Economic Elites and Public Sector Size in Brazil and Mexico

Gabriel Ondetti
Department of Political Science
Missouri State University

Latin American countries differ greatly with regard to the size of their public sectors. While some have revenues and spending of well over 30% of gross domestic product (GDP), in others the public sector is half that size or less. This variance has not received much scholarly attention. To the extent that it has been studied, it has generally been attributed to the impact of economic variables, such as development level, trade openness and dependence on agriculture (Cetrángolo and Gómez Sabaini 2007; Rossignolo 2017), although some studies also suggest a role for political factors, including government ideology and regime type (Martín-Mayoral and Uribe 2010; Stein and Caro 2013).

Little attention has been devoted to the notion that variance in public sector size among Latin American countries may be rooted in differences in the way economic elites think or act politically. To be sure, some contemporary studies stress the influence of elites on taxation (Schneider 2012; Flores-Macías 2014; Fairfield 2015). However, they generally focus exclusively on direct taxes, which in most cases account for less than a third of total revenues. The exception is Schneider (2012), which examines overall taxation, but looks at the increment in that variable over a specific period, rather than its absolute level. Similarly, studies of public spending in Latin America have focused on particular types, especially social spending, and make little reference to elites.

In contrast, this chapter demonstrates that historically constructed differences in elite ideology and political organization can impact public sector size. It does so through a comparison of Brazil and Mexico. These countries resemble each other with regard to several variables said to influence public sector size, including development level, political regime type and constitutional structure. Yet, they differ markedly in terms of the magnitude of public revenues and spending. With regard to both measures, Brazil has among the largest public sectors in Latin America while Mexico ranks much lower.

The chapter argues that Mexico's public sector is smaller because major attempts at redistribution, especially during the 1930s, prompted a conservative backlash that became institutionalized in a growing network of organizations devoted to restricting state control of the economy. This antistatist bloc, consisting mainly of business associations and a political party, has posed an enduring obstacle to public sector growth. In contrast, the lack of major redistributive threats in Brazil has meant that economic elites in that country never developed a similarly strong aversion to statism or a set of organizations dedicated to halting its growth. While both countries have experienced shifts in development model, this underlying difference in elite ideology and political organization has persisted.

These arguments are developed in four sections. The first compares the magnitude of the Brazilian and Mexican public sectors. The second assesses how well existing theories explain the contrast between these countries. The third elaborates the alternative account outlined above. The fourth concludes the paper by summarizing its findings, discussing their wider validity, and highlighting the chapter's methodological contribution.

1. Comparing the Brazilian and Mexican Public Sectors

Brazil has a much larger public sector than Mexico with regard to both taxation and spending. Moreover, that difference is longstanding, dating back to about the 1940s. Although

Brazil's fiscal system effects little redistribution compared to those of many developed countries, studies suggest that it is more redistributive than Mexico's.

Table 1 reports average total public revenues and spending relative to GDP for Mexico and Brazil between 2015 and 2019. All levels of government are included. The revenue figures are broken down by tax and non-tax sources. As the table suggests, the gaps between the two countries are large. In percentage terms, they are comparable, for example, to those between the United States and the Nordic countries, which are often seen as representing contrasting varieties of capitalism within the developed world (Hall and Soskice 2001).[1]

Table 1: Public Sector Size in Brazil and Mexico, 2015-2019

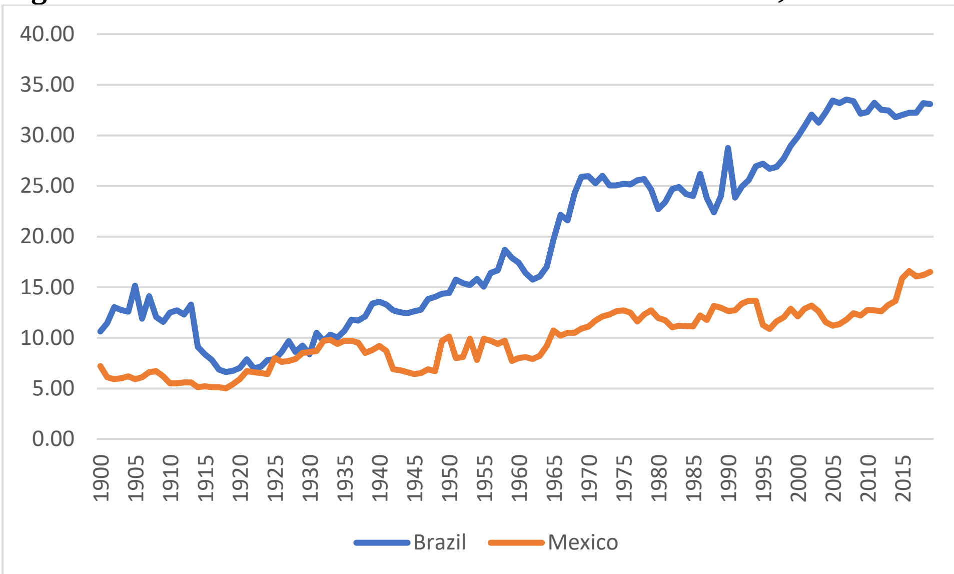
Country/region	Total Revenues/GDP	Breakdown of Total Revenues		Total Spending/GDP
		Tax Revenues/GDP	Non-Tax Revenues (GDP)	
Brazil	33.4	32.6	0.8	38.3
Mexico	19.3	16.3	3.0	26.4
Sources: OECD Revenue Statistics in Latin America and the Caribbean (2018-2021); IMF World Economic Outlook Database				

[1] For 2015-2019, Brazil's revenues were 73.1% higher and its spending 45.1% higher than Mexico's. On average, the Nordic countries had 65.5% higher revenues and 40.5% spending than the United States.

Brazil collects more revenue relative to GDP in every major tax category, but the differences are especially large with regard to consumption and social security taxes (OECD Revenue Statistics in Latin America and the Caribbean 2018-2021). Spending data by policy area are not available at subnational levels for Mexico, but central government figures published by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) show that the gap is particularly wide with regard to social protection (CEPALSTAT database). Relative to GDP, Brazil spends roughly three times as much in this area as Mexico.

The contrast between the two countries is not new. Accurately tracking the historical trajectory of overall revenue and spending is difficult, but it is more feasible with regard to tax revenues specifically. Figure 1 examines the evolution of total tax revenues relative to GDP between 1900 and 2019. Brazil had much heavier taxation at the outset due to its greater post-independence stability, but World War I devastated its largely trade-based tax system. During the 1920s and 1930s the two countries had roughly similar tax burdens. Nevertheless, this convergence was reversed beginning in the 1940s. For three decades, Mexico's tax burden stagnated, while Brazil's grew robustly. By 1970, Brazil's tax revenues, at 25% of GDP, were more than double Mexico's. Since then, the gap has narrowed somewhat, but Brazil's revenues are still about double Mexico's relative to GDP.

Figure 1: Total Tax Revenues/GDP in Brazil and Mexico, 1900-2019



Source: ECLAC, OECD

Considering non-tax revenues alters the picture only for recent decades. Since the late 1970s, when Mexico experienced an oil boom, taxation has been complemented by large flows of non-tax revenue from the state oil company Mexican Petroleum (PEMEX). Hence, the difference in fiscal capacity between Mexico and Brazil has been smaller than would appear by focusing on taxes. However, as Table 1 demonstrates, non-tax revenues fall far short of compensating for the difference in taxation. Moreover, the gap in tax revenues that emerged between the two countries after World War II was not substantially compensated by oil revenues, which were modest until the 1970s.[2] Mexico's fiscal poverty during this period is illustrated by scattered spending figures. For example, its current spending relative to GDP was only 51.3% of Brazil's in 1960 and 65.1% in 1970 (ECLAC 1979, 104).

[2] PEMEX's contribution to federal revenues increased from 3.9% in 1972 to 38.1% in 1982 (Chávez 2005, 74).

Brazil's relatively heavy taxation and spending does not mean its fiscal system is highly redistributive. At least by developed country standards, it is not. This is partly because the tax system relies heavily on relatively regressive taxes. In addition, although there are some strongly redistributive spending programs, such as conditional cash transfers and non-contributory pensions, others deliver their benefits mainly to better-off people. Nevertheless, fiscal incidence studies suggest that Brazil's system is significantly more redistributive than Mexico's (Hanni et al 2015; Lustig 2017).

2. Existing Theory and the Cases

Existing scholarship offers a variety of explanations for differences in public sector size. Surprisingly, however, none of these explanations offers a convincing account of the gap between Brazil and Mexico.

Much of the literature emphasizes economic conditions. Easily the best-established theory is that economic development increases public sector size by fomenting demands for public goods (Pessino and Fenochietto 2010). Trade openness is also commonly viewed as promoting public sector growth, mainly by creating pressure for social protection from external shocks (Ram 2009). Finally, dependence on agriculture is said to inhibit state expansion because of the difficulty of taxing geographically scattered farmers (Piancastelli 2001).[3]

Institutional variables also receive considerable attention. Democracies are viewed as favoring bigger government, mainly due to their permeability to demands for redistribution

[3] Dependence on mineral extraction is often seen as attenuating taxation, but the literature does not offer a clear hypothesis regarding total public sector size.

(Boix 2001). Other arguments emphasize the design of democratic institutions. Presidentialism is reputed to favor smaller government because the division of powers inhibits rent-seeking (Tabellini and Persson 2003). Majoritarian electoral systems have also been viewed as having this effect because they tend to result in right-leaning governing coalitions, whereas proportional representation favors left-leaning ones (Iversen and Soskice 2006). Finally, federalism has traditionally been said to hinder public sector growth by allowing taxpayers to shop around for the lowest taxes (Brennan and Buchanan 1980). However, some works maintain that it has the opposite effect if subnational governments have substantial spending authority but depend on central government transfers for revenue (Rodden 2003).[4]

Finally, students of public sector size have sometimes argued that government ideology matters. In particular, they contend that the public sector will be larger in countries where the state is more often controlled by left-leaning parties, mainly because of the premium the latter place on redistribution (Cameron 1978).

The handful of studies specifically on Latin America examine some of the same variables. They generally agree that economic development favors public sector growth (Cetrángolo and Gómez Sabaini 2007; Martín-Mayoral and Uribe 2010; Rossignolo 2017). Some also find that dependence on agriculture inhibits it (Cetrángolo and Gómez Sabaini 2007; Martín-Mayoral and Uribe 2010) and that trade openness promotes it (Cetrángolo and Gómez Sabaini 2007; Rossignolo 2017). In addition, there is some support for the positive effect of

[4] Such an imbalance may force national authorities to tax heavily to pay for the free spending of their subnational counterparts.

democracy (Martín-Mayoral and Uribe 2010), unbalanced federalism (Stein 1999) and left-party control of government (Stein and Caro 2013).

Latin Americanists have also made distinctive contributions to this area, especially by using qualitative methods, which are rare. Schneider's (2012) study of Central America argues that tax revenues grew more rapidly in the 1990s and 2000s in countries where the leaders of emerging transnational economic sectors achieved more cohesion and political dominance. In such cases, these groups invested in state-building in order to consolidate their influence and advance their economic interests.[5]

Despite its diversity, the scholarship on public sector size sheds little light on the gap between Brazil and Mexico. The economic variables, as Table 2 suggests, are particularly unhelpful. Development cannot explain the contrast because, as noted earlier, the countries are similarly developed. With regard to agricultural dependence and trade openness, the correlations are the opposite of what theory predicts. Mexico has a smaller farm sector and a more open economy but boasts a smaller public sector. These trends are longstanding. Since the 1980s Mexico and Brazil have had roughly comparable development levels (World Bank database). Before that time, moreover, Mexico tended to be more prosperous (Astorga et al 2005, 788). Data going back to the 1960s show that Brazil was more agriculture-dependent and less trade-dependent than Mexico for all but a handful of years (World Bank database).

[5] Ondetti (2021) also elaborates an elite-focused theory of taxation level, some of the key themes of which are echoed in this chapter.

Table 2 Key Economic Variables, 2015-2019

Country	Per capita GDP (US dollars)	Agriculture/GDP (%)	Trade/GDP (%)
Brazil	9,141.68	4.5	26.1
Mexico	9,513.25	3.3	76.6
World Bank database; IMF World Economic Outlook database			

The institutional explanations are also, on balance, unconvincing. With regard to regime type, Mexico and Brazil have both widely been considered democracies in recent decades, but Mexico has fewer cumulative years of democratic governance over the course of its history, largely due to the dominance of the Institutional Revolutionary Party (PRI) between the 1930s and the mid-1990s (Ondetti 2021, 32). While this difference suggests that Mexico's smaller public sector may be due to a historical lack of democracy, other evidence contradicts that idea. Most importantly, Brazil's public sector has grown robustly under both democratic and authoritarian regimes. For example, as Figure 1 suggests, the period of fastest sustained growth in Brazil's tax burden was under military rule during the 1960s. In addition, although the authoritarian PRI regime was generally fiscally disciplined, during the 1970s public spending expanded rapidly (Bazdresch and Levy 1991).

Brazil's strong public sector growth under authoritarian rule and Mexico's dearth of democratic experience cast doubt on explanations highlighting specific variations of democracy. In addition, these explanations face other objections. Both countries have presidential systems, so that variable is irrelevant. Moreover, neither has a pure majoritarian electoral system. Mexico has a hybrid system, but its party system, which possesses a clear left, right and center, is what one would expect in a country with proportional elections. With regard to federalism, the traditional view suggests that Brazil, which has a more decentralized version of federalism than Mexico, should have a smaller public sector. Of course, that is not the case. The emphasis on fiscally unbalanced federalism does no better because the imbalance between subnational taxation and spending is greater in Mexico (Ondetti 2021, 35).

With regard to government ideology, no clear pattern is detectable in either country. In Mexico, of the governments that followed the defeat of the PRI in 2000, the one that raised tax revenues most was that of Enrique Peña Nieto (2012-2018), a centrist PRI politician. However, overall revenue and spending increased faster under the center-right National Action Party (PAN), at least partly because of higher oil prices. It is too early to tell how the government of the left-leaning Movement of National Regeneration (MORENA) will affect public sector size, since it took office in December 2018, but President Andrés Manuel López Obrador has vowed not to raise taxes. In Brazil, although recent conservative governments have sought to contain spending, the fastest public sector growth since the 1985 democratic transition occurred under the center-right governments of the 1990s and early 2000s, rather than those of the left-leaning Workers' Party (PT), which ruled from 2003 to 2016.

While compelling for the period and cases it examines, Schneider's (2012) elite-focused argument also has trouble explaining the gap in public sector size between Brazil and Mexico. Its emphasis on elite cohesion as a driver of public sector growth is contradicted by the fact that, as discussed later, Mexican economic elites are more politically united than their Brazilian counterparts, yet Mexico's state apparatus is smaller. In the long term, as this chapter suggests, elite cohesion in the Latin American context tends to discourage public sector expansion.

3. Explaining the Brazil-Mexico Contrast

Thus, although there is a rich body of scholarship on the determinants of public sector size, it sheds little light on the contrast between Brazil and Mexico. How, then, can we solve this puzzle? The argument developed here concurs with Schneider (2012) that elite organization is crucial but posits a different causal dynamic.

Specifically, it suggests that Mexico's public sector is smaller because redistributive reforms featuring major threats to private property produced an economic elite more committed to limiting state intervention and better organized to oppose it. Reforms undertaken under Lázaro Cárdenas (1934-1940) were particularly important, because of their magnitude and the fact that they mobilized a powerful antistatist network that would influence politics for decades to come, opposing statist policies and constructing an expanding coalition of like-minded actors. In contrast, the public sector grew larger in Brazil because the lack of similar threats meant that elites never developed the same wariness of state intervention or the organizations to oppose it.

This emphasis on historically constructed differences in elite ideology and organization is new to the study of public sector size but it echoes themes from other literatures. In emphasizing the enduring, self-perpetuating impact of historical episodes of redistribution, it illustrates the concept of path dependence, especially those versions that acknowledge the role of ideology and norms in institutional persistence (Mahoney 2000; Pierson 2000). Relatedly, it supports Levitsky et al's (2016) theory of party-building in Latin America, which stresses the role of political conflict in forging enduring parties. Finally, although it deals with overall public sector size, rather than direct taxes specifically, it corroborates Fairfield's (2015) emphasis on the negative impact of elite organization on attempts to increase taxation.

Evidence for this argument is provided below in three subsections. The first focuses on differences in the extent of threats to elite interests between the two cases, the second on the impact of threat or its relative absence on organization and ideology, and the third on the consequences of the latter variables for public sector growth.

a. Differences in Threat Level

Both countries have seen recurrent waves of social reformism that provoked concern among economic elites and other conservatives. In Mexico, the most important occurred under Cárdenas, who implemented both the first major land reform and the first major nationalization (of the oil industry) in Latin America, and also sought to promote unionization and labor rights (Hamilton 1982). Although subsequent governments would generally be more conservative, bouts of reformism also occurred under Adolfo López Mateos (1958-1964) and, especially, Luis Echeverría (1970-1976). López Mateos advanced a profit-sharing program for workers, created a social security system for civil servants and proposed a progressive tax reform. Echeverría substantially expanded social spending and the public enterprise sector.

In Brazil, the most important reforms occurred under Getúlio Vargas (1930-1945 and 1951-1954), who promoted union organization, founded the social security system, and established a relatively worker-friendly labor code as a part of a broader expansion of the state's economic role (Malloy 1979). Subsequent episodes occurred, most notably, under João Goulart (1961-1964) and Luiz Inácio Lula da Silva (2003-2010). The former promoted rural unionization and limits on profit remittances by multi-national corporations and sought to implement a substantial land reform. The latter focused mainly on income distribution through targeted social programs and minimum wage increases. His successor, Dilma Rousseff (2011-2016), also a member of the left-leaning PT, pursued a similar strategy.

Despite these surface similarities, the two countries differ in that reformism was much farther-reaching in Mexico, especially with regard to property. Cárdenas, in particular, expropriated about a fifth of Mexico's farmland, including some of its most valuable estates (Hamilton 1982). He also seized important non-agriculture holdings, including the US- and British-owned oil companies. Although Cárdenas was not an avowed socialist, these policies, combined with his alliances with the Communist Party and organized workers and peasants, convinced many that Mexico was headed for socialism (Contreras 1989; López Portillo 1995). Among later governments, the most important property threat occurred under José López Portillo (1976-1982), who was not a major social reformer but nationalized the banking sector in response to capital flight.

In contrast, neither Vargas nor any of his successors mounted a similarly serious challenge to property rights. Vargas nominally endorsed land reform but did little to advance it (Ribeiro 2008). Goulart did promote a substantial land reform but failed to secure legislative approval for it (Ferreira 2010). Neither engaged in significant expropriation of non-farm assets. The PT had traditionally endorsed massive land reform and renationalization of privatized firms, but Lula and Rousseff eschewed both in favor of fiscally based redistribution. Somewhat surprisingly, it was the center-right Fernando Henrique Cardoso government (1995-2002) that implemented the most significant property reform by expropriating some 10 million hectares of farmland (Ondetti 2016). However, relative to total land, this reform was far smaller than Cárdenas's and had no counterpart outside agriculture.

b. Threats, Elite Ideology and Organization

The greater intensity of redistributive threats in Mexico cultivated among the country's elite a more antistatist culture and greater willingness to engage in political organization-building at the national, cross-sectoral level. In comparison, Brazilian elites have been more tolerant of state intervention and less disposed to organized against it.

In Mexico, repeated bouts of resistance to progressive reforms since the 1910-1920 revolution gradually forged a strong network of conservative organizations that cuts across regions and economic sectors. In 1929, business leaders responded to a labor reform proposal by creating the Employers' Confederation of the Mexican Republic (COPARMEX), the country's first encompassing (or multisector) business association. A decade later they combined with social conservatives to found the PAN, which opposed Cárdenas' socioeconomic reforms and attempts to curtail Catholic Church influence. The Mexican Business Council (CMN), an elitist group representing the country's largest firms, arose in 1962 out of concerns with López Mateos' reformist impulses. Similarly, the creation of the Business Coordinating Council (CCE) in 1975 reflected business concern with Echeverría's efforts to forge a more interventionist state. Joining together national sectoral associations, as well as COPARMEX and CMN, the CCE is one of Latin America's most encompassing business associations (Schneider 2004). Finally, López Portillo's 1982 bank nationalization prompted many businesspeople to join the PAN, helping transform it from a largely symbolic opposition to the one-party regime to a real contender for power (Mizrahi 2003).

However, the incremental character of this process masks the profound influence of the deep, largely property-based reforms under Cárdenas, which spurred the rise of a powerful antistatist activist network that would set the tone for business-state relations for decades to come. The Cárdenas era was a watershed. The 1917 constitution, drafted during the revolution, had laid the legal foundation for a redistributive, nationalist state with robust control over natural resources. For years, however, implementation of these provisions was tentative. Cárdenas changed that by aggressively advancing labor rights and seizing property on a large scale (Hamilton 1982). He also sought to transform public schools by advocating a more progressive, secular brand of education. To push his agenda forward, he stoked popular mobilization and built an alliance with Mexico's Communist Party.

The reform wave met with intense resistance from business elites and social conservatives (Hamilton 1982; Contreras 1989). At the forefront were the industrialists of the northern city of Monterrey, then Mexico's major manufacturing center. In the heat of their conflict with the state, the so-called Monterrey Group forged a unique collective identity combining regional pride with defense of free enterprise (Saragoza 1988). To curry wider business support for their cause, they revived and expanded COPARMEX. The Monterrey elite were joined by other anti-reform groups, including the PAN, the fascist Gold Shirts and a rural movement called the National Sinarquista Union.

By the late 1930s, Cárdenas had been forced to attenuate his reformism, and that trend would be deepened by subsequent presidents. Policies moved in a notably conservative, pro-business direction until López Mateos. However, the organizations and social networks created to block earlier reforms did not simply dissolve. Big business, in particular, hung together in a loose but powerful alliance including the Monterrey Group, COPARMEX and sectoral groups representing commerce, finance and industry. The PRI managed to coopt some smaller manufacturing firms represented by the state-sponsored National Chamber of Manufacturing (CANACINTRA). This group favored aggressive state intervention to promote domestic industrialization and accepted the PRI's paternalistic ties to labor. However, big business was more skeptical of state-led development and derided CANACINTRA as "communist" for endorsing it uncritically (López Portillo 1995; Gauss 2010).

Subsequent developments in elite organization cannot be understood without underscoring the role of this preexisting antistatist network. The changes to the state's role championed by López Mateos and Echeverría were modest by the standards of other middle-income Latin American countries (Ondetti 2021, 129). The reason they prompted enduring changes in business organization is that they aggravated a preexisting sense of hostility toward the state. This dynamic is particularly clear with regard to the CCE, whose creation was spearheaded by the private sector's "radical faction," consisting of COPARMEX, the Monterrey Group and the Confederation of National Chambers of Commerce (CONCANACO) (Luna Ledesma 1992). In fact, Monterrey firms alone voluntarily contributed a third of the CCE's funding in its early years (Schneider 2004, 83).

Largely the same network was behind the PAN's revival a few years later. Many of the businesspeople who joined the party were from Monterrey and other parts of northern Mexico and were affiliated with COPARMEX (Mizrahi 2003). For example, the party's most prominent leader during the 1980s, Manuel Clouthier, was a former COPARMEX and CCE president who was from the northwestern state of Sinaloa and attended Monterrey Tech, a prestigious private university created by the Monterrey Group.

Thus, tight elite organization in Mexico reflects a path-dependent process of incremental strengthening driven by antistatist attitudes inadvertently stimulated by post-revolution reformers, especially Cárdenas. Because they occurred in the context of an elite already deeply wary of interventionism, each subsequent attempt to substantially expand the state's role prompted a potent counterreaction that both blunted the reform (as highlighted below) and further bolstered elite organization.

In Brazil, a very different dynamic took hold. The nonoccurrence of major redistributive threats has contributed to an elite culture that is less antistatist. Lacking their Mexican counterparts' reflexive wariness of state intervention, Brazilian elites have been largely content to focus their political capital on deriving particularistic benefits from it, rather than opposing it tout court. This attitude has discouraged sustained class-wide political organization.

Scholars have long noted the comparatively relaxed attitude of Brazil's economic elites toward state intervention. In an early work on Brazilian interest groups, Schmitter (1971) questions the notion that business "must have some sort of 'natural' ideological antagonism toward government participation and interference in economic life." Drawing on field research, he argues that "on balance one would have to be admit that industrialists' associations, in particular, did *not* see things this way." Furthermore, he underscores the "opportunism" of Brazil's business associations, which "deprives them of ideological consistency and militancy, and leads them to operate out of pure empiricism and pragmatism" (362).

Subsequent works have expressed similar views. Both Diniz and Boschi (1978) and Evans (1979) emphasize the willingness of business elites to work with state enterprises and even allow them to assume important economic roles. Sikkink (1991), in a study of mid-twentieth century developmentalism in Argentina and Brazil, underscores the greater consensus (spanning the public and private sectors) in the latter country on the positive role of state intervention. Finally, in a work directly comparing Mexico and Brazil, Graham (1982) underscores the greater assertiveness of Mexican business in opposing attempts to expand the state's economic role.

This attitude is a product of the historical lack of serious redistributive threats in Brazil (Schmitter 1971; Ondetti 2021). Business owners are less worried about state intervention because it has not menaced their core interests, particularly their interest in preserving their property. Their unconcern is reflected in a dearth of broad political organization (Weyland 1996; Schneider 2004). There are no encompassing associations in Brazil comparable to the CCE, CMN or COPARMEX. The broadest business organizations represent specific sectors, such as industry and commerce. Most are state-sponsored corporatist entities that benefit from obligatory dues payment. Despite their considerable financial resources, these groups are often considered ineffective, and business leaders frequently prefer to lobby through narrower industry-specific associations or personal contacts (Schneider 2004). There is also no longstanding pro-business party in Brazil comparable to the PAN. Although non-left parties have tended to dominate elections, they are generally centrist or clientelistic ones, rather than programmatic right parties with strong ties to organized business (Montero 2014).

To be sure, broad elite organization has not been altogether lacking in Brazilian history. Encompassing business groups have arisen during periods of particular risk or uncertainty, including the leftist Goulart presidency and the democratic transition of the late 1980s, which included a major constitutional reform (Kingstone 1999; Schneider 2004). Vargas' social reforms helped give rise to a party, the National Democratic Union (UDN), with a liberal economic agenda and links to some businesses. Another right-leaning party, the Party of the Liberty Front (PFL, now known as Democratas or DEM) arose during the 1980s regime transition. However, all these initiatives eventually disappeared or faded into irrelevance, giving way to the particularism that has traditionally marked elite political activity.

Admittedly, there is an exception to the rule of fragmented elite organization in contemporary Brazil: commercial agriculture. Since the 1990s, farm elites have developed an interlocking set of organizations with no rival among other sectors. The key actor is the Parliamentary Front for Agriculture (FPA), a legislative caucus that is among the most powerful actors in the country's Congress (Bruno 2017). The FPA collaborates with other entities, including the Agricultural Thought Institute, a think tank, and the National Confederation of Agriculture, the corporatist group for agriculture (Pompeia 2020). This coalition has acted with considerable unity on a variety of issues.

However, far from contradicting the importance of threats, this exception reinforces it, since agriculture has suffered more significant challenges to its property rights than other sectors. Although Brazil has never implemented a major land reform, efforts in this area intensified during the democratic transition and eventually gave rise to significant expropriation activity, especially under Cardoso. Fear and resentment of land reform stimulated a sustained process of organization-building among large producers, endowing them with the capacity to act collectively not only on this issue, but also others, including environmental protection and indigenous land titling (Bruno 2017).

c. Consequences of Elite Ideology and Organization for Public Sector Size

The contrasts in elite ideology and organization discussed above largely explain the striking difference in public sector size between Brazil and Mexico. Mexico's public sector is smaller than Brazil's because economic elites in that country have been more motivated and better organized to resist its expansion.

As Figure 1 suggests, the large contemporary gap in public sector size between these countries emerged initially between the 1940s and the 1960s. While in the 1930s the Brazilian and Mexican states were of roughly comparable size, by 1970 there was a yawning gap between them. This divergence is curious, given that both countries were nominally pursuing the same state-led industrialization strategy promoted by ECLAC and that both had introduced Bismarckian social security systems by World War II. It can only be understood if we appreciate the impact of differences in how elites viewed state intervention and how they organized, or failed to organize, to restrict its growth.

As argued above, the Cárdenas reforms induced an elite countermobilization that congealed into an informal coalition of larger businesses wary of state intervention. Although PRI authorities after Cárdenas were cognizant of the state's low revenues and society's numerous unmet needs, their efforts to placate this coalition restricted public sector growth (Ondetti 2021, 120-122). The governments of the 1940s and 1950s were focused on rebuilding business confidence in the state and thus attentive to concerns about limiting intervention. They repeatedly sought to raise additional revenue, but their efforts encountered stiff resistance and ultimately had little impact. Consumption taxes and social security offer good illustrations, since their slow expansion is a major reason why Mexico's public sector growth fell behind Brazil's.[6]

With regard to consumption taxation, perhaps the most ambitious initiative was by President Miguel Alemán (1946-1952), who in 1948 introduced a national sales tax. The Mercantile Revenue Tax was intended to replace some existing federal and state levies with the

[6] The difference between Brazil and Mexico was generally smaller in other areas, such as income taxation.

purpose of both raising revenue and streamlining the tax system (Martínez de Navarrette 1973, pp. 48–49; Aboites Aguilar 2003, pp. 210–212). State governments willing to renounce some of their own taxes would gain a share of its revenues. However, the tax did little to achieve these goals since the rate applied was low and several large states rejected the offer. It would only become a truly national tax in the 1970s, and the rate would always remain low.[7]

A key source of resistance to the tax came from business leaders, who raised concerns about its impact on consumption. In an attempt to secure their acquiescence, in 1947 the government asked the Confederation of Nation Chambers of Commerce (CONCANACO) to organize an elaborate meeting, dubbed the First National Convention of Taxpayers, in which authorities would dialogue with business (López Portillo 1995, pp. 289–290; Aboites Aguilar 2003, p. 197). Despite these efforts to solicit their input, business leaders protested bitterly about the tax, as well as an accompanying measure increasing penalties for evasion. Their opposition may have contributed to the adoption of a rate below the already modest one originally proposed (Aboites Aguilar 2003, p. 212).

Social security also faced strong resistance. The Cárdenas government had drafted a social security bill including pensions, healthcare and other provisions but had shelved it due to the climate of business unrest following the 1938 oil expropriation (Dion 2010, 65-66). The more conservative Ávila Camacho was able to pass a similar bill in 1942, but the law gave the executive authority to determine what groups of workers would be covered. With the partial exception of CANACINTRA, business steadfastly opposed the system's expansion due to both the required employer contributions and concerns about how authorities would use the revenue

[7] The general rate increased from 3% to 4% during the 32 years of its existence.

(López Portillo 1995, 308; Dion 2010, 73, 80-81). Because of these objections, along with the declining influence of organized labor, social security's key support base, the system grew slowly thereafter.

The López Mateos and Echeverría governments sought to break with this pattern by asserting a stronger state role in economic and social development. However, they failed in this quest, especially with regard to taxation. Both presidents attempted to raise revenue and increase progressivity but achieved only limited change (Elizondo 1994; Aboites Aguilar and Unda Gutiérrez 2011). Scholars, as well as policymakers who participated in these efforts, attribute the failures mainly to officials' fears of aggravating already tense relations with a suspicious private sector (Solís 1988; Elizondo 1994; Ortiz Mena 1998). As a result, planned reforms were diluted or abandoned.

In Brazil, in contrast, elites' relatively benign view of the state and their lack of class-wide organization facilitated the consolidation of a large public sector during the era of state-led development. Consumption taxes and social security are, again, useful examples. Revenues from consumption taxes grew steadily during the post-World War II era, driven by piecemeal changes in both national and subnational levies (Varsano 1996). Beginning in the late 1950s, they tended to stagnate, due to growing macroeconomic problems. However, they rebounded strikingly in the mid-1960s, due mainly to the military regime's sweeping reform, which both simplified the tax system and boosted revenue across all major tax categories (Oliveira 1991). With regard to consumption taxation, perhaps the major change was the introduction of Latin America's first value-added tax (VAT), which would become a mainstay of Brazil's fiscal system (Varsano 1996, 9).[8]

The social security system, which Vargas had largely created during the 1930s, also grew steadily thereafter in terms of coverage and revenue (Malloy 1979). Even the conservative military regime substantially expanded it. Although the main beneficiaries were relatively well-off formal sector employees, the regime also introduced a non-contributory program for farmworkers. By the mid-1970s, Brazil's social security revenues were about 60% higher than Mexico's and its spending was 80% higher (Mesa-Lago 1990, 26). Brazil, it is worth noting in passing, was also more statist than Mexico in other areas. For example, the state played a more important role in capital formation through its public enterprises and development bank, and its effective trade protection was higher (Graham 1982).

These policies elicited comparatively little concerted opposition from economic elites. The literatures on taxation and business politics during these decades reveal little evidence of organized resistance to revenue increases, even the mid-1960s reform, which increased revenue by roughly 6% of GDP (Schmitter 1971; Diniz and Boschi 1978; Evans 1979; Oliveira 1991; Varsano 1996). Likewise, there appears to have been little business-state conflict over social security expansion (Malloy 1979; Delgado 2007). In fact, as Schmitter (1971, 368) notes, a remarkable aspect of Brazilian politics during this period is how the public sector grew without provoking sharp conflicts. Graham (1982) makes a similar point in comparing Brazil to Mexico,

[8] Brazil's VAT is unusual in that it is a state rather than central government tax. Mexico would not adopt its own VAT until 1980.

arguing that the latter's private sector was more autonomous and active in checking the expansion of state capabilities.

The differences in elite ideology and organization between these countries have continued to influence public sector growth since the crisis of state-led development in the early 1980s and the subsequent shift toward economic and political liberalization. Consequently, the gap established in the immediate post-World War II period has persisted.

In Mexico, the cohesion of the business community and the revival of the PAN have helped prevent the emergence of a substantial welfare state, despite the transition to democracy during the 1990s and the region-wide trend of social policy expansion in recent decades. The PAN held the presidency for the first dozen years (2000-2012) after the end of PRI hegemony. Although its governments made efforts to raise taxes and expand the social safety net, they were modest relative to those of other Latin American countries, reflecting the party's liberal economic views and close ties to business (Ondetti 2021, ch. 4). The somewhat more progressive PRI government that followed from 2012 to 2018 made a more ambitious attempt to raise tax revenues. However, its 2013 reform faced strong business resistance led by the CCE and achieved modest change (Unda Gutiérrez 2021). It was only after oil prices plummeted in late 2014 that tax revenues began to surge, reflecting a need to compensate for lower PEMEX earnings. However, total revenue remained constant at about 20% of GDP.

Brazil's public sector growth trajectory in recent decade has been different. Although deep macroeconomic problems pushed authorities to adopt certain neoliberal reforms during the 1990s, the public sector continued expanding robustly in fiscal terms. For example, the tax burden, which at 24% of GDP was already the heaviest in Latin America when the military relinquished power in 1985, had risen to 33% of GDP by 2007 (see Figure 1).

The proximate causes of this trend were the democratic constitution adopted in 1988, which created new social spending commitments, and the stabilization of the currency in 1994, which facilitated tax collection (Melo et al 2010). However, a key underlying factor was the lack of strong antistatist actors. Brazil's more conservative parties, such as the PFL/DEM, have supported liberalizing reforms during periods of crisis, but have otherwise tended to prioritize access to patronage, which requires spending (Weyland 1996; Montero 2014). Business has remained politically fragmented and only tepidly committed to market-based policies (Kingstone 1999; Ondetti 2021). Although multisector initiatives arose to protect key business interests (e.g., property rights) in the 1987-1988 constituent assembly, they largely neglected fiscal questions and faded once the constitution was ratified. Another coalition emerged during the mid-1990s to lobby for tax reform, but it was loosely organized, boasted few resources and had little policy impact (Ferreira 2002).

Admittedly, resistance to public sector growth has stiffened in recent years, contributing to the stabilization of tax revenues at about a third of GDP. Anti-tax mobilizations involving business associations and conservative parties contributed to the 2007 defeat of a "temporary" financial transaction tax that had been renewed repeatedly since the mid-1990s, the legislative removal of President Rousseff (who sought to revive the tax) on charges of illicit fiscal practices, and the approval under interim president Michel Temer (2016-2018) of a constitutional amendment capping public spending in inflation-adjusted terms for at least a decade.

Nevertheless, it is too early to conclude that Brazil has passed a critical juncture with regard to public sector size. For one thing, there are strong doubts about whether the spending cap can be sustained (Lupion 2020). It was suspended in 2020 due to the COVID-19 crisis and there are ongoing discussions about flexibilizing it. In addition, there is little evidence of the emergence of strong new antistatist actors. President Jair Bolsonaro (2019-present) came to office promising market-based reform, but he is not affiliated with any political party and there continues to be no major party committed to antistatism. To a large extent, Bolsonaro has relied on the support of the FPA, which is arguably the closest thing to a programmatic conservative party in Brazil's Congress. Moreover, the rightist resurgence of recent years has not involved the creation of encompassing business associations in any way comparable to Mexico's.

4. Conclusions

Existing theories cannot account for the striking difference in public sector size between Brazil and Mexico. Standard variables like economic development, trade openness, federalism and democracy provide little, if any, explanatory leverage. However, this chapter has argued that the gap can be understood by highlighting the impact of historical episodes of major redistribution on the ideology and organization of economic elites. Mexico's public sector is smaller than Brazil's because post-revolution reforms spurred the rise of a strong antistatist coalition anchored by business associations and the PAN. This coalition has thwarted the emergence of a more interventionist state. In Brazil, the lack of any comparable reform meant that elites have not embraced antistatist views to the same extent and have not organized as effectively to block public sector expansion. Consequently, taxation and public spending have reached higher levels.

While this chapter deals with only two cases, there are a priori reasons to believe that the argument may shed light on other Latin American countries. For example, there is a correlation between the occurrence of a major expropriation-based land reform at some point in a country's history and the existence today of strong encompassing business associations, suggesting that acute redistributive threats can help spur private sector organization. Countries that experienced such a reform, such as Chile, Guatemala and Peru, generally have influential multisector business associations, while those that did not, such as Argentina, Ecuador and Uruguay, lack such actors (Schneider 2004).

Furthermore, there is at least some evidence that high levels of elite organization tend, other things being equal, to hinder public sector growth. Chile, Guatemala and Peru all have comparatively small public sectors, and the influence of organized business has generally been seen as discouraging state intervention (Fairfield 2015; Durand 2016; Ondetti 2021). Meanwhile, Argentina, Ecuador and Uruguay, where business boasts less encompassing organization, have much higher taxation and spending.

In addition to outlining a novel explanation of public sector size, this chapter has demonstrated the value of departing from the standard, large-N approach to studying this question. It shows that a comparative historical strategy can reveal causal relationships and mechanisms that would be hard to perceive using the purely quantitative approach typically applied. The point is not that qualitative methods are superior, but rather that the two approaches can complement each other.

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