Research Note

# State-Business Relations and the Financing of the Welfare State in Argentina and Chile: Challenges and Prospects

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How are taxation, social, and labour policies shaped by state-business and capital-labour relations as well as intra-business cohesiveness and rivalries in a context where all these elements change over time? The authors illustrate this question with the cases of Chile and Argentina.

## Distinctive policy and political mixes

In Chile, where there is a high level of business cohesiveness, business associations effectively influenced the policy-making process, thereby limiting the creation and extension of egalitarian taxation, social and labour policies. In Argentina, the greater level and fluctuating nature of inter-business rivalries has enabled the state (sometimes) to push through important redistributive taxation, social and labour policies.

This straightforward explanation does not, however, tell the whole story. In the case of both Argentina and Chile we find a distinctive policy and political mix in place. In Chile, in spite of business opposition, some important social achievements such as a recent pension reform extending coverage to formerly excluded groups and more accessible healthcare have nevertheless been implemented. In Argentina, after the sovereign debt default in 2001, progressive changes in social policy, such as incorporating large segments of the elderly population in the non-contributory public pensions system and increasing coverage of social protection for children and youngsters, have been combined with policies that benefit private investment together with a push for export-led industrialization, expanding employment and rises in real wages.

The framework used in this paper rests on the premise that variations in taxation, social and labour policies reflect political variations in the relative power relations between business groups, on the one hand, and workers and various other social groups on the other. As in the broad fiscal sociology approach, the authors argue that the funding of the welfare state is itself a function of unequal power relations in the context of historically-evolving political and economic factors.

## Distributive conflicts between business and civil society

Both countries face similar constraints to the implemention of egalitarian taxation, social and labour policies. One of these constraints is low business productivity and competitiveness in many sectors of the economy. Low profits severely limit the capacity of the state to raise revenue to finance progressive policies (or anything else). Another constraint is the distributive conflict between business resistance to taxation (and regulation,) and pressure from wider society to expand social protection, which needs financing from progressive taxation. A related constraint pertains to the nature and levels of taxation with its excessive reliance on regressive taxes. Given the demands to reduce inequality and increase social protection, the political battle over the nature of taxes remains a key issue in these countries' attempts to become developmental welfare states. However, these conflicts occur in a context where business power (expressed both through the political process as well as via its capacity to "refrain from investing") is neither given nor constant. It evolves with political cycles and elections as well as economic cycles and development.

## The challenge: How to combine egalitarian taxes with pro-business policies

Although difficult to design and negotiate, a suitable policy and political mix could encourage firms to gradually expand their productivity and markets (locally and internationally). This might increase the state's leverage over firms to implement egalitarian taxation, social and labour policies since both export-led and domestic market expansion can go hand in hand with higher profits, wages, and subsidies.

Concerted political pressure by social movements, labour, and other groups is clearly necessary (but not sufficient) for democratic states to expand and sustain equitable taxation, social and labour policies. A suitable policy and political mix could combine more egalitarian taxes and social protection with policies to promote private investment, such as subsidies for R&D or infrastructure investment.

*The paper on which this Research Note is based is available at www.unrisd.org/moudud-et-al*

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