earlier research by Guillermo Calvo, Leonardo Leiderman, and Carmen Reinhart, we include a series of controls including world interest rates, economic growth, current account balance as a percentage of GDP, per capita income, gross capital formation as a percentage of GDP, a nation's debt to export ratio, the growth in private-sector credit, and a lagged dependent variable.[85] We also include our measure of left-labor strength. All economic variables are lagged one year.[86] These models are estimated using the same technique as outlined above. In all cases, results stand up to diagnostic tests for outliers, bad leverage points, and missing variables.

Results

Addressing the question of how various features of global market integration influence tax burdens, Table 1 provides results for the first phase of our analysis. For the ease of the reader, global market variables are darkly shaded, domestic political variables are lightly shaded, and economic controls are left unshaded. What is immediately noteworthy is that the impact of global markets on tax policy in Latin America is quite complex, though the general picture is one in which the various facets of global market integration have a negative impact on the progressivity of tax policy. Interestingly, however, the most prevalent feature of globalization, namely trade dependence, does not have a significant impact on the capital tax ratio despite the inordinate attention it has received from the critics of market integration. Indeed, trade's sign is opposite to that expected by its critics.[87] On the other hand, both foreign direct investment and portfolio flows do have the expected sign. Higher levels of portfolio flows place downward but insignificant pressure on the tax share of capital. The same is true for foreign direct investment, which falls just below traditional measures of significance.

Turning away from the measures of trade flows described above, the impact of the regulatory environment and multilateral debt show a more significant effect on

84. Morley, Machado, and Pettinato 1999. This index integrates information on tax rates as well as the efficiency of the tax system. As such, it is a more general measure of tax policy than the simple measure of tax burdens.

85. See Hernández, Mellado, and Valdés 2001; and Calvo, Leiderman, and Reinhart 1993.

86. All of these variables are taken from World Bank 2000 with the exception of the left-labor index.

87. Removing the fixed effects dummies, trade dependence actually becomes significant in the positive direction. This is the only substantive change to the findings when the country dummies are removed.

TABLE 1. *Determinants of the tax burden on capital in Latin America, 1978–1996*

Independent variable	*Capital tax ratio*
TRADE	.003
	(.005)
FOREIGN DIRECT INVESTMENT	−.042
	(.028)
PORTFOLIO INVESTMENT	−.011
	(.041)
CAPITAL ACCOUNT CONTROLS	−.185***
	(.070)
MULTILATERAL DEBT	−.019**
	(.008)
LEFT-LABOR INDEX	.011**
	(.005)
PARTY SYSTEM FRACTIONALIZATION	−.020
	(.033)
CURRENT ACCOUNT BALANCE	.031*
	(.018)
GDP GROWTH	−.003
	(.009)
GDP PER CAPITA	−.000
	(.000)
$N =$	239
Adjusted R^2	.55

Note: All independent variables are lagged by 1 year. The "capital tax ratio" is measured as: (corporate income tax + employer social security tax revenues)/(personal income tax + employee social security + goods and services tax revenues). Analysis is by ordinary least squares (OLS) with panel-corrected standard errors and an AR1 correction within panels. Entries are unstandardized regression coefficients; panel-corrected standard errors in parentheses. The model includes country dummies (not reported) to control for diverse country intercepts.
***$p = .01$.
**$p = .05$.
*$p = .10$.

government tax policy. Surprisingly, while controls on the capital account do have a significant impact on the capital tax ratio, they do so in the opposite direction to that hypothesized. While we expected that fewer restrictions on capital would limit the capacity of policymakers to resist the demands of mobile capital, the opposite seems to be the case. As the number of restrictions decreases, the tax burden on capital increases. We believe this is indicative of a policy trade-off whereby national policymakers can choose between lowering the tax burden on capital and eliminating capital controls as signals indicating the market-worthiness of a country. The higher the number of capital controls a nation keeps in place, the greater it must shift the tax burden onto labor in order to attract and retain capital, and

vice-versa.[88] It is worth emphasizing that these findings are quite distinct from what is found in the OECD literature, where there is no evidence of this policy trade-off. More straightforward are the findings with respect to multilateral debt. With each 1 percent increase in the share of a nation's debt held by multilateral institutions, the tax burden on capital falls by 1.9 percent with respect to labor.

The findings with respect to the role of domestic politics in the evolution of tax burdens are equally clear-cut theoretically. As hypothesized, strong left-labor coalitions have a significant positive impact on the tax share paid by capital. An increase of 10 percent in the left-labor index (about equal to the difference between the Uruguay and Venezuela of the 1980s) increases the capital tax ratio by 11 percent. The veto player argument as measured by party system fractionalization does not have a significant effect on tax burdens. At least in Latin America, democracies with fractionalized party systems have no more or less ability to shift tax burdens than other nations. The variables sign, moreover, is inconsistent with the findings of Hallerberg and Basinger that veto players prevent governments from shifting the tax burden consistent with the exigencies of global markets.[89]

Generally speaking, these results provide some support for both sides of the globalization debate. Consistent with research on global markets and national politics in OECD countries, many of the most notable components of globalization have no effect on tax burdens across countries and through time. Likewise, the evidence for the ongoing importance of domestic political coalitions for policy is broadly consistent with evidence that governing parties of the left in Europe continue to have policies and priorities distinct from parties of the right. It is entirely plausible, of course, that these two findings are closely related. Instead of having a direct effect on tax policy itself, globalization may be influencing tax burdens in Latin America by weakening the political power of the left and labor. More directly, dependence on multilateral lending institutions, a feature of the international political economy that little concerns OECD nations, does have a negative impact on the equity of tax burdens. This finding is puzzling in light of recent suggestions that equity considerations are indeed central to the programs sponsored by these lending institutions. As stated by World Bank President James Wolfensohn: "So for us at the Bank, the number one issue that we are trying to deal with is poverty and equity. . . . Because if you have inequity in society and you have too much poverty within and between societies, then you will not have social peace."[90] Similar statements have been made by major IMF officials.[91] The results with regard to liberalization of the capital account are also new and suggest that Latin American nations likely face a set of policy trade-offs not experienced in OECD countries.

88. The results are the same when we use Kim's measure of capital mobility. Kim 1997.

89. Hallerberg and Basinger 1998.

90. Address to the University of Kiev Mohyla Academy (Ukraine), "Challenges and Opportunities of the 21st Century," October 6, 2000.

91. See, for instance, former IMF Managing Director Michel Camdessus's comments to the Tenth United Nations Conference on Trade and Development, February 13, 2000.

TABLE 2. *Responsiveness of international markets to the tax burden, 1979–1995*

Independent variables	*Net capital flows*	*Net foreign direct investment*	*Portfolio investment*
CAPITAL TAX RATIO	–.109	.009	–.028**
	(.076)	(.027)	(.014)
LEFT-LABOR INDEX	–.002	–.006**	.004***
	(.005)	(.003)	(.001)
WORLD INTEREST RATES	–.048	–.107**	–.070*
	(.087)	(.046)	(.038)
GDP GROWTH	.055*	.015	.015*
	(.031)	(.010)	(.008)
CURRENT BALANCE	.011	.012	.005
	(.034)	(.016)	(.007)
GROSS CAPITAL FORMATION	.059**	.021*	.004
	(.026)	(.012)	(.007)
DEBT/EXPORT RATIO	.002	.002	–.004*
	(.012)	(.003)	(.002)
CREDIT GROWTH	.004	–.001	.002**
	(.004)	(.002)	(.001)
LAG NET CAPITAL FLOWS	.661***		
	(.084)		
LAG NET FDI		.678***	
		(.066)	
LAG PORTFOLIO INVESTMENT			.589***
			(.052)
N =	260	260	215
Adjusted R^2	.51	.49	.35

Note: Analysis is by ordinary least squares (OLS) with panel-corrected standard errors. Entries are unstandardized regression coefficients; panel-corrected standard errors are in parentheses.
***p = .01.
**p = .05.
*p = .10.

Tables 2 and 3 reverse these causal arrows and illustrate how international markets respond to tax policy. Table 2 presents results for three measures of capital flows using the capital tax ratio as the crucial independent variable. If the vicious "race to the bottom" is in fact occurring, governments should not only be engaged in shifting tax burdens from capital to labor, but markets should be rewarding such policies with increased flows. As Table 2 makes clear, this dynamic is only operational when it comes to short-term portfolio flows. Neither net capital flows nor foreign direct investment increase significantly in response to reductions in the tax share paid by capital. The coefficient for the capital tax ratio, however, is in the hypothesized direction and significant in the equation for short-term portfolio flows. A 10 percent increase in the tax burden of capital effects a 0.2 percent decrease in portfolio flows as a percentage of GDP. The fact that only short-term flows respond to capital's tax burden lends credence to the hypothesis outlined

TABLE 3. *Responsiveness of international markets to general tax policy, 1979–1995*

Independent variables	*Net capital flows*	*Net foreign direct investment*	*Portfolio investment*
TAX INDEX	1.966***	.456*	.589*
	(.668)	(.278)	(.340)
LEFT-LABOR INDEX	–.006	–.005	.005
	(.006)	(.003)	(.006)
WORLD INTEREST RATES	.077	–.078**	–.036
	(.082)	(.034)	(.059)
GDP GROWTH	.047*	.013	.016
	(.027)	(.013)	(.019)
CURRENT BALANCE	.020	.018	.002
	(.027)	(.016)	(.015)
GROSS CAPITAL FORMATION	.057**	.015	.000
	(.023)	(.014)	(.014)
DEBT/EXPORT RATIO	.004	.002	–.005
	(.009)	(.004)	(.005)
CREDIT GROWTH	.002	–.001	.002
	(.004)	(.002)	(.002)
LAG NET CAPITAL FLOWS	.614***		
	(.071)		
LAG NET FDI		.667***	
		(.094)	
LAG PORTFOLIO INVESTMENT			.481***
			(.190)
N =	250	250	205
Adjusted R^2	.54	.48	.34

Note: The tax index is a measure of the general market-friendliness of tax policy. Analysis is by ordinary least squares (OLS) with panel-corrected standard errors. Entries are unstandardized regression coefficients; panel corrected standard errors are in parentheses.
***p = .01.
**p = .05.
*p = .10.

above that the signaling game played by governments in Latin America is more constraining than in OECD nations. Indeed, developed nations have an advantage on two fronts: first, there is no evidence that short-term markets react to microeconomic policies such as shifts in the tax burden in wealthier nations; second, richer nations, on average, are less dependent on short-term flows than their developing counterparts, where those flows do respond negatively to progressive taxation. As such, portfolio investment appears to be one area in which "globalization" functions differently in the developing world.

It would be very surprising, however, if only short-term markets were responsive to tax policy. As such, Table 3 replaces the measure of changes in the capital tax burden with a more general indicator of tax policy. As described above, this measure is an indicator of the efficiency and market-friendliness of a tax system

above and beyond the distribution of the tax burden between capital and labor. Increases in the index reflect tax policy that is more market friendly. The results indicate that net capital flows, net foreign direct investment, and portfolio flows do increase in response to generally promarket tax policy. A one standard deviation increase in the market-friendliness of tax systems (approximately the difference between Venezuela's relatively market-unfriendly tax system and Chile's quite market-friendly one in 1995) increases net capital flows by 0.37 percent of GDP, FDI by 0.09 percent of GDP, and portfolio flows by 0.11 percent of GDP. These results are indicative of two stylized facts. First, reforms to improve the market-friendliness of tax systems are rewarded by international markets; broadly speaking, market reform is not for naught. Second, the fact that international investors do not respond to the narrower measure of tax burden-shifting suggests that governments that do engage in shifting tax burdens onto labor may be doing so for the sake of short-term capital flows. Governments that are interested in attracting longer-term investment need not toss aside equity considerations and are better served by a broadly market-conforming tax code.

Conclusion

In the wake of a wave of market reforms in the developing world, precisely when the influence of international markets and institutions loomed large, a prominent analysis by Barbara Stallings in the early 1990s expressed regret at the abandonment of international variables to explain changes in economic domestic policy.[92] The results presented here suggest that even within an increasingly globalized economy, the emphasis given to domestic factors in understanding policy changes may not have been entirely misplaced. In fact, the impact of global economic forces on domestic policies, such as taxation, is mixed, and political leaders still retain a degree of autonomy to respond to these forces—albeit less autonomy than their counterparts in advanced industrial economies.

The results of this research have three important implications for the politics of international market integration. First and foremost, "globalization" as such is not a uniform concept, even in developing nations where its implications are often assumed to be uniformly negative. The process of national integration into international markets can occur in multiple ways, and the manner in which a nation is plugged in has implications for the constraints domestic policymakers will encounter. Indeed, various modes of market integration can generate conflicting incentives for national politicians. While increased dependence on international financial institutions and portfolio investment encourage policymakers to shift the tax burden from capital to labor by requiring very promarket policy signals, a liberal capital account can apparently provide the political space for governments to address equity issues by increasing capital's share of the tax bur-

92. Stallings 1992, 43.

den.[93] Clearly, globalization cannot be reduced to trade or increases in foreign direct investment, for globalization is all of these things and more. Each of the component parts of globalization is likely to have differential, even conflicting, effects on national governments—a feature of global markets that has received relatively little attention.

Relatedly, these results suggest that national governments continue to have some room to manipulate policy within a broadly defined neoliberal paradigm. Many of the most visible components of global market integration have little effect on tax burdens, suggesting that government leaders have some freedom in developing their tax systems. As such, the pop critics of globalization have probably overstated the negative impact of globalization as a factor unto itself in foisting increased inequality on a decreasingly democratic world. A quibbler might suggest that the finding of a trade-off between the degree to which a nation regulates capital markets and the tax burden on capital is clear evidence of global markets constraining national politicians. Indeed such is the case, but the very existence of a trade-off implies that there are policy choices to be made. Governments can continue to maintain highly regulated capital accounts, but to do so requires larger tax concessions to business sectors.

At the same time, however, the European findings that the domestic effects of international markets are quite muted are not wholly generalizable. Advanced industrial democracies, for instance, do not face a policy trade-off between capital account openness and tax policy. Nor do the relatively wealthy nations of the world have to concern themselves with the negative distributional implications of dependence on multilateral lending institutions. If equity matters for the IMF and the World Bank as they suggest, our results indicate that the programs of these institutions ought to be reexamined. This point is particularly important given that history suggests fiscal policy can be an effective tool in addressing equity considerations; developed economies continue to use tax policy in exactly this way. Finally, while researchers of the OECD widely recognize the dangers of short-term capital flows, there is no evidence that portfolio flows respond negatively to shifts in the progressivity of taxation as they do in Latin America. Our findings suggest that short-term capital flows require very clear signals from developing governments, and that even marginal increases in the tax burden on capital are punished severely by portfolio markets. The relationship between government policy and short-term capital, therefore, comes closest to approximating the dynamics feared by globaphobics. As such, these findings add one more piece of evidence as to the detrimental impact of volatile capital flows on developing nations.

In sum, globalization seems to bring a mixed bag for policymakers; it brings a broad set of constraints onto the outlines of policy but provides room for policy choices therein. The most direct evidence of this flexibility is the fact that longer-

93. Along these lines, Schneider noted that a fully liberalized capital account hinders constructive collaboration between government and business because this type of arrangement often favors foreign investors over domestic capitalists. See Schneider 1998a, 118.

term markets seem to be less interested in the relative share of taxes paid by capital than in how market friendly tax systems are as a whole. While net capital flows have not rewarded shifts to increase the burden of taxation on labor, these flows have rewarded market-oriented reforms of tax systems. Thus national policymakers can attract capital by streamlining tax codes, eliminating distortionary taxes on trade, or increasing the efficiency of existing taxes, rather than contributing to ongoing trends in inequality by eliminating progressive components of tax codes.

Third and lastly, these findings confirm that domestic politics continue to matter. Despite arguments that mobile capital would sweep all national politics before it and that politicians of the left, right, and center would all be impelled to bow to the demands of markets, the political power of the left continues to have important implications for public policy, even in Latin America. Where strong leftist political parties combine with powerful union movements, governments are much more resistant to shifting tax burdens from capital to labor. This finding itself suggests that globalization has not harmonized all politics to the least common denominator. Consistent with much of the research on Europe, the left in Latin America continues to have policy preferences that are consistent with historical notions of equity. It would seem that even in the context of capital-poor nations, some long-standing principles have survived "globalization" in the hothouse of domestic politics. The difference, of course, is that the past twenty years of crisis in Latin America have desperately weakened both the left and labor much more seriously than in the OECD. How that weakness itself is linked to increased exposure to global markets is beyond the scope of this research, though surely a worthy subject of future inquiry.

References

Alt, James E., Jeffry A. Frieden, Michael J. Gilligan, Dani Rodrik, and Ronald Rogowski. 1996. The Political Economy of International Trade: Enduring Puzzles and an Agenda for Inquiry. *Comparative Political Studies* 29 (6):689–717.

Armijo, Leslie Elliott. 1999. *Financial Globalization and Democracy in Emerging Markets*. New York: St. Martin's Press.

Barrera, Manuel. 1999. Political Participation and Social Exclusion of the Popular Sectors in Chile. In *Markets and Democracy in Latin America: Conflict or Convergence?*, edited by Philip Oxhorn and Pamela K. Starr, 81–102. Boulder, Colo.: Lynne Rienner.

Beck, Nathaniel, and Jonathan N. Katz. 1995. What to Do (and Not to Do) with Time-Series Cross-Section Data. *American Political Science Review* 89 (3):634–47.

Bird, Richard M. 1992. Tax Reform in Latin America: A Review of Some Recent Experiences. *Latin American Research Review* 27 (1):7–36.

Boix, Carles. 1998. *Political Parties, Growth, and Equality: Conservative and Social Democratic Economic Strategies in the World Economy*. Cambridge: Cambridge University Press.

Brune, Nancy, Geoffrey Garrett, Alexandra Guisinger, and Jason Sorens. 2001. The Political Economy of Capital Account Liberalization. Paper prepared for the 97th Annual Meeting of the American Political Science Association, August, San Francisco, Calif.

Buyske, Gail. 1998. Foreign Investment and Political Economy in Russia. In *Capital Flows and Financial Crises*, edited by Miles Kahler, 229–46. Ithaca, N.Y.: Cornell University Press.

Calvo, Guillermo, Leonardo Leiderman, and Carmen Reinhart. 1993. Capital Flows and the Real Exchange Rate Appreciation in Latin America: The Role of External Factors. *International Monetary Fund Staff Papers* 40 (1):108–51.

Cameron, David R. 1978. The Expansion of the Public Economy. *American Political Science Review* 72 (4):1243–61.

Dupuy, Alex. 1998. Thoughts on Globalization, Marxism, and the Left. *Latin American Perspectives* 25 (6): 55–58.

Edwards, Sebastian. 2000. Capital Flows, Real Exchange Rates, and Capital Controls: Some Latin American Experiences. In *Capital Flows and the Emerging Economies: Theory, Evidence, and Controversies*, edited by Sebastian Edwards, 197–253. Chicago: University of Chicago Press.

Europa World Yearbook. Various years. London: Europa Publications.

Feldstein, Martin, and Charles Horioka. 1980. Domestic Savings and International Capital Flows. *The Economic Journal* 90 (358):314–29.

Frankel, Jeffrey A. 1993. *On Exchange Rates*. Cambridge, Mass.: MIT Press.

Frieden, Jeffry A. 1991. Invested Interests: The Politics of National Economic Policies in a World of Global Finance. *International Organization* 45 (4):425–51.

Frieden, Jeffry A., and Ronald Rogowski. 1996. The Impact of the International Economy on National Policies: An Analytical Overview. In *Internationalization and Domestic Politics*, edited by Robert O. Keohane and Helen V. Milner, 25–47. Cambridge: Cambridge University Press.

Garrett, Geoffrey. 1998. *Partisan Politics in the Global Economy*. Cambridge: Cambridge University Press.

———. 2001. Globalization and Government Spending Around the World. *Studies in Comparative International Development* 35 (4):3–29.

Garrett, Geoffrey, and Peter Lange. 1991. Political Responses to Interdependence: What's "Left" for the Left? *International Organization* 45 (4):539–64.

Garrett, Geoffrey, and Deborah Mitchell. Forthcoming. Globalization, Government Spending and Taxation in the OECD. *European Journal of Political Research*.

Godio, Julio, Héctor Palomino, and Achim Wachendorfer. 1988. *El Movimiento Sindical Argentino, 1880–1987*. Buenos Aires: Puntosur Editores.

Golden, Miriam, Michael Wallerstein, and Peter Lange. 1999. Postwar Trade-Union Organization and Industrial Relations in Twelve Countries. In *Continuity and Change in Contemporary Capitalism*, edited by Herbert Kitschelt, Peter Lange, Gary Marks, and John D. Stephens, 194–230. Cambridge: Cambridge University Press.

Goode, Richard. 1993. Tax Advice to Developing Countries: An Historical Survey. *World Development* 21 (1):37–53.

Graham, Carol. 1994. *Safety Nets, Politics and the Poor: Transitions to Market Economics*. Washington, D.C.: Brookings Institution.

Greenfield, Gerald Michael, and Sheldon L. Maram, eds. 1987. *Latin American Labor Organizations*. New York: Greenwood Press.

Haggard, Stephan, and Robert R. Kaufman. 1995. *The Political Economy of Democratic Transitions*. Princeton, N.J.: Princeton University Press.

Haggard, Stephan, and Sylvia Maxfield. 1996. The Political Economy of Financial Internationalization in the Developing World. *International Organization* 50 (1):35–68.

Haley, Mary Ann. 1999. Emerging Market Makers: The Power of Institutional Investors. In *Financial Globalization and Democracy in Emerging Markets*, edited by Leslie Elliott Armijo, 74–90. New York: St. Martin's Press.

Hallerberg, Mark, and Scott Basinger. 1998. Internationalization and Changes in Tax Policy in OECD Countries: The Importance of Domestic Veto Players. *Comparative Political Studies* 31 (3):321–52.

Harberger, Arnold C. 1995. Tax Lore for Budding Reformers. In *Reform, Recovery, and Growth: Latin America and the Middle East*, edited by Rudiger Dornbusch and Sebastian Edwards, 291–309. Chicago: University of Chicago Press.

Harper, F. John, ed. 1987. *Trade Unions of the World*. Harlow, U.K.: Longman.

Hausmann, Ricardo, and Liliana Rojas-Suárez, eds. 1996. *Volatile Capital Flows: Taming Their Impact on Latin America*. Washington, D.C.: Inter-American Development Bank.

Held, Gunther, and Raquel Szalachman. 1998. Flujos de capital en América Latina y el Caribe en los años noventa: experiencias y políticas. *Revista de la CEPAL* 64 (April):36–51.

Hernández, Leonardo, Pamela Mellado, and Rodrigo Valdés. 2001. Determinants of Private Capital Flows in the 1970s and 1990s: Is There Evidence of Contagion? IMF Working Paper 01/64. Washington, D.C.: International Monetary Fund.

Ibarra, David. 1998. Globalización, moneda y finanzas. *Revista de la CEPAL* 50th Anniversary Issue, 111–24.

Inclán, Carla, Dennis Quinn, and Robert Y. Shapiro. 2001. Origins and Consequences of Changes in U.S. Corporate Taxation, 1981–1998. *American Journal of Political Science* 45 (1):179–201.

Inter-American Development Bank. 1995. *Economic and Social Progress in Latin America*. Washington, D.C.: Johns Hopkins University Press.

———. 1996. *Economic and Social Progress in Latin America*. Washington, D.C.: Johns Hopkins University Press.

———. 1998. *Economic and Social Progress in Latin America*. Washington, D.C.: Johns Hopkins University Press.

International Labour Organization. 1997. *World Labour Report 1997–98: Industrial Relations, Democracy, and Social Stability*. Geneva: ILO.

Iversen, Torben. 1998. Wage Bargaining, Central Bank Independence, and the Real Effects of Money. *International Organization* 52 (3):469–504.

Iversen, Torben, and Thomas R. Cusack. 2000. The Causes of Welfare State Expansion: Deindustrialization or Globalization? *World Politics* 52 (3):313–49.

Kaufman, Robert, and Alex Segura-Ubiergo. 2001. Globalization, Domestic Politics and Social Spending in Latin America: A Time-Series Cross-Section Analysis, 1973–1997. *World Politics* 53 (4):553–87.

Kim, Woochan. 1997. Does Capital Account Liberalization Discipline Budget Deficit? Unpublished manuscript, Harvard University, Cambridge, Mass.

Kingstone, Peter R. 1999. *Crafting Coalitions for Reform: Business Preferences, Political Institutions, and Neoliberal Reform in Brazil*. University Park: Pennsylvania State University Press.

Kitschelt, Herbert, Peter Lange, Gary Marks, and John D. Stephens. 1999. *Continuity and Change in Contemporary Capitalism*. Cambridge: Cambridge University Press.

Krugman, Paul. 1995. Technology, Trade, and Factor Prices. NBER Working Paper 5355. Cambridge, Mass.: National Bureau of Economic Research.

Kurian, George Thomas. 1982. *Encyclopedia of the Third World*. London: Mansell.

Laakso, Markku, and Rein Taagepera. 1979. "Effective" Number of Parties: A Measure with Application to Western Europe. *Comparative Political Studies* 12 (1):3–27.

Levitsky, Steven, and Lucan Way. 1998. Between a Shock and a Hard Place: The Dynamics of Labor-Backed Adjustment in Poland and Argentina. *Comparative Politics* 30 (2):171–92.

Maxfield, Sylvia. 1997. *Gatekeepers of Growth: The International Political Economy of Central Banking in Developing Countries*. Princeton, N.J.: Princeton University Press.

Maxfield, Sylvia, and Ben Ross Schneider. 1997. *Business and the State in Developing Countries*. Ithaca, N.Y.: Cornell University Press.

McCulloch, Rachel, and Peter A. Petri. 1998. Equity Financing of East Asian Development. In *Capital Flows and Financial Crises*, edited by Miles Kahler, 158–85. Ithaca, N.Y.: Cornell University Press.

McGuire, James W. 1997. *Peronism without Perón: Unions, Parties, and Democracy in Argentina*. Stanford, Calif.: Stanford University Press.

Morley, Samuel A., Roberto Machado, and Stefano Pettinato. 1999. Indexes of Structural Reform in Latin America. Serie Reformas Económicas 12. Santiago, Chile: Economic Commission for Latin America and the Caribbean.

Mosley, Layna. 2000. Room to Move: International Financial Markets and National Welfare States. *International Organization* 54 (4):737–73.

Murillo, M. Victoria. 2000. From Populism to Neoliberalism: Labor Unions and Market Reforms in Latin America. *World Politics* 52 (2):135–74.

Nohlen, Dieter, ed. 1993. *Enciclopedia Electoral Latinoamericana y del Caribe*. San José, Costa Rica: Instituto Interamericano de Derechos Humanos.

O'Donnell, Guillermo. 1994. Delegative Democracy. *Journal of Democracy* 5 (1):55–69.

Oxhorn, Philip, and Pamela K. Starr. 1999. *Markets and Democracy in Latin America: Conflict or Convergence?*, Boulder, Colo.: Lynne Reinner.

Pierson, Paul. 1996. The New Politics of the Welfare State. *World Politics* 48 (2):143–79.

———. 2000. Three Worlds of Welfare State Research. *Comparative Political Studies* 33 (6):791–821.

Price Waterhouse Center for Transnational Taxation. Various years. *Corporate Taxes: A Worldwide Summary*. New York: Price Waterhouse Center for Transnational Taxation.

Przeworski, Adam, and Michael Wallerstein. 1988. Structural Dependence of the State on Capital. *American Political Science Review* 82 (1):11–29.

Quinn, Dennis P. 1997. The Correlates of Change in International Financial Regulation. *American Political Science Review* 91 (3):531–51.

Quinn, Dennis P., and Robert Y. Shapiro. 1991. Business Political Power: The Case of Taxation. *American Political Science Review* 85 (3):851–74.

Rodrik, Dani. 1997. Sense and Nonsense in the Globalization Debate. *Foreign Policy* 107:19–36.

Schamis, Hector. 1999. Distributional Coalitions and the Politics of Economic Reform in Latin America. *World Politics* 51 (2):236–68.

Schneider, Ben Ross. 1998a. Elusive Synergy: Business-Government Relations and Development. *Comparative Politics* 31 (1):101–22.

———. 1998b. The State and Collective Action: Business Politics in Latin America. Paper presented at the 21st Annual Meeting of the Latin American Studies Association, September, Chicago, Illinois.

Silva, Eduardo, and Francisco Durand. 1998. Organized Business and Politics in Latin America. In *Organized Business, Economic Change and Democracy in Latin America*, edited by Francisco Durand and Eduardo Silva, 1–50. Coral Gables, Fl.: North-South Center Press.

Simmons, Beth A. 1999. *The Internationalization of Capital*. In *Continuity and Change in Contemporary Capitalism*, edited by Herbert Kitschelt, Peter Lange, Gary Marks, and John D. Stephens, 36–69. Cambridge: Cambridge University Press.

Sobol, Dorothy Meadow. 1998. Central and Eastern Europe: Financial Markets and Private Capital Flows. In *Capital Flows and Financial Crises*, edited by Miles Kahler, 186–228. Ithaca, N.Y.: Cornell University Press.

Stallings, Barbara. 1992. International Influence on Economic Policy: Debt, Stabilization, and Structural Reform. In *The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State,* edited by Stephan Haggard and Robert R. Kaufman, 41–88. Princeton, N.J.: Princeton University Press.

Steinmo, Sven, and Swank, Duane. 1999. The New Political Economy of Taxation. Paper presented at the 95th Annual Meeting of the American Political Science Association, September, Atlanta, Georgia.

Stephens, John, Evelyne Huber, and Leonard Ray. 1999. The Welfare States in Hard Times. In *Continuity and Change in Contemporary Capitalism*, edited by Herbert Kitschelt, Peter Lange, Gary Marks, and John D. Stephens, 164–93. Cambridge: Cambridge University Press.

Stotsky, Janet. 1995. Summary of IMF Tax Policy Advice. In *Tax Policy Handbook*, edited by Parthasarathi Shome, 279–83. Washington, D.C.: International Monetary Fund.

Swank, Duane. 1998. Funding the Welfare State: Globalization and the Taxation of Business in Advanced Market Economies. *Political Studies* 46 (4):671–92.

Tanzi, Vito. 2000. Taxation in Latin America in the Last Decade. Paper presented at the Conference on Fiscal and Financial Reforms in Latin America, December, Stanford University, California.

Tsebelis, George. 1995. Decision Making in Political Systems: Veto Players in Presidentialism, Parliamentarism, Multicameralism, and Mulitpartyism. *British Journal of Political Science* 25 (3):289–325.

Upham, Martin, ed. 1996. *Trade Unions of the World*. 4th ed. London: Catermill International.

U.S. Department of Labor. Various years. *Country Labor Profile*. Washington, D.C.: Bureau of International Labor Affairs.

Wade, Robert. 1990. *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*. Princeton, N.J.: Princeton University Press.

Waisman, Carlos. 1999. Civil Society, State Capacity, and the Conflicting Logics of Economic and Political Change. In *Markets and Democracy in Latin America: Conflict or Convergence?*, edited by Philip Oxhorn and Pamela K. Starr, 43–59. Boulder, Colo.: Lynne Rienner.

Weintraub, Sidney. 2000. *Financial Decision-making in Mexico: To Bet a Nation.* Pittsburgh, Pa.: University of Pittsburgh Press.

Williams, John T., and Brian K. Collins. 1997. The Political Economy of Corporate Taxation. *American Journal of Political Science* 41 (1):208–44.

Winters, Jeffrey A. 1999. The Determinant of Financial Crisis in Asia. In *The Politics of the Asian Economic Crisis,* edited by T.J. Pempel, 79–97. Ithaca, N.Y.: Cornell University Press.

World Bank. 1999. *Reforming Tax Systems: The World Bank Record in the 1990s.* Washington D.C.: World Bank.

World Bank. 2000. *World Development Indicators.* CD-ROM. Washington D.C.: World Bank.