

ORIGINAL ARTICLE

No Taxation without Efficiency? Elite Perceptions of Redistribution and Progressivity in Chile

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Abstract

Even though a vast literature has addressed perceptions and beliefs on taxes, progressivity and redistribution, few studies have specifically studied the perceptions of economic elites in this regard. This group is relevant for its affluence and influence, and therefore elites' ideas and preferences have a major impact on tax-policy configuration. This study analyses the perceptions of the economic elite on redistribution and progressivity in Chile. Based on in-depth interviews and historical documents, such notions are examined by mixing concrete evaluations of income tax and value-added tax (VAT) and more general attitudes towards the role of the tax system in economic development. Results show that redistribution is negatively evaluated, which coexists with a strong willingness to contribute to poverty relief through social initiatives outside the state. Additionally, progressivity is sidelined while highlighting growth, tax neutrality, and incentives to entrepreneurship as the main priorities of tax design. The historical analysis shows that although the Chilean tax regime has always been based on indirect taxes and levies on natural resources, neoliberal reforms and ideological renovation during the Pinochet dictatorship narrowed the general framework of tax ideas among business and political sectors and reversed progressive advances in inequality reduction and direct taxation that had been made during the previous decades.

Keywords: taxation; redistribution; progressivity; elites; inequality

Introduction

Amongst disputes on the evolution of taxation in modern societies, progressivity and redistribution take centre stage. These aspects are crucial not only in analysing the function of distributive justice in capitalist societies,¹ but also in informing on the role of the state against inequality in light of the evidence on rising economic disparities and high-income concentration.² What role does taxation have in the eyes of the economic elite? To what extent do elites consent to the use of taxes

¹Liam Murphy and Thomas Nagel, *The Myth of Ownership: Taxes and Justice* (New York: Oxford University Press, 2002).

²In general, this article refers to income and not wealth.

to redistribute income and reduce inequality, and up to what level? Are there variations in economic-elite tax opinions in recent Chilean history?

This article contributes to this line of enquiry and aims to examine economic-elite perceptions and beliefs regarding redistribution and progressivity³ through a sociological approach that understands the evolution of tax policy as a dynamic process combining ideas, beliefs, values and interests.⁴ First, a novelty of this article is the use of qualitative analysis, which differs from most of the literature in this field. By providing a more systematic and nuanced empirical reconstruction of the economic elite's views of progressivity and redistribution, this work seeks to complement the existing literature on the political economy of taxation, centred on political dynamics and the institutional evolution of tax regimes.⁵ Second, it attempts to trace the tax-policy change before the Pinochet dictatorship and the implementation of neoliberal reforms to analyse whether elite views on redistribution and progressivity differ when compared to those that currently prevail. Third, it allows for the exploration of elite justifications of a regressive tax system and weak state capacity to tackle income inequality.

In this article, I present findings from 32 interviews with Chilean economic elites. The findings present ideas on redistribution and progressivity by combining concrete perceptions on value-added tax (VAT) and income tax – the two main taxes in the Chilean system – and general evaluations of the role of taxation in economic development. While the historical section sheds light on how the relationship between the economic elite and the state varies along with the views that accompany the tax-system evolution, the qualitative analysis of interviews allows us to delve into the notions of tax justice that are preferred and resisted and the identification of arguments behind opposition to progressive reforms.

Chile was one of the first Latin American countries to introduce an income tax and has also been considered one of the strongest states based on characteristics such as the rule of law, stable institutions and the existence of a rational and effective bureaucracy. Although several changes during the 1950s and 1960s prompted progressive improvements and compromised the political, social and economic power of the elite,⁶ they were reversed in the Pinochet dictatorship, reallocating income to the wealthy and undermining the state's redistributive capacity.⁷ This economic transformation was accompanied by a reconfiguration of the economic elite, which recovered power and gained ideological cohesion, being able to block tax reforms and keep tax privileges after the return to democracy.⁸ In recent

³The definition of tax progressivity is that the average tax rate paid – total amount of taxes paid divided by total income – increases with income.

⁴Sven Steinmo, 'The Evolution of Policy Ideas: Tax Policy in the 20th Century', *British Journal of Politics and International Relations*, 5: 2 (2003), pp. 206–36.

⁵See, for instance, Gabriel Ondetti, 'The Roots of Brazil's Heavy Taxation', *Journal of Latin American Studies*, 47: 4 (2015), pp. 749–79.

⁶Javier Rodríguez Weber, 'La erosión del poder de la élite en Chile entre 1913 y 1970: Una aproximación desde los ingresos del 1%', *Revista de Historia Económica*, 35: 1 (2016), p. 72.

⁷Diego Sánchez-Ancochea, 'The Political Economy of Inequality at the Top in Contemporary Chile', in Luis Bértola and Jeffrey Williamson (eds.), *Has Latin American Inequality Changed Direction?* (Cham: Springer, 2017), p. 347.

⁸Tasha Fairfield, 'Business Power and Tax Reform: Taxing Income and Profits in Chile and Argentina', *Latin American Politics and Society*, 52: 2 (2010), pp. 51–71.

years, massive social demonstrations and several tax reforms have largely increased the tax debate, raising new questions over fairness, development and the role of taxes in tackling inequality.

This article is structured as follows: First, I review the literature to analyse the concept of elites, the influence of elite perceptions and beliefs on the public debate, and the variation of elite opinions on tax redistribution and progressivity across countries. Second, I describe the evolution of Chilean tax policy using historical documents and then the empirical design and sample of this study. Third, I present economic-elite perceptions in two sections: redistribution and progressivity. Finally, findings and future lines of research are discussed.

Perceptions of Redistribution and Progressivity

Elites: Definition and Influence

Despite there being no agreement on a single definition of elites, two main approaches are prevalent in the literature: one that associates this group particularly to power and possession of resources, and one that highlights the holding of dominant social positions.⁹ For Charles W. Mills, the power elite represents those who can ‘transcend the ordinary environments of ordinary men and women’,¹⁰ focusing on the major hierarchies and organisations of societies. The economic elite is composed of the major owners and executives of the larger corporations, which hold the keys to economic decisions.¹¹

The rise of new intermediary financial elites as part of the increasing relevance of financialisation has resulted in new ‘power elite’ groups and a more dynamic understanding of elite realms.¹² This involved the changing nature of wealth – from the primacy of land ownership to a more flexible scenario where merchant capital took centre stage – as well as the emergence of intermediaries and wealth managers whose work is based on the design and planning of legal, organisational and financial strategies to manage clients’ assets.¹³ Following this approach, this article assumes the relevance of both resources and positions in understanding the economic elite and takes into consideration major owners and executives of larger corporations to capture the different realms of wealth ownership, circulation and management. The empirical approach was based on these criteria.

The social relevance of elites makes them of great interest when analysing institutional development, as their own performance affects how economic and political systems evolve.¹⁴ Elite preferences and attitudes are relevant because of their high influence over society. This group is heard over the rest of the population¹⁵ and can influence the process of politics as decision-makers, creating public opinion

⁹Shamus Khan, ‘The Sociology of Elites’, *Annual Review of Sociology*, 38: 1 (2012), p. 362.

¹⁰Charles W. Mills, *The Power Elite* (New York: Oxford University Press, 1980), p. 3.

¹¹*Ibid.*, pp. 3–9.

¹²Mike Savage and Karel Williams, ‘Elites: Remembered in Capitalism and Forgotten by Social Sciences’, in Mike Savage and Karel Williams (eds.), *Remembering Elites* (Oxford: Blackwell, 2008), pp. 1–24.

¹³Brooke Harrington, *Capital without Borders: Wealth Management and the One Percent* (Cambridge, MA: Harvard University Press, 2016), pp. 3–7.

¹⁴*Ibid.*

¹⁵American Political Science Association (APSA), ‘American Democracy in an Age of Rising Inequality’, *Perspectives on Politics*, 2: 4 (2004), pp. 651–66.

or promoting policies.¹⁶ Specifically, elite rhetoric may markedly influence public opinion over taxes.¹⁷

The literature has shown the crucial role that elite strategies and intra-elite political bargaining played in the processes of democratisation favouring or blocking progressive advances.¹⁸ Democratisation depends on power relations that define class coalitions, the shape and autonomy of the state, and the impact of transnational interests on state–society dynamics,¹⁹ which also help explain the variety of democratic regimes in the process of capitalist development. In Latin America, the balance of power tends to be characterised by the relative weakness of labour in the democratic process.²⁰ This has to do with the introduction of democratic constitutions from above and the use of informal mechanisms by the elite when political dominance was not taken for granted.²¹ In addition, Latin American elites have been characterised as a small minority with relative unity, which does not preclude intra-elite bargaining and different patterns of public–private relations, in a context of high inequality and concentration of capital ownership.²²

Elite Views on Redistribution and Progressivity

Redistribution requires both social policy and taxation to function. While current redistributive policy in Chile is mostly based on the former, with little involvement of tax policy, different combinations prevail in other countries. Redistribution policies are determined by beliefs of social justice – or fairness of market outcomes and the underlying sources of income inequality. From an economic perspective, this leads to multiple equilibria, which will depend on tax policies.²³ Thus, in countries where perceptions of income largely determined by individual effort prevail, there will be lower redistribution and tax rates. Inversely, when inequality is explained due to wealth and family backgrounds, in those countries there will be higher support for redistribution and heavier taxes.

From a social sciences perspective, however, the evolution of tax policy requires an in-depth study of beliefs, since it can be understood as an interactive and

¹⁶Elisa Reis, 'Poverty in the Eyes of Brazilian Elites', in Alice Amsden, Alisa Di Caprio and James Robinson (eds.), *The Role of Elites in Economic Development* (Oxford: Oxford University Press, 2014), pp. 195–6.

¹⁷Andrea Louise Campbell, 'What Americans Think of Taxes', in Isaac William Martin, Ajay K. Mehrotra and Monica Prasad (eds.), *The New Fiscal Sociology: Taxation in Comparative and Historical Perspective* (Cambridge: Cambridge University Press, 2009), p. 50.

¹⁸Ruth Collier, *Paths toward Democracy: The Working Class and Elites in Western Europe and South America* (Cambridge: Cambridge University Press, 1999), pp. 10–14.

¹⁹Dietrich Rueschemeyer, Evelyn Huber Stephens and John D. Stephens, *Capitalist Development and Democracy* (Chicago, IL: University of Chicago Press, 1992), pp. 5–7.

²⁰Göran Therborn, 'The Travail of Latin American Democracy', *New Left Review*, 113–14 (Jan./April 1979), pp. 71–109.

²¹Collier, *Paths toward Democracy*, p. 176.

²²Tasha Fairfield, 'Structural Power in Comparative Political Economy: Perspectives from Policy Formulation in Latin America', *Business and Politics*, 17: 3 (2015), pp. 411–41; Ben R. Schneider, 'Business Politics in Latin America', in David Coen, Wyn Grant and Graham Wilson (eds.), *Oxford Handbook of Business and Government* (Oxford: Oxford University Press, 2010), pp. 307–29.

²³Alberto Alesina and George-Marios Angeletos, 'Fairness and Redistribution', *American Economic Review*, 95: 4 (2005), pp. 960–80.

dynamic process involving ideas, values and interests.²⁴ Ideas and beliefs impact the process of selection between policy alternatives as well as the process of imitation where policies and institutions are disseminated. Similarly, policies, once institutionalised, have a high impact on how actors form preferences for future dilemmas. This effect has been studied to examine how tax perceptions vary across countries.²⁵ Thus, institutions convey preferences and interests of particular groups in the policy-making process but also provide the context in which policy preferences are defined and even altered.²⁶

Although classical political-economy models claimed that self-interest was the central motivation for preferences for redistribution and that low-income groups were therefore more supportive of redistributive policies than high-income groups, social scientists have shown that the strength of this claim varies across societies.²⁷ The literature on preferences for redistribution shows that an important part of this variation has to do with preferences of the rich and can be explained either by negative externalities of inequality (e.g. fear of crime),²⁸ high perceptions of inequality of opportunity,²⁹ political awareness, or living in a country with greater economic strain,³⁰ among others. This stream of studies shows that in these contexts there are increasing unfairness perceptions among the affluent and that this is influenced by the fact that individuals are other-regarding,³¹ which leads to the fact that they can support more redistribution and progressivity in response to an inequality increase.³²

Consistent with the above, empirical testing of these claims shows that support for redistribution among poor groups is relatively high and stable across countries, while the preferences of the rich are more varied,³³ with greater support for redistribution found in more unequal countries within Europe and North America, particularly in Germany,³⁴ Western Europe,³⁵ and the United States.³⁶ Similarly, other studies within this stream of literature show that fairness considerations have an

²⁴Steinmo, 'The Evolution of Policy Ideas'.

²⁵Jonas Edlund, 'Attitudes towards Taxation: Ignorant and Incoherent?', *Scandinavian Political Studies*, 26: 2 (2003), pp. 145–67.

²⁶Sven Steinmo, *Taxation and Democracy: Swedish, British and American Approaches to Financing the Modern State* (New Haven, CT: Yale University Press, 1993), p. 7.

²⁷Hansung Kim and Yushin Lee, 'Socioeconomic Status, Perceived Inequality of Opportunity, and Attitudes toward Redistribution', *The Social Science Journal*, 55: 3 (2018), pp. 300–12.

²⁸David Rueda and Daniel Stegmueller, 'The Externalities of Inequality: Fear of Crime and Preferences for Redistribution in Western Europe', *American Journal of Political Science*, 60: 2 (2016), pp. 472–89.

²⁹Kim and Lee, 'Socioeconomic Status'.

³⁰Patrick Sachweh and Evelyn Sthamer, 'Why Do the Affluent Find Inequality Increasingly Unjust? Changing Inequality and Justice Perceptions in Germany, 1994–2014', *European Sociological Review*, 35: 5 (2019), pp. 651–68.

³¹Matthew Dimick, David Rueda and Daniel Stegmueller, 'The Altruistic Rich? Inequality and Other-Regarding Preferences for Redistribution', *Quarterly Journal of Political Science*, 11: 4 (2016), pp. 385–439.

³²Tanja Hennighausen and Friedrich Heinemann, 'Don't Tax Me? Determinants of Individual Attitudes toward Progressive Taxation', *German Economic Review*, 16: 3 (2014), pp. 255–89.

³³Kim and Lee, 'Socioeconomic Status'.

³⁴Sachweh and Sthamer, 'Why Do the Affluent'.

³⁵Rueda and Stegmueller, 'The Externalities of Inequality'.

³⁶Dimick *et al.*, 'The Altruistic Rich?'

independent impact on individual preferences for tax rates, leading to the fact that high-income individuals may support paying higher taxes than low-income individuals, thus showing that there is individual heterogeneity in attitudes towards progressive taxation.³⁷

Elite studies also show variations across countries. In a seminal study, which compared beliefs and values on equality among elites in the United States, Sweden and Japan, basic welfare-state social policies are supported in all three countries.³⁸ However, leaders from the United States, even those supporting equality preferences, were opposed to redistributive policies. In addition, labour and left-wing parties tend to favour welfare-state and redistributive programmes, whereas business groups and right-wing parties tend to oppose them. A more recent study on policy preferences of the wealthy in the United States corroborates these results.³⁹

In countries with limited welfare states, elites show less support for redistribution. For instance, in the Philippines and Bangladesh, the elite show a lack of commitment to state redistribution financed with higher taxes. They suggest instead productivity improvement and economic growth to address inequalities.⁴⁰ Research focused on Argentina shows fiscal distrust and a weak redistributive culture, which is nurtured by perceptions of unfairness and inadequate public administration, affecting the legitimacy of tax payment.⁴¹ This negative image of the state is consistent with findings on Central American elites.⁴²

According to Sidney Verba and co-authors, elite perceptions of progressivity show greater differences among countries than redistribution. For instance, though Japanese and Swedish elites support redistributive policies, polarisation is wider in Sweden because of more extreme support of left-wing groups towards progressive taxation. Similar groups in Japan show more moderate opinions. As in redistribution, US elites detach themselves from the Japanese and Swedish elite due to their more conservative preferences and negative opinion regarding state intervention.⁴³ In Brazil, elite opposition to higher taxes appears alongside a rejection of wealth taxation and a preference for social policies different from direct redistribution. This shows a lack of commitment with increasing funding in the cost of such policies.⁴⁴ The same

³⁷Hennighausen and Heinemann, 'Don't Tax Me?', p. 282.

³⁸Sidney Verba, Steven Kelman, Gary Orren, Ichiro Miyake, Joji Watanuki, Ikuo Kabashima and Donald Ferree, *Elites and the Idea of Equality: A Comparison of Japan, Sweden, and the United States* (Cambridge, MA: Harvard University Press, 1987).

³⁹Benjamin I. Page, Larry M. Bartels and Jason Seawright, 'Democracy and the Policy Preferences of Wealthy Americans', *Perspectives on Politics*, 11: 1 (2013), pp. 51–73.

⁴⁰Naomi Hossain and Mick Moore, 'So Near and yet So Far: Elites and Imagined Poverty in Bangladesh', in Elisa Reis and Mick Moore (eds.), *Elite Perceptions of Poverty and Inequality* (London: Zed, 2005), pp. 91–126; Gerard Clark and Marites Sison, 'Voices from the Top of the Pile: Elite Perceptions of Poverty and the Poor in the Philippines', in Reis and Moore (eds.), *Elite Perceptions*, pp. 57–90.

⁴¹Mireille Abelin, 'Fiscal Sovereignty: Reconfigurations of Value and Citizenship in Post-Financial Crisis Argentina', PhD diss., Columbia University, New York, 2012.

⁴²Aaron Schneider, *State-Building and Tax Regimes in Central America* (New York: Cambridge University Press, 2012).

⁴³Verba et al., *Elites and the Idea of Equality*, pp. 76–8; Page et al., 'Democracy and the Policy Preferences', pp. 61–2.

⁴⁴Elisa Reis and Mick Moore, 'Elites, Perceptions and Poverties', in Reis and Moore (eds.), *Elite Perceptions*, pp. 1–25.

rejection towards a rising tax burden is found in the South African elite. This is perceived as a 'controversial', 'counterproductive' and 'dangerous' idea where current taxation is believed to be sufficient.⁴⁵

Tax Policy in Chile

Origins of the Tax System and the Estado de Compromiso

Chile shows high levels of income inequality (Gini Index 50.5), ranking as the 115th-least-equal country out of the 135 countries with available data.⁴⁶ Moreover, using tax data, it has one of the highest income concentrations internationally.⁴⁷ While cash transfers reduce income disparities, tax policy does not complement this effect: income taxation, which is progressive and reduces inequality, plays a less relevant role than VAT, which is regressive and is the major tax-revenue source. Furthermore, multiple exemptions and special regimes produce vertical and horizontal inequities that weaken income-tax progressivity. As a result, the poorest 40 per cent pay effective rates of approximately 15 per cent of their income, similar to the richest 10 per cent.⁴⁸ Consequently, redistributive policy and particularly the tax system do not play a significant role in tackling inequality.

Historically, tax policy in Chile has privileged indirect taxation in the export or exploitation of natural resources, as opposed to taxes on income and wealth. After several attempts, income tax was introduced in 1924 as part of a fiscal pact in which direct taxation had a minor role. Since it operated as a 'class tax' – a tax only paid by the wealthy – it was supported by the working class and rural workers, and urban employers considered it as part of industrial protection.⁴⁹ Additionally, it did not lead to strong political conflicts between party coalitions: despite its progressive design, several benefits and loopholes undermined revenue collection and favoured non-compliance.⁵⁰

During the decades of the Estado de Compromiso (1938–70), the perspective of economic ideas from which taxation was discussed included a wider range of visions and tools than in later decades, consistent with more ideologically diverse business and political sectors.⁵¹ Structuralist and Keynesian postulates were

⁴⁵Noushin Kalati and James Manor, 'Elite Perceptions of Poverty and Poor People in South Africa', in Reis and Moore (eds.), *Elite Perceptions*, p. 175.

⁴⁶Andrea Repetto, 'Crecimiento, pobreza y desigualdad: La vía chilena', *Economía y Política*, 3: 1 (2016), pp. 71–101.

⁴⁷Ignacio Flores, Claudia Sanhueza, Jorge Atria and Ricardo Mayer, 'Top Incomes in Chile: A Historical Perspective on Income Inequality, 1964–2017', *Review of Income and Wealth*, 66: 4 (2020), pp. 850–74; Tasha Fairfield and Michel Jorratt, 'Top Income Shares, Business Profits, and Effective Tax Rates in Contemporary Chile', *Review of Income and Wealth*, 62: 1 (2016), pp. 120–44.

⁴⁸Barbara Castelletti, 'How Redistributive is Fiscal Policy in Latin America? The Case of Chile and Mexico', Organisation for Economic Cooperation and Development (OECD) Development Centre Working Paper No. 318 (2013), p. 25. Fairfield and Jorratt show that average effective rates at the top reach, at most, 17.2 per cent. See Fairfield and Jorratt, 'Top Income Shares', p. 22.

⁴⁹Andrés Biehl and José Tomás Labarca, 'Global Uncertainty in the Evolution of Latin American Income Taxes', in Jorge Atria, Constantin Groll and Maria Valdes (eds.), *Rethinking Taxation in Latin America: Reform and Challenges in Times of Uncertainty* (Cham: Palgrave Macmillan, 2018), p. 106.

⁵⁰Biehl and Labarca, 'Global Uncertainty', pp. 106–8.

⁵¹Tomás Undurraga, *Divergencias: Trayectorias del neoliberalismo en Argentina y Chile* (Santiago: Ediciones UDP, 2014).

predominant, giving the state a redistributive and coordinating role in the economy and framing progressive taxation as a mechanism for the fair distribution of benefits. However, such an approach was mixed with liberal views⁵² and United Nations Economic Commission for Latin America and the Caribbean (ECLAC) proposals,⁵³ and gradually monetarist ideas gained importance. This diversity was reflected in the political debate, with the Right criticising the economic development strategy, the Centre deploying a ‘communitarian socialism’ and the Left a project of real socialism.⁵⁴ This combination not only marked the three radical governments (1938–52); it also permeated the period between 1952 and 1964, and from the government of Eduardo Frei Montalva onwards, it led to far-reaching tax and production reforms.⁵⁵

The tax structure and debate reflect the views of this era. In the 1950s and 1960s, the maximum marginal rate of the Impuesto Global Complementario (Global Supplementary Tax, IGC) – the Chilean equivalent of a progressive personal income tax – reached 69 per cent,⁵⁶ the highest in Chilean history. Meanwhile, in Parliament, Salvador Correa Larraín, deputy of the Partido Conservador (Conservative Party) and member of the Sociedad Nacional de Agricultura (National Society of Agriculture, SNA), referred to the ‘poor redistribution of income’ resulting from the tax system in defence of a tax reform by Jorge Alessandri’s government in 1963, stating that ‘any tax reform project should aim, fundamentally, at a fair and equitable application of taxes’ and ‘a better redistribution of income’.⁵⁷ In the negotiations between businesspersons and the state, there was also a government defence of taxes that were subsequently unfeasible. In 1965, Andrés Zaldívar, undersecretary of finance, presented to the businessmen of the Asociación de Industrias Metalúrgicas y Metalmeccánicas (Association of Metallurgical and Metal-Mechanical Industries, ASIMET) – an aggressive and energetic union against high state influence⁵⁸ – the Impuesto a la Renta Mínima Presunta (Minimum Presumed Income Tax), a transitory, progressive tax on assets, affecting the top 7 per cent and designed to finance social policies, industrial development and reconstruction after natural disasters.⁵⁹ The resources would also be earmarked for agrarian reform, an objective known and accepted in Congress

⁵²Mauricio Casanova, ‘La centro-izquierda, el corporativismo empresarial y las contradicciones internas del Estado desarrollista en Chile, 1932–1954’, *Izquierdas*, 48 (Nov. 2019), p. 191.

⁵³Manuel Gárate, *La revolución capitalista de Chile (1973–2003)* (Santiago: Ediciones Universidad Alberto Hurtado, 2012), pp. 128–9.

⁵⁴Luis Ortega, ‘Las operaciones ideológicas y políticas en la construcción de un nuevo proyecto económico (y social) para Chile, 1950–1970’, *Espacio Regional*, 1: 11 (2014), p. 68. All translations by the author, unless otherwise stated.

⁵⁵Gárate, *La revolución*, p. 130.

⁵⁶José Tomás Labarca and Andrés Biehl, ‘Sociología fiscal de Chile, 1932–1973’, in Jorge Atria and Cristóbal Otero (eds.), *Impuestos justos para el Chile que viene: Diagnósticos y desafíos tributarios para un nuevo pacto fiscal* (Santiago: Fondo de Cultura Económica, 2021), pp. 177–202.

⁵⁷Cámara de Diputados, Sesión 57, 22 Jan. 1963, p. 4183.

⁵⁸Eduardo López, ‘Del malestar a la amenaza: La Sociedad de Fomento Fabril y el populismo ibañista, 1950–1953’, *Izquierdas*, 36 (Nov. 2017), pp. 28–54.

⁵⁹Magdalena Gil and Jorge Atria, ‘Fiscal Aftershocks: Taxes and Catastrophes in Chilean history’, *Revista de Historia Económica – Journal of Iberian and Latin American Economic History*, 40: 2 (2022), pp. 273–311.

even by parliamentarians from the Partido Conservador Unido (United Conservative Party, PCU), such as Fernando Ochagavía.⁶⁰

Zaldívar asked whether the affected group ‘does not have a moral duty to participate in the solution to this problem of social distortion that exists in Chile’,⁶¹ and justified the focus on the richest in that they were ‘called upon to make the greatest sacrifice’.⁶² First, social plans were understood as ‘investment’ and ‘income redistribution’ in the short term and through the tax system, constituting an ‘act of solidarity’ and a democratic solution for the country.⁶³

Second, business opportunities and industrial policies were constrained by fiscal planning considering both trade unions and business.⁶⁴ The economic elite faced internal tensions over how to relate to the state and how to crystallise their interests, tensions that were heightened as the Chicago Boys’ project began to socialise.⁶⁵ Business groups were part of the Estado de Compromiso, adjusting to the socio-historical conditions of the time, marked by the devaluation of liberal postulates and the valorisation of an active state to promote protectionist planning and encourage production.⁶⁶ These policies included a high tax burden and references to development models such as the German and Japanese ones.⁶⁷

This did not mean that there was no defence of business interests intended to balance state influence and promote benefits for investment, as evidenced in the demands for tax incentives and exemptions. The election of the new Sociedad de Fomento Fabril (Industrial Development Association, Sofofa) board in 1953 was one of the milestones that redefined the strategy for relations with the state to channel its influence.⁶⁸

Third, business played a consultative role in policy design, which took the form of institutions such as the Corporación de Fomento de la Producción (Production Development Corporation, CORFO),⁶⁹ the Klein Saks mission and the Consejo Económico Nacional (National Economic Council, CENA),⁷⁰ where tax increases, progressivity and tax justice were part of the agenda.⁷¹ CENA, which included representatives of business and labour, sought to ‘unite the efforts and effective cooperation of labour and capital’,⁷² and included among its 13 challenges a tax

⁶⁰Cámara de Diputados, Sesión 57, 22 Jan. 1963, p. 4189.

⁶¹Andrés Zaldívar, ‘Fundamentos de la Renta Mínima Presunta’, *Revista de Derecho Económico*, 11–12 (1965), pp. 33–4.

⁶²*Ibid.*, p. 38.

⁶³*Ibid.*

⁶⁴Undurraga, *Divergencias*, p. 169.

⁶⁵The Chicago Boys was a group of economists who introduced and institutionalised neoliberal principles with high levels of influence in state policy-making during the dictatorship. See Ortega, ‘Las operaciones’; Gárate, *La revolución*, p. 138.

⁶⁶Gárate, *La revolución*; Sofía Correa, *Con las riendas del poder: La derecha chilena en el siglo XX* (Santiago: Editorial Sudamericana, 2004).

⁶⁷Gárate, *La revolución*, p. 95.

⁶⁸López, ‘Del malestar a la amenaza’; Ortega, ‘Las operaciones’, p. 68.

⁶⁹Ricardo Nazer, ‘La Corporación de Fomento a [sic] la Producción y la modernización económica de Chile, 1939–1970’, *Revista de Gestión Pública*, 5: 2 (2016), pp. 283–316.

⁷⁰Gustavo Acuña, ‘Los organismos de planificación en Chile’, *Finanzas Públicas*, 2: 6 (1958), pp. 12–32.

⁷¹Casanova, ‘La centro-izquierda’.

⁷²Acuña, ‘Los organismos’, pp. 20–1.

reform for ‘the progressive elimination of indirect taxes on basic consumption items and their replacement by direct taxes’.⁷³ Tensions in the business community are also evident in these collaborations, as shown by the disagreement produced in some groups by the Klein Saks mission’s suggestions, which tended towards progressivity,⁷⁴ as they did not represent a plan that benefited business interests.⁷⁵

To be sure, the diversity of ideas and tools that characterised this era does not mean that the economic elite did not show resistance to the state and to tax reforms that went against their interests. Political influence and advocacy for the continuation of regressive tax mechanisms reflected part of the private sector’s objectives. However, the public debates, taxes used, their rates, justifications and spaces for negotiation reflect a general framework of tax ideas among business and political sectors that drastically narrowed with the arrival of the dictatorship and its neoliberal reforms.

The Pinochet Dictatorship and Subsequent Decades

In the context of economic reforms during the Pinochet dictatorship – aimed at reorganising the productive structure and the role of the state through massive privatisation of publicly owned firms, liberalisation of trade, price and labour markets, and limited public investment – ideological renovation and policy diffusion boosted the reconfiguration of the economic elite.⁷⁶ As much as the dissemination of renewed policies aimed to explain the foundations of a market economy, a constrained state role and the centrality of private corporations, the reconfiguration of the capitalist elite was needed to subordinate the state and incorporate influential groups into the new networks of power.⁷⁷

The economic planners of the Pinochet regime prioritised financial reform and privatisation, both of which required state planning.⁷⁸ At the same time, media forums, economics schools, business groups, and right-wing think tanks helped justify transformations and normalise a new ‘common sense’ to gain legitimacy.⁷⁹ As a result, the business sector went from being a disjointed group to one whose extreme ideological cohesion and high economic power are remarkable even when compared to other Latin American countries.⁸⁰

Taxes were part of this transformation. The tax reforms in 1974 and 1984 epitomised policies employed to reverse progressive changes achieved in the modifications of previous decades. Reforms increased efficiency and collection of indirect

⁷³Ministerio de Economía, Decreto n°1097, 4 Dec. 1946.

⁷⁴Labarca and Biehl, ‘Sociología fiscal’, p. 195.

⁷⁵Gárate, *La revolución*, p. 103.

⁷⁶Manuel Gárate, ‘La pedagogía monetarista: Difusión y debate de las nuevas ideas económicas en la revista *Hoy*, 1975–1979’, in José Ossandón and Eugenio Tironi (eds.), *Adaptación: La empresa chilena después de Friedman* (Santiago: Universidad Diego Portales, 2013); Timothy Clark, ‘The Paradox of the Neoliberal Developmentalist State: Reconstructing the Capitalist Elite in Pinochet’s Chile’, in Liisa North and Timothy Clark (eds.), *Dominant Elites in Latin America: From Neo-Liberalism to the ‘Pink Tide’* (Cham: Palgrave Macmillan, 2018), pp. 23–56.

⁷⁷Clark, ‘The Paradox’, p. 24.

⁷⁸*Ibid.*, pp. 26–7.

⁷⁹Undurraga, *Divergencias*, pp. 256–68; Gárate, ‘La pedagogía monetarista’, p. 116.

⁸⁰Marion Fourcade and Sarah Babb, ‘The Rebirth of the Liberal Creed: Paths to Neoliberalism in Four Countries’, *American Journal of Sociology*, 108: 3 (2002), pp. 533–79; Tomás Undurraga, ‘Transformaciones sociales y fuentes de poder del empresariado chileno (1975–2010)’, *Ensayos de Economía*, 22: 41 (2012), pp. 203–6.

taxes,⁸¹ by introducing VAT and simplifying direct taxation,⁸² in line with a general trend in Latin America, where consumption taxes are widespread. As a result, the tax burden on top-income brackets was reduced,⁸³ and several mechanisms to promote saving and investment were introduced,⁸⁴ also creating avoidance incentives.⁸⁵ Once both reforms were implemented, the tax system concretised one of the main ideological components of the neoliberal project – the primacy of the individual and the private enterprise – through the integration of personal and corporate income taxes. This mechanism left corporate tax as a credit against personal tax, thus leaving the former only as a withholder of the latter, which was paid when corporate profits were distributed among shareholders and defined the personal tax base.⁸⁶ Since less than 30 per cent of corporate profits are annually distributed, high horizontal inequities are created and most of the retained earnings belong to the highest-income earners.⁸⁷ The motivation behind these changes rested on the belief that the previous tax burden of the private sector was inconsistent with the role entrusted in the new economic scheme, and disincentives to save and reinvest in income taxation needed to be repealed.⁸⁸ This way, reorganisation of the tax system was fully coherent with the broader economic project: if political power was traditionally shaped by land, in this new rationality it was shaped by access to capital.⁸⁹ The tax system provided a fundamental toolkit to encourage capital accumulation.

Subsequent reforms maintained this orientation, and redistributive changes have been restrained by the economic elite through structural or instrumental power in coalition with centre-right parties.⁹⁰ Even the 1990 reform, the most progressive tax change in recent decades, 'was much more attuned to the interests and needs of the business class'.⁹¹

⁸¹Mario Marcel, 'Diez años del IVA en Chile', *Colección de Estudios CIEPLAN* [Corporación de Estudios para Latinoamérica], 19 (June 1986), pp. 83–134.

⁸²The VAT rate at its introduction was 20 per cent and the main exemptions were for passenger transportation, bank interest, a significant portion of insurance premiums, education, health, arms imports and exports. Although the original VAT established a single general rate, its design included a small set of additional rates and surcharges. See Marcel, 'Diez años'.

⁸³Gabriel Palma and Mario Marcel, 'Kaldor y el discreto encanto de la burguesía chilena', *Colección Estudios CIEPLAN*, 28 (June 1990), pp. 85–120.

⁸⁴Hernán Cheyre, 'Análisis de las reformas tributarias en la década 1974–1983', *Estudios Públicos*, 21 (Summer 1986), pp. 1–48.

⁸⁵Michel Jorratt, 'La tributación directa en Chile: Equidad y desafíos', *Serie Macroeconomía del Desarrollo CEPAL* [Comisión Económica para América Latina y el Caribe], 92 (Sept. 2009).

⁸⁶Integration means that corporate income taxes are credited against personal income taxes. The tax base determines when business profits are considered with the aim of paying personal income taxes. With an accrual tax base, business owners pay personal income taxes on all profits, regardless of whether they were distributed. With a distribution tax base, they pay taxes only on profits distributed to the owners. Thus, tax payments can be postponed on profits not distributed only with the latter tax base.

⁸⁷Claudio Agostini, Claudia Martínez and Barbara Flores, 'Distributional Effects of Eliminating the Differential Tax Treatment of Business and Personal Income in Chile', *CEPAL Review*, 108 (Dec. 2012), pp. 175–201.

⁸⁸Cheyre, 'Análisis de las reformas', p. 29.

⁸⁹Clark, 'The Paradox', p. 37.

⁹⁰Fairfield, 'Business Power and Tax Reform'.

⁹¹Delia Boylan, 'Taxation and Transition: The Politics of the 1990 Chilean Tax Reform', *Latin American Research Review*, 31: 1 (1996), p. 10.

The 2014 tax reform, the last important tax modification, was highly politicised and contested since it aimed to affect particularly the top 1 per cent by increasing the corporate tax, maintaining the VAT rate and reducing the top marginal income-tax rate.⁹² Subsequent tax changes weakened the effects of this reform, either by reversing its progressive component or rendering its anti-avoidance mechanisms ineffective.⁹³

Preferences for Redistribution and Taxation

Public-opinion surveys in present-day Chile show wide and rising support for a more important state role in tackling inequalities, as well as for higher taxes. First, regarding egalitarianism, the World Values Survey shows a drastic increase in the preferences for higher income equality, from 26 per cent in 1990 to 60 per cent in 2012. The International Social Survey Programme (ISSP) 2016 refers more specifically to the role of the state, showing that nearly 70 per cent of the participants think that reducing income differences between the rich and the poor should definitely be the government's responsibility. This result places Chile among the nations with the highest preferences for redistribution in the group of middle- and high-income countries included in this study. This trend is confirmed by the Centro de Estudios Públicos (Centre for Public Studies, CEP) 2019 survey, where 74 per cent of the interviewees agree or strongly agree that the state should reduce income differences between the rich and the poor.

Second, regarding tax preferences, the Centro de Estudios de Conflicto y Cohesión Social (Centre for Social Conflict and Cohesion Studies, COES) 2015 survey also exhibits clear trends: while 81.9 per cent believe that 'High-income people should pay a larger percentage or much larger percentage than low-income people', 62.7 per cent point out that 'Taxes on high-income people are low or very low'. In addition, the ISSP 2016 shows that more than 70 per cent of the participants declare that they would like to see more or much more government spending in social areas such as health, education, pensions or unemployment benefits, even though the question states that saying 'much more' might require a tax increase to pay for it.

Methodology

My empirical approach to the economic elite was designed as part of a wider research project focused on the Chilean elite and taxation. I conducted 50 interviews with Chilean elites – of which 32 were economic elites – from February to May 2013 in Santiago, Chile.

⁹²The corporate tax rose from 20 per cent to either 25 or 27 per cent (two tax regimes were created, and companies had to choose one, with different requirements and benefits) and modified the Fondo Utilidad Tributario, or FUT (retained profits pending personal income taxation), a mechanism to promote business reinvestment. The top marginal income rate lowered from 40 to 35 per cent. See Ministerio de Hacienda, 'Estudio del Banco Mundial sobre efectos de la Reforma Tributaria en la distribución del ingreso en Chile', available online at www.hacienda.cl/documentos/reforma-tributaria/estudio-del-banco-mundial-sobre-efectos.html, last access 15 Sept. 2022.

⁹³Francisco Saffie, '¿Por qué fiscalizar la elusión mediante una Cláusula General Antielusión?', in Jorge Atria and Cristóbal Otero (eds.), *Impuestos justos para el Chile que viene: Diagnósticos y desafíos tributarios para un nuevo pacto fiscal* (Santiago: Fondo de Cultura Económica, 2021), pp. 253–76.

For the economic elite, my sampling criteria included both resources and position: first, belonging to the top 5 per cent (average household income per capita, Chile Encuesta Nacional de Caracterización Socio-Económica (Chile National Socio-Economic Characterisation Survey, CASEN) 2011),⁹⁴ and second, holding a prestigious position within a company (shareholders, board members and 'c-level' managers), business foundations or associations, or working as an independent business consultant. According to the data, the average income per capita of the sample is located slightly below the 99th percentile. With respect to the second criterion, 12 out of 32 interviewees are board members or owners of companies, 13 are managers, three are independent consultants, and four are either directors of business foundations or business associations. Furthermore, 25 out of 32 work in large- or middle-size companies or organisations, understood by the following indicators: number of employees, revenue or number of office locations. The remaining seven perform independent expert consultancy or manage business foundations or other initiatives.

Since economic elites represent a difficult group to gain access to and a previous 'knowledge of insiders' is often required,⁹⁵ I identified an initial set of nine respondents using a chain-referral method to then request that they suggest other relevant individuals with similar criteria. I developed this method to reach 32 interviewees, considering high levels of homogeneity, data saturation and time constraints. Research employing qualitative methods to study tax perceptions or elite attitudes have used similar sample sizes.⁹⁶ High homogeneity is explained by the literature as being due to the social uniformity of this group,⁹⁷ which in this case is clear: most are aged between 40 and 60; 29 out of 32 (91 per cent) have completed higher education, the majority in business administration, law or industrial engineering; 14 out of 32 (44 per cent) have a masters or doctoral degree; most are men and live in a specific urban area in Santiago. Indeed, the sample is unbalanced along gender lines (87 per cent men and 13 per cent women), which relates to the low proportion of women occupying management or board-member positions in Chile. Lastly, 30 out of 32 are Chileans (94 per cent). Given the initial selection of diverse respondents, interviewees from eight different economic sectors are featured: electricity and gas, transportation, mining, financial and insurance activities, food services, consulting services, business associations, and private foundations.

The interviews lasted between 35 and 100 minutes each, were recorded and transcribed, and I codified and analysed them using Dedoose software. I organised the

⁹⁴The respondents had to fill out a brief questionnaire that did not include questions of wealth. Thus, this position is only based on income information. Though it is not possible to check under-reporting, previous research has also trusted in respondents' information. See Sarah Berens and Armin von Schiller, 'Taxing Higher Incomes: What Makes the High-Income Earners Consent to More Progressive Taxation in Latin America', *Political Behavior*, 39: 3 (2017), pp. 703–29.

⁹⁵Rowland Atkinson and John Flint, 'Accessing Hidden and Hard-to-Reach Populations: Snowball Research Strategies', *Social Research Update*, 33 (Summer 2001).

⁹⁶Regarding tax perceptions, see Rajiv Prabhakar, 'What Do the Public Think of Taxation? Evidence from a Focus Group Study in England', *Journal of European Social Policy*, 22: 1 (2012), pp. 77–89. Regarding elites, see Anu Kantola, 'Gloomy at the Top: How the Wealthiest 0.1% Feel about the Rest', *Sociology*, 54: 5 (2020), pp. 904–19.

⁹⁷Kantola, 'Gloomy at the Top'.

interview guidelines into six modules (general perception, structure, compliance, reform, institutions and inequality) and there were only open questions. I included different stages of codification to analyse my interviews, considering descriptive, interpretative and causal aspects. Each interview was assigned an identification number. In this article, I only present findings concerning the modules of general perception and structure.

Due to the sample size, my analysis could not take clusters or economic sectors into account, though some differences emerged between owners and managers. Results are revealed taking into consideration both specific knowledge and broader evaluations to precisely corroborate arguments regarding the issues of this article.

Redistribution

Definitions: Abstract Redistribution, Squandering and Ideology

Only eight interviewees associated tax payment with a redistributive function. This perception is justified by the contradiction these respondents find, for instance, between Chile's membership of the Organisation for Economic Cooperation and Development (OECD) on the one hand, and large inequality gaps and permanence of groups living in extreme poverty on the other. However, beliefs in tax redistribution amongst these interviewees were not translated into tangible tax policies: it persists as a normative discourse on the role of the state to face inequality rather than a specific set of tax criteria or reform proposals.

The rest of the 21 interviewees who addressed this issue omitted or negatively conceptualised redistribution, highlighting its inappropriateness in tackling inequality. Their criticism is based on two assumptions: (i) redistribution is a paternalistic policy that represents a poor use of money, or (ii) it is an ideological tool to negatively affect the wealthy. Both reveal negative evaluations of high levels of fiscal spending and are supported by perceptions of inefficiency and distrust. In the first case, redistribution illustrates poor state performance where public policies offering a reduced added value to overcome poverty are presented. As one businessman exemplifies, redistribution is narrowly defined as a means of transferring income through bonuses. This relates to a limited, although recurrent, practice in recent Chilean governments through which controlled amounts of money are handed to vulnerable groups when family expenditure rises:

Redistribution isn't related to a bonus [...] rather to state expenditure. The five or ten times more the state is spending on education, the youth gets a better education, the same happens with health and [...] I don't know, in everything that allows for a better-prepared society; and when you have a better-prepared society and when there's more access to first-necessity services, the income gap will decrease. Then, I don't believe it is related to a tax increase, it relates to a better management of the funds collected. (EE19)⁹⁸

Understood this way, redistribution does not seem to constitute a function of contemporary tax systems but symbolises a deformation of the tasks entrusted to

⁹⁸The EE ('Economic Elite') numbers throughout this article refer to the identification number assigned to each interview, as noted in the methodology section.

the state. It implies an irresponsible transfer of money that could create subjection and dependence. At the same time, participants who negatively define redistribution circumscribe desirable public policy to social programmes related to education and job training, while criticising major changes on the tax side. As the interviewees tend to also assess state performance in educational matters very poorly, the potential to increase fiscal redistributive capacity is mostly thought of through an improvement of efficiency in resource use.

The second assumption – ideological tool to affect the wealthy – conveys the belief that redistribution embodies policies against the rich, which are meant for political purposes and lack a clear rationale for the use of public resources. In this view, inefficiency in expenditure is not emphasised, rather redistribution is perceived as an unjustified measure. An executive illustrates this view through Robin Hood storytelling. He considers it a mistaken strategy for resolving social problems. Hence, whereas in the first assumption redistribution denotes a threat against human-capital investment, in the latter it means the denial of tax neutrality by creating the risk of altering agents' decisions in a globalised scenario with capital flows:

It's reasonable for companies to pay taxes per se, but not because of redistributive reasons, not because of social reasons – they could pay for it – but mostly because companies need state services to function [...] There's a notion of service. I feel there's an opinion of applying taxes to companies just because, because they make too much money. (EE15)

Even when most interviewees support investment in education and job-training programmes, they do not conceptualise them as 'redistribution' and, therefore, every productive social expenditure is left out of this category. Likewise, fiscal expansion through enlarged public expenditure or a more active role in the current delivery of social services scarcely appears. It seems to be limited by an efficiency debt: first, the state should spend what it has properly. As one businessman points out, the basic issue is 'a problem in administration' (EE14). These arguments are in line with what Tasha Fairfield points out as the neoliberal imperative of underlining fiscal discipline to draw connections between taxes and benefits.⁹⁹

In addition, the role of the state is often brought into question with respect to its use of tax revenue. In particular, seven out of 29 interviewees stress that there are no benefits received in exchange for the taxes paid, with owners demonstrating slightly more negative opinions than managers. On the one hand, this denotes dissatisfaction with the lack of social services provision for those who can pay, while representing taxation as a high sacrifice in exchange for very little. This critique was part of the issues raised by the opposition during the 2014 tax reform. On the other hand, the negative evaluation of the state strengthens the view of inefficient spending, which is associated with the preference for lower taxes.

To summarise, redistribution through taxes obtains a predominantly narrow and negative connotation, which considers neither the intergenerational reproduction of income concentration nor the limited role of income taxation in the current tax

⁹⁹Tasha Fairfield, 'Going Where the Money Is: Strategies for Taxing Economic Elites in Unequal Democracies', *World Development*, 47 (April 2013), p. 45.

structure. For a majority of participants, its risks lie in squandering and the ideologically inspired transfer of resources from the rich to the poor without fair grounds. Social expenditure, in turn, is more positively perceived as long as it is efficient and assigned to long-term objectives. As such, it is usually placed outside the realm of redistribution.

Redistribution as Non-State Actions: Market and Individuals

Reluctance to support the redistributive function coexists with a concern for the poor, like what Noushin Kalati and James Manor describe as a sceptical social conscience towards anti-poverty redistributive programmes in the South African elite.¹⁰⁰ Fiscal redistribution through an increased tax burden for the rich is the contentious issue, not the improvement of the poor's standard of living.

What alternatives beyond redistribution exist, then, to improve the poor's situation? Two main answers appear among participants: economic growth and social initiatives. Economic growth represents a preference towards trusting companies and their capacity to 'keep money moving' (EE27) as a formula to expand well-being due to better salaries and a decrease in unemployment. This argument has appeared frequently in Chilean public debate in recent years and during the 2014 tax reform.¹⁰¹

Trust in growth and the distributive criterion of the market is properly exposed in Friedrich A. Hayek's thinking. The order of the market is envisioned as a general benefit principle. It rejects the pursuit of the state's ordered and hierarchised objectives and interests and favours a spontaneous order where no pre-determined purposes are needed.¹⁰² Using the notion of 'reciprocity', Hayek considers that the order of the market allows reconciling diverse purposes to progress towards mutual benefit.¹⁰³ He advises against a fiscal redistribution that exceeds the provision of goods and basic services to regulate society. This means that ambitions towards social justice become counterproductive. They restrict individuals' potential by constraining their means to participate in the spontaneous order of market relationships.¹⁰⁴ Based on this logic, the improvement of the economic environment and initiatives to favour growth and private investment should take precedence over redistribution. Similarly, it goes in line with a higher preference for fiscal efficiency instead of tax increases.

The natural order of the market and the prioritisation of economic growth are not only salient when examining elite perceptions of taxation. They are also visible in other areas of public life, particularly in social reforms implemented during the dictatorship. Following Manuel Gárate,¹⁰⁵ one major change consisted of replacing the concept of 'social right' with the concept of 'service' – a service which receives a market price and can be provided by both public and private entities. This

¹⁰⁰Kalati and Manor, 'Elite Perceptions of Poverty'.

¹⁰¹See, for example, 'Una reforma tributaria con objetivos políticos', newspaper editorial, *La Tercera*, 29 April 2012, p. 39.

¹⁰²Friedrich A. Hayek, 'Los principios de un orden social liberal', *Estudios Públicos*, 6 (March 1982), pp. 179–202.

¹⁰³Hayek, 'Los principios', p. 183.

¹⁰⁴Friedrich A. Hayek, 'El atavismo de la justicia social', *Estudios Públicos*, 36 (Sept. 1989), pp. 181–93.

¹⁰⁵Gárate, *La revolución*, p. 262.

reformulation led to drastic changes in education, healthcare and pensions, which had been seen as social rights prior to 1973. Together with the creation of new markets in each area, these economic transformations strongly influenced the financial system and emphasised the role of private agents in development, which included new norms to govern economic activity and a high concern for growth and efficiency.¹⁰⁶

The second answer, participation in social initiatives, materialises the social conscience of the richest taxpayers. As one businessman argued, to achieve social outcomes fiscal resources should not always be increased if it is possible to trust citizens' altruism. This figure, a sort of 'individual redistribution', seems to restore individual decision-making, where the premise lies in the person channelling efforts towards common benefit by either providing resources additional to taxes or diverting part of them towards donations (donations with tax benefits). Here the proposal of several participants for 'taxes with a name' also appears as a way to directly allocate resources to initiatives chosen by the taxpayer, similar to what Peter Sloterdijk suggests.¹⁰⁷ As one interviewee explained:

What I absolutely disagree with is for money to go through the same old vehicle, a fat state [...] When companies are doing well, you look at the cost figures and you realise how they start growing because, in times of shortage, they do the same work at a lower cost, then we get full of fat [...] The state is irreplaceable for certain things, but if there were a portion of my taxes I could assign directly to organisations, for example NGOs [non-governmental organisations] working on issues historically trusted to the state, I trust they would work more efficiently. (EE31)

Elite distrust of the state and higher taxes as part of an appropriate development strategy has also been found in other countries.¹⁰⁸ This is like what Leslie McCall and Lane Kenworthy note as an increasing concern about inequality,¹⁰⁹ which does not significantly affect feelings towards taxes and provision of public welfare. Growth, in consequence, appears as the main social policy of the state.¹¹⁰

Meanwhile, the elite's social conscience complements the emphasis on growth, showing enthusiasm towards helping foundations. This differs from distrust towards the third sector and the greater responsibility given to the state that Elisa Reis finds in the Brazilian elite.¹¹¹ Eleven out of 32 interviewees explicitly mentioned foundations or charity projects to allocate personal or business income, either via tax deductions or as an alternative to paying taxes. This pattern was clearly more frequent among owners

¹⁰⁶*Ibid.*, p. 263; Clark, 'The Paradox'.

¹⁰⁷Peter Sloterdijk, *Die nehmende Hand und die gebende Seite* (Frankfurt: Suhrkamp, 2010).

¹⁰⁸See, for instance, Kalati and Manor, 'Elite Perceptions of Poverty'.

¹⁰⁹Leslie McCall and Lane Kenworthy, 'Americans' Social Policy Preferences in the Era of Rising Inequality', *Perspectives on Politics*, 7: 3 (2009), pp. 459–84.

¹¹⁰Tomás Undurraga, 'Instrucción, indulgencia y justificación: Los circuitos culturales del capitalismo chileno', in Ossandón and Tironi (eds.), *Adaptación*, pp. 135–66.

¹¹¹Elisa Reis, 'Perceptions of Poverty and Inequality among Brazilian Elites', in Reis and Moore (eds.), *Elite Perceptions*, p. 45.

than managers. For Angélica Thumala, this motivation amongst the Chilean elite is due to economic and religious individualism,¹¹² which coincides with a conservative stream in Catholicism that relies on private charity when dealing with social problems and whose influence increased with the reconfiguration of the elite and the capitalist ethos from the 1980s.¹¹³

The interviews show that, alongside a preference for injecting resources into foundations, an assistance-based tradition to accentuate education investment coexists. This is tangible in the 'intelligent' and long-term redistribution demand for the state as well as in donations or the creation of foundations to promote equal opportunities. In both cases, redistribution is not seen as a mainly fiscal task and, therefore, it is imposed on the economic elite as a limited sacrifice – through low effective tax rates – and confining higher contributions to the economic elite's will to engage in charity. Finally, a particular sense of responsibility for social problems and the poor is identified – foundations and not the state is the preferred path. The priority expressed for solidarity by interviewees calls for 'changing a cheque for a helping hand' (EE12), which specifies the Chilean capitalist elite's vocation of public service.¹¹⁴

Progressivity

By 2011, only 0.25 per cent of Chilean taxpayers paid the maximum marginal rate, which at the time of the interviews was 40 per cent.¹¹⁵ For several interviewees, it is clear that the richest people in the country do not always belong to such a group, since high-income individuals have many options to reduce their tax burden. This point, along with an acknowledgement of the negative consequences of VAT on the poorest people, is the key aspect mentioned in discussion of tax inequality.

When analysing progressivity, interviewees frequently discussed how tax policy promotes growth and prosperity. Very few participants evaluated progressivity as a principle; rather, arguments were based on to what extent progressivity contributes to Chile's economic development path, which they evaluate positively. Thus, progressive reform does not appear as a primary proposal for the economic elite, unless it is inserted in a new scheme for growth, investment and development which, as one businessman says, should not threaten the progress that has so far been made by the country.

Table 1 presents arguments regarding notions of progressivity and regressivity. Since several interviewees used similar ideas with slight differences in their framing, each argument restores the principal ideas where the number of mentions in interviews is associated. Data is analysed in two main groups: scepticism towards progressivity and tolerance towards regressivity.

¹¹² Angélica Thumala, 'El error de Milton Friedman: Justificaciones religiosas y morales de la empresa en Chile', in Ossandón and Tironi (eds.), *Adaptación*, pp. 223–48.

¹¹³ Gárate, *La revolución*, pp. 493–5.

¹¹⁴ *Ibid.*, p. 502.

¹¹⁵ Claudio Agostini, 'Una reforma eficiente y equitativa del impuesto al ingreso en Chile', in José Arellano and Vittorio Corbo (eds.), *Tributación para el desarrollo* (Santiago: Centro de Estudios Públicos (CEP) / CIEPLAN, 2017), pp. 199–245.

Table 1. Progressivity and Regressivity: Selection of Arguments

Argument ^a	Number of Mentions ^b	Notion
(ii) Those who earn more should pay more than those who earn less.	7	Unconditional support for progressive taxation
(iii) Tax income works regressively and not progressively because of exemptions and tactics used to pay less.	4	Scepticism towards progressivity
(iv) Income tax is not much help since the richest transfer costs to the rest and the middle class is the most affected by tax payment.	4	
(v) Those who earn more should pay more than those who earn less, but currently there are not enough benefits attached to it.	4	
(viii) Those who earn more should pay more than those who earn less, but only by a little; there should not be a large gap.	3	
(ix) Those who earn more should pay more than those who earn less; however, among those with a similar income, they do not pay what they should (horizontal inequality).	2	
(i) VAT is unfair, regressive or it is a large burden on the poorest and rather high in our system, though it is efficient and necessary.	21	Resignation and tolerance towards regressivity
(vi) A good alternative to income tax could be a 'flat tax'.	4	
(vii) VAT is regressive but lower-income households receive several benefits from public expenditure; they are not too affected.	4	
(x) Those who earn more should pay less than those who earn less.	1	

Notes: ^a The number of each argument refers to its position in the list according to the number of mentions. ^b Total number of mentions does not equal the number of interviews. Interviewees may use more than one argument in their answers.
Source: Author's elaboration based on primary data.

Scepticism towards Progressivity

Only one argument unconditionally supports tax payment according to the ability-to-pay principle (see Table 1, argument ii). Even when other arguments admit the validity of the principle (see Table 1, arguments iii, iv, v, viii and ix), they expose scepticism regarding the pertinence and plausibility of progressive taxation. Among these arguments, progressivity is often confused with proportionality.¹¹⁶ Nevertheless, the distinction is clearer when evaluating income tax, VAT or a 'flat tax'.

¹¹⁶That is, a tax that imposes the same relative burden on all taxpayers. See Walter J. Blum and Harry Kalven Jr., 'The Uneasy Case for Progressive Taxation', *University of Chicago Law Review*, 19: 3 (1952), pp. 417–520.

Those questioning the pertinence of progressivity generally focus on the higher-income group. In this group, the problem with progressivity does not lie in the poor paying less, but rather in if rich people should pay more and how it should be structured. Even when both alternatives could achieve the same result, this frame draws a limit between beneficiaries and those affected by taxation. Progressivity here is highlighted not as a principle benefiting those who have less but as one that could harm those who have more. The following quotation illustrates this position:

The one rising is rising by himself, you probably didn't help him to get where he is [...] You, as the state, did not help that guy to get ahead, never, and now that the guy is doing well you want him to pay more, when you can bet on him and cut a big chunk when he is up. (EE24)

Sceptics of progressivity interpret this principle as an increasing punishment for those who have climbed the economic ladder. According to this view, those who earn more should not be overcharged or charges should wait until the individual reaches a superior economic standing. This would be an incentive for those preparing themselves to professionally contribute to the country. However, perceptions do not make clear when it is a good time for tax payment according to a superior economic position. Considering all interviewees belong to the top 5 per cent, this could be ambiguously interpreted as an indefinite ascent, where a low contribution could even be defensible by the very top taxpayers.

Among those who are not opposed in principle to progressivity but rather are sceptical of its plausibility, perceptions of unfairness emerge regarding a privileged tax treatment for capital income and a detrimental one for labour income. Yet the increasing marginal rate is not criticised, nor is there an ideological dispute. Rather, it is a discomfort towards 'a tax income unfitted to facts' (EE22), as one top manager explained. Uneasiness relates to horizontal and vertical inequities experienced by interviewees working as consultants or CEOs in large companies (perceiving themselves as 'upper middle class' or 'professional class') when facing peers or superiors (the shareholders) achieving a lower tax burden. The unequal treatment investor Warren Buffett censures when stating he pays fewer taxes than his secretary, is identified here as a subtler distinction within the Chilean top 5 per cent.

A second argument refers to the transfer of burden from the richest to the rest of the taxpayers. One CEO illustrated this by a rise in prices a doctor or a lawyer may determine for his/her services or a company for the goods it produces. He considers this rise both a logical reaction from those who can, and a 'skill' from those who hold prestigious positions. Understood this way, progressivity may be bent until it becomes inapplicable, since the richest and the most 'skilful' have discretion over payment reduction and can be loaded on the rest of the taxpayers. In this moral distinction, 'less skilful people' would be the ones harmed through progressive tax changes.

A third argument noted by four participants questions progressivity and proposes a pragmatic design that neither loses its spirit, nor lessens economic incentives whilst still providing the state with resources. Such a design materialises in a 'flat tax'. For its advocates, the 'flat tax' offers a simplified and efficient formula preserving the principle of 'those who have more pay more' while decreasing tax non-compliance risks.

Tolerance towards Regressivity

Unlike progressivity, debates on regressivity focused on problems or benefits of taxing the poorest (see Table 1, arguments i, vii and x). A trade-off is frequently brought up between the damage of a regressive tax structure and efficient collection. Still, there is some consensus: even when regressivity is acknowledged as negative for the poor, a tax design whose main virtues are efficiency, neutrality and ease of revenue collection for stimulating economic growth is highly prioritised. Just one interviewee explicitly supports regressivity, albeit others share a similar argument: an ascending tax scale is criticised for discouraging professional development – the tax substitution effect¹¹⁷ – and providing few benefits in return for taxes.

Discussions on regressivity focused on VAT, since businesspersons easily identified consequences for the poor, who allocate the lion's share of their budget to first-necessity goods and therefore receive a high tax burden. The interviewees concentrate on three arguments: (i) VAT imposes a high price on the poor; (ii) VAT impacts everyone, but the poor are relieved of the burden through social expenditure; and (iii) VAT unfairness is strongly felt among middle- or upper-class groups, who pay for many resources and do not perceive the benefits associated with the burden. Two businessmen exemplify these arguments:

VAT is regressive and it injures the poorest people because, at the core of it, you guarantee poor people allocate – easily – 20 per cent of their income to tax payment [...] Afterwards, they will receive subsidies and social expenditure, but you could design a system less loaded on VAT and, therefore, a little less regressive. The good thing about VAT is that it is super easy to collect and, of course, it is practical. Then, you have to weigh if what you earn in progressivity compensates for what you lose in collecting and auditing. (EE21)

It could be perceived as unfair but it is money for sure and the treasury must ensure tax collection [...] I mean, out of the same subsidy the state has and gives to the poorest, the state rapidly recovers 20 per cent of that subsidy [...] The state must be ensured, because everybody does everything possible to pay as little as they can, so I think secured taxes such as VAT or petrol, no minister would dare to [...] (EE1)

Most interviewees associate fiscal revenues with pragmatic assumptions rather than social justice. For instance, citizens' unwillingness to pay is assumed, as well as the will to do everything possible to avoid payment. Moreover, it is argued that revenue necessities and ease of revenue collection justify a high VAT without exemptions. These arguments do not substantially differ from those used in neo-liberal reforms of healthcare, education or pensions. Such transformations are based on the principle 'to each according to his/her contribution', in order to stimulate personal effort and competition.¹¹⁸ This principle led to the emergence of healthcare, education and pension 'markets', decreasing the redistributive

¹¹⁷Murphy and Nagel, *The Myth of Ownership*.

¹¹⁸Undurraga, *Divergencias*, p. 89.

component in funding and translating income disparities into unequal access to social rights.

VAT discussion allows for regressivity to be observed as a tolerable feature of tax policy. VAT is regressive, but is frequently considered to be a good tax policy to obtain revenue in poor or developing countries. However, the Chilean elite does not justify regressivity based on a comparative analysis by noticing successful tax regimes or recalling the need to combine high indirect taxes with greater social expenditure.¹¹⁹ Rather, it represents a value conflict where more progressivity will mean less efficiency, more distortions, little simplicity or a higher tax income. Additionally, tolerance towards regressivity reinforces the idea of a pragmatic approach which is contradictory. Capital-gains exemptions, high tax expenditure promoting saving and entrepreneurial reinvestment, or massive use of investment societies with avoidance purposes probe conversely as necessary formulas for growth.¹²⁰ Even when in practice, they deny the same principles defended before to tolerate a regressive tax structure.¹²¹

Discussion and Conclusion

Although the Chilean tax regime has historically been based on indirect taxes and levies on natural resources, the economic reforms of the Pinochet dictatorship narrowed the general framework of tax ideas among business and political sectors and reversed progressive advances in inequality reduction and direct taxation made during the *Estado de Compromiso*. For instance, while the top marginal income-tax rate reached 60 per cent in the 1960s, it gradually decreased from around 50 per cent in the 1980s and 45 per cent in the 1990s to close to 40 per cent in the 2000s. Chile did not have dramatic variations in its redistributive capacity throughout the twentieth century. However, the neoliberal project reconfigured the relationship between individual and state while materialising a new capitalist model with greater recognition of the role of markets in key policy areas.

The tax system followed the same path: neoliberal ideas, concretised in views on individual freedom and choice, led to a tax overhaul which increased revenue and efficiency through indirect taxation, dropped the tax burden for the wealthy, and reduced corporate taxation. By considering corporate tax as a credit against personal tax and encouraging profit retention with the purpose of saving and reinvestment, firms were understood as positive means to use and circulate money, and therefore they could be subjected to very low taxation. Economic realities also played an important role in these reforms: particularly, the 1984 tax reform sought to encourage the financing of business expansion with its own capital instead of debt so as to tackle low capitalisation levels.¹²² However, ideas helped define the character of the new tax structure, particularly claims against discriminatory

¹¹⁹Junko Kato, *Regressive Taxation and the Welfare State: Path Dependence and Policy Diffusion* (New York: Cambridge University Press, 2003).

¹²⁰Jorge Atria, 'Legalism and Creativity: Tax Non-Compliance in the Eyes of the Economic Elite', *International Review of Sociology*, 29: 1 (2019), pp. 58–79.

¹²¹The tax policy needs to consider preferences for savings. However, this analysis is beyond the scope of this article and should be addressed in further research.

¹²²Cheyre, 'Análisis de las reformas'.

treatment of savings and investment, beliefs in an increased role of the private sector in boosting economic growth, and lower taxes to not put development at risk. Tax reforms after the return to democracy have achieved moderate positive effects, yet the tax burden of the very wealthy is still similar to that of the poor.

The interviews show the decisive influence these views have had in the subsequent decades: while a reduced group of interviewees acknowledge a redistributive function to taxation, linked to the need for a more balanced development strategy, the prevailing view suggests this function is problematic and inadvisable. Redistribution via taxes is conceived of as a squandering of resources or as an ideological tool. It represents inefficient expenditure and makes little contribution to overcoming poverty. Efficient redistribution should instead focus on education and job-training programmes to promote taking advantage of opportunities. Since fiscal expenditure is mostly evaluated negatively, an efficient redistribution could be performed by taxpayers donating to social initiatives or creating foundations. According to this view, growth and efficient expenditure are priorities in social policy. 'Individual redistribution' appears to be the preferred strategy for high-income taxpayers with a strong social conscience.

While perceptions of progressivity are more positive than those of redistribution, progressive preferences are subject to tax policy's capacity to encourage economic growth. The progressivity/regressivity dichotomy, therefore, appears in second place in the face of attributes such as efficiency, ease of revenue collection and neutrality. Two arguments explain this hierarchy: (i) There are multiple doubts regarding pertinence and plausibility of progressivity, particularly how much more rich people should pay; to what extent an increasing marginal rate might discourage entrepreneurs; and whether progressive taxation is possible while avoiding horizontal and vertical inequities. (ii) High support for VAT and tolerance of its negative effects. Even though a heavy burden on poor people is recognised, a high VAT is justified to collect resources that would otherwise be impossible. There is also scepticism regarding new tax designs' ability to accomplish the same economic performance without hurting efficiency, ease of revenue collection and neutrality.

Results show three implications: first, since concerns on efficiency, neutrality and easier tax collection are more important than those associated with progressivity, not only increasing taxes on high-income earners but also changing tax structure or removing tax loopholes will find strong elite opposition, as they are perceived as aims subordinate to the purpose of economic growth. Second, despite previous research underlining the relevance of trust to gain the willingness of high-income earners,¹²³ a more concrete appeal to efficiency is also needed. Though much can be done to improve efficiency of public policy, international evidence shows a better fiscal performance of the Chilean state than elite perceptions suggest.¹²⁴ Low levels of wastefulness and corruption should be emphasised to confront views of inefficiency and squandering. Future research should provide knowledge on elite perceptions of

¹²³Berens and von Schiller, 'Taxing Higher Incomes'.

¹²⁴Jorge Atria, Julius Duran and Simón Ramírez, 'Business Elite Attitudes toward Taxation and the State: The Case of Chile', United Nations Research Institute for Social Development (UNRISD) Occasional Paper No. 13 (Feb. 2021).

tax incentives. This would allow for attitudinal coherence to be examined when analysing efficient state spending and financing of welfare policies.

Third, how tax reforms are framed is crucial in promoting a debate that increases trust. Whether willingness to pay improves when taxation is linked to funding social programmes, arguments and campaigns justifying reforms should prioritise narratives on social objectives rather than distributive justice. This insight helps to explain the high disapproval faced by Bachelet's 2014 tax reform. When the reform was announced and a short video explaining the need for a higher contribution from the top 1 per cent was published – 'vertical equity appeals'¹²⁵ – several critiques emerged as the reform appeared to be an ideological measure leading to polarisation instead of a more expansive social policy.¹²⁶ Thus, elite antagonism increased and the connection between the reform and social benefits became blurred.

According to Sven Steinmo,¹²⁷ new ideas may arise if: older ideas are discredited by experience; a new political economic context opens up opportunities for innovation; or a political balance of power shifts, enabling new agendas of policy ideas to be pushed over others. An exploratory analysis suggests ideas are changing in Chile, mainly because of the first two reasons. As in pensions or education, where evidence of high inequality and the lack of a redistributive component led to a gradual implementation of more inclusive social policies, the 2012 and 2014 tax reforms were framed by the need for more revenue and tax justice to lower inequality, and the latter even attempted to reduce tax incentives and disintegrate direct taxation. These reforms resulted from massive social protests questioning high education debt, for-profit education, and low pension replacement rates. Together with critiques against social policies several public-opinion tendencies changed, showing increasingly negative views on privatisation, the role of the business sector in development, and inequality.¹²⁸

This political economic context opens up opportunities for innovation: the emergence of a new political coalition, of which the new president Gabriel Boric is a member; the social upheaval of 2019, which led the plebiscite to drafting a new constitution; the pandemic and the strengthening of social demands as a consequence of the preceding events – particularly in health and pensions – which are creating new conditions for discussing the redistributive capacity of the state. Yet, it is still too early to conclude that the political balance of power has shifted. The partnership between the business sector and right-wing parties retains high levels of power to resist or water down progressive reforms.¹²⁹ Moreover, the capacity to consolidate a cross-class redistributive coalition is uncertain. There might be political options to form alliances with factions of the elite to promote redistribution, particularly those who claim the need for a more balanced development strategy. However, this group does not seem to represent a specific cluster. Although cohort differences in elite attitudes to redistribution and progressivity might be

¹²⁵Fairfield, 'Going Where the Money Is', p. 45.

¹²⁶See, for instance, María José Pérez, 'Interview with Mary Anastasia O'Grady', *Pulso* newspaper, 6 May 2014, pp. 4–5.

¹²⁷Steinmo, 'The Evolution of Policy Ideas', p. 229.

¹²⁸Marta Lagos, 'Chile al desnudo', *Latinobarómetro*, available online at www.cooperativa.cl/noticias/site/artic/20111028/asocfile/20111028111806/chile_al_desnudo.pdf, last access 15 Sept. 2022.

¹²⁹Sánchez-Ancochea, 'The Political Economy of Inequality', p. 358.

expected,¹³⁰ further research should shed light on this issue, particularly to capture wider elite views.

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¿Sin eficiencia no hay impuestos? Percepciones de la elite sobre redistribución y progresividad en Chile

Spanish abstract

Aun cuando una vasta literatura se ha referido a las percepciones y creencias sobre los impuestos, la progresividad y la redistribución, pocos estudios han analizado específicamente las percepciones de las elites económicas al respecto. Este grupo es relevante por su afluencia e influencia y, por lo tanto, las ideas de las elites y sus preferencias tienen un gran impacto en la configuración de la política tributaria. Este estudio analiza las percepciones de la elite económica sobre redistribución y progresividad en Chile. En base a entrevistas a profundidad y documentos históricos, dichas nociones son examinadas combinando evaluaciones concretas del impuesto sobre la renta y el impuesto sobre el valor añadido (IVA) con actitudes más generales acerca del papel del sistema impositivo en el desarrollo económico. Los resultados muestran que la redistribución es evaluada negativamente, lo que coexiste con un fuerte deseo de contribuir al alivio de la pobreza a través de iniciativas sociales fuera del Estado. Adicionalmente, la progresividad es débilmente considerada mientras se subraya el crecimiento, la neutralidad impositiva y los incentivos a las empresas como las prioridades principales del diseño tributario. El análisis histórico muestra que aunque el régimen impositivo chileno siempre ha estado basado en impuestos indirectos y gravámenes sobre los recursos naturales, las reformas neoliberales y la renovación ideológica durante la dictadura de Pinochet disminuyeron el marco general de ideas sobre impuestos dentro de los sectores empresariales y políticos y revirtieron avances progresistas relacionados con la reducción de desigualdad y el establecimiento de impuestos directos que se habían hecho durante las décadas previas.

Spanish keywords: impuestos; redistribución; progresividad; elites; desigualdad

Sem eficiência, sem taxaço? Percepções da elite sobre redistribuição e progressividade no Chile

Portuguese abstract

Embora uma vasta literatura tenha abordado percepções e crenças sobre impostos, progressividade e redistribuição, poucos estudos estudaram especificamente as percepções das elites econômicas a esse respeito. Esse grupo é relevante por sua afluência e sua

¹³⁰But see Jorge Atria and Cristóbal Rovira Kaltwasser, *Informe de resultados: Estudio COES de la elite cultural, económica y política en Chile* (Santiago: COES, 2021).

influência e, portanto, as ideias e preferências das elites têm grande impacto na configuração da política tributária. Este estudo analisa as percepções da elite econômica sobre redistribuição e progressividade no Chile. Com base em entrevistas em profundidade e documentos históricos, tais noções são examinadas misturando avaliações concretas de imposto de renda e imposto sobre o valor acrescentado (IVA) e atitudes mais gerais em relação ao papel do sistema tributário no desenvolvimento econômico. Os resultados mostram que a redistribuição é avaliada negativamente, o que coexiste com uma forte disposição de contribuir para o alívio da pobreza por meio de iniciativas sociais fora do estado. Além disso, a progressividade é deixada de lado, ao mesmo tempo em que destaca o crescimento, a neutralidade tributária e os incentivos ao empreendedorismo como as principais prioridades do desenho tributário. A análise histórica mostra que, embora o regime tributário chileno sempre tenha sido baseado em impostos indiretos e impostos sobre recursos naturais, as reformas neoliberais e a renovação ideológica durante a ditadura de Pinochet estreitaram o quadro geral de ideias tributárias entre setores empresariais e políticos e reverteram avanços progressivos em redução da desigualdade e tributação direta que haviam sido feitos durante as décadas anteriores.

Portuguese keywords: tributação; redistribuição; progressividade; elites; desigualdade

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