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DO PARTICULARISTIC POLITICAL INSTITUTIONS AFFECT TAX NEUTRALITY IN LATIN AMERICA?

OUR GOALS

- Explain reforms during a period where the countries are generally democracies (1990-2004)

- Provide broader definitions of tax reform

  - Discuss the Dataset (Focanti, Hallerberg, and Scartascini 2016 LARR)

  - changes in tax burden (2017 EJPE)

  - *reforms compatible with increasing efficiency*

- Examine a set of political economy variables

- Part of a broader project to explain fiscal reforms in Latin America

PREVIOUS WORK--LATIN AMERICA

- Mahon (2004): "neo-liberal" reforms 1977-95; the following increase reforms:

  - past inflation,

  - IMF conditionality

  - changes in government administration

  - More authoritarian regimes

  - Established electoral systems, which have closed lists

- Sanchez (2006): Considers some external determinants of reform

- Lora (2007): Extended and Recoded Mahon's database, but did not focus on explaining the reforms

DEPENDENT VARIABLE

	Decrease	No Change	Increase
Total Country-Years, Changes	65 (25%)	148 (56%)	49 (19%)
Of which			
Base Broadening (cit, pit, VAT)	7 (3%)	245 (93%)	10 (4%)
Change in Personal Income Tax	13 (5%)	226 (86%)	23 (9%)
Change in Excise Taxes	27 (10%)	221 (84%)	14 (5%)
Changes in Incentives (Positive number fewer incentives)	29 (11%)	225 (86%)	8 (3%)

HYPOTHESIS

- **H1: Left Presidents are more likely to promote an increase in tax efficiency than Right governments.**

- **H2: More particularistic electoral systems lead to less neutral tax reforms**

- **H3: Neutral tax reforms are more likely prior to presidential elections**

- **H4: Tax reforms that erode neutrality are more likely prior to legislative elections**

- **H5: An increase in checks (or veto players) makes any reform less likely**

- **H6: Financial Crises make reforms that increase tax neutrality more likely**

VARIATION IN THE PERSONAL VOTE
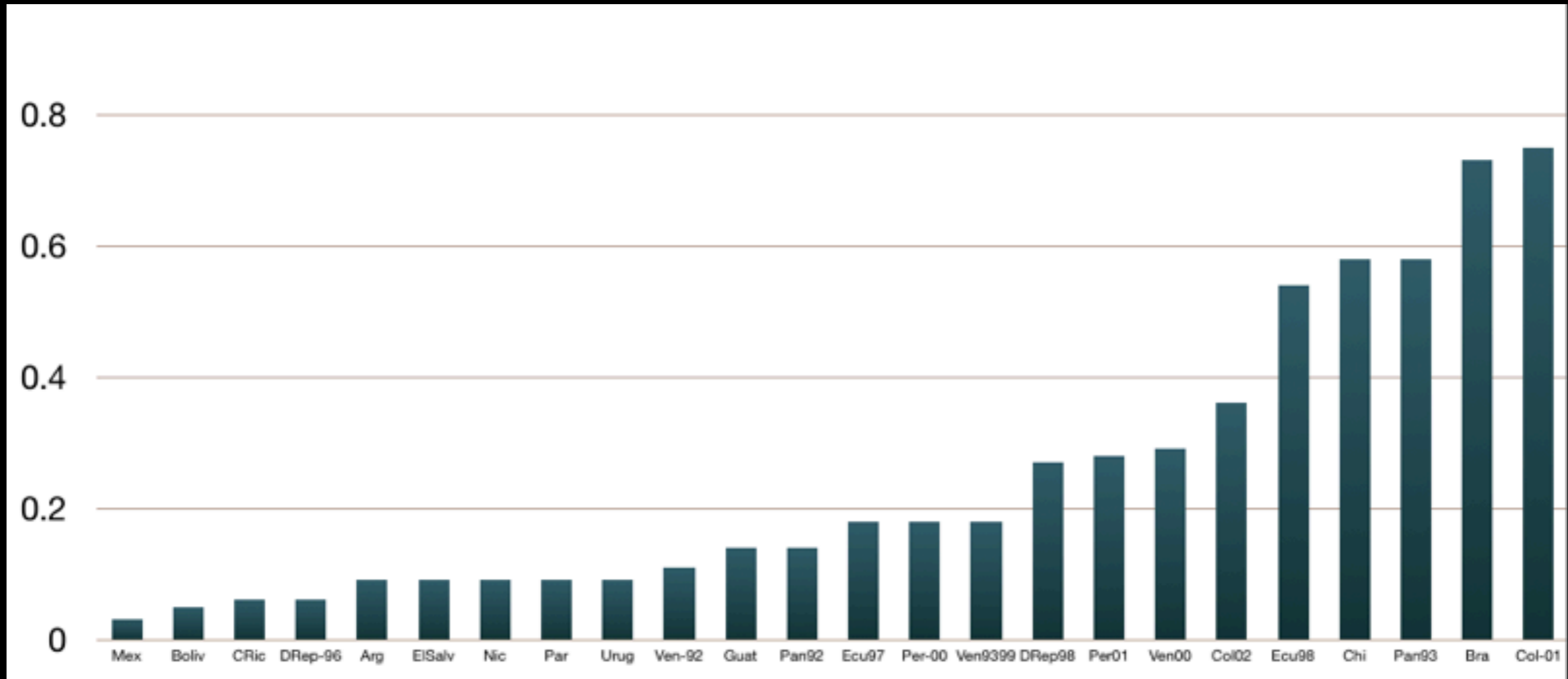
EMPIRICAL MODEL

$$P(taxneutrality = -1, 0, 1)|(PresIdeology_{t,i}, PersonalVote_{t,i},$$

$$ElectYearPres_{t,i}, ElectYearLeg_{t,i}, Checks_{t,i}, FinCrisis_{t,i}, CONTROLS_{t,i})$$

- IMF Programme in Place

- Spatial Lags to pick up diffusion

- Economic variables

RESULTS OF ORDERED LOGIT (MARGINAL EFFECTS)

VARIABLES	(1) Broaden Base	(2) Broaden Base	(3) PIT	(4) PIT	(5) Incentives	(6) Incentives
	-1	1	-1	1	-1	1
Ideology of the President	0.006	-0.008	0.012	-0.018	0.008	-0.003
	(0.006)	(0.008)	(0.015)	(0.021)	(0.018)	(0.006)
Personal Vote	0.039	-0.057	0.021	-0.031	0.085**	-0.027**
	(0.038)	(0.059)	(0.033)	(0.051)	(0.034)	(0.012)
Presidential Election (Lag)	-0.017	0.026	0.009	-0.014	0.065	-0.021
	(0.025)	(0.037)	(0.039)	(0.059)	(0.062)	(0.021)
Legislative Election (Lag)	0.003	-0.004	-0.019	0.029	-0.062	0.020
	(0.012)	(0.017)	(0.033)	(0.050)	(0.051)	(0.017)
Checks and Balances	0.002	-0.003	-0.005	0.007	-0.003	0.001
	(0.003)	(0.005)	(0.006)	(0.009)	(0.008)	(0.002)
Banking Crisis	-0.038**	0.057***	0.013	-0.020	-0.077	0.025
	(0.018)	(0.018)	(0.019)	(0.031)	(0.055)	(0.020)

PUNCHLINES

- Political stories not confirmed with this type of analysis except one

    - link between fragmentation of the electoral system for the legislature and fragmentation of the tax system through more tax expenditures evident

- Implication: if you want to get rid of tax expenditures in Latin America at least, pay attention to incentives of legislators