Taxing the 'crop of the century': the role of institutions in governing the soy boom in South America

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Abstract

The recent global commodity boom created new opportunities and challenges for countries that are net agricultural producers. Natural resources literature has explored how the sudden appearance of extraordinary revenues in resource rich countries impacts upon growth, political institutions, and conflicts. However, there has been less attention paid to how already existing arrangements can shape distributional conflicts that emerge as a response. This article analyses the design and implementation of fiscal policy during the soy boom in Argentina and Brazil. It is argued that domestic institutions play a key role in mediating the capacity of the state regarding the design and implementation of tax structures related to natural resources.

Introduction

The 2002-2012 commodity boom challenged existing ideas about long-term downward trends in commodity prices (UNCTAD, 2017). With rapid spikes in prices across commodities, the boom created an unprecedented opportunity for growth for net commodity exporting economies. While Mexico and Central American countries have developed a trade pattern dominated by cheap manufactures, in South America, primary commodities remained the region's most significant export, as the sub-continent's commodity-dependence intensified (Adler and Sosa, 2011: 9). With the rapid increase of international prices for fuel and non-fuel commodities, the economies of South America regained great dynamism and growth. In the Southern Cone, agriculture became the most dynamic sector in this process, and the region showed potential to become 'the global breadbasket' that could 'feed the world' (Zeigler and Truitt Nakata, 2014). Soybean, in particular, expanded very rapidly in some of these countries, through a combination of the consolidation of a technology package and transformations in production practices, and a significant hike in its international price, which kept soy at the level of other fuel commodities and above that of cereals, such as wheat and maize (IMF Commodity Prices, 2017). Its value as an investment opportunity led the *Financial Times* to label soybean 'the crop of the century' (Meyer et al., 2017).

In addition to generating high levels of economic growth, the commodity boom coincided with a highly significant political shift in many Latin American countries, whereby the state was reclaimed and state-society relations redefined (Grugel and Riggirozzi, 2009). In a shift away from the neoliberal paradigm associated with the Washington Consensus, the *post*-neoliberal state that emerged from this transformation in several South American countries brought a renewed political will to address demands for redistribution, and the commodity boom provided the material conditions for its realisation. This stands in contrast to the expectations of the 'resource curse' approach, which draws a link between natural resource abundance and negative economic, political, and social outcomes. Nevertheless, state capacities were not homogenous, with great variation existing among different countries in terms of the domestic political conditions, the instruments employed to govern the commodity boom, and their degree of effectiveness.

This article examines how domestic institutional arrangements mediated the state's capacity to regulate and redistribute the inflow of capital proceeding from commodity booms, particularly of profits created through the soybean complex in South America. While it has been claimed that the commodity boom was key in enabling the reduction of poverty and inequality pursued by Pink Tide governments (Grugel and Riggirozzi, 2018), this article explores the extent to which the soy boom contributed to these efforts. Here we focus on Argentina and Brazil, two of the largest soybean producers and exporters worldwide. Between 2010 and 2014, the export value of the soybean complex (raw, oil, and flour) was, on average, more than US$18 billion per year in Argentina, and US$26 billion per year in Brazil (FAOSTAT, 2020). The success of the soy sector emerged as a potential source of fiscal revenue that could support social spending expansion. However, institutional arrangements and elite embeddedness mediated the process through which states were capable of accessing these resources.

Through the study of fiscal policies, this article explores the 'variegated processes of adaptation and transformation' experienced by the Argentinian and Brazilian states caused by the expansion of industrial agriculture during the latest commodity boom (Phillips, 2005: 95). I will argue that domestic institutional arrangements play a crucial role in mediating the capacity of the state to govern commodity booms through fiscal policies. While cycles of boom and bust, such as the soybean boom in South America, are the result of global dynamics of capital mobility, these processes are 'embedded within and dependent upon' the legal and institutional infrastructure provided by the state (ibid, 2005: 95). The two cases explored in this article demonstrate how administrative structures and elite embeddedness influenced the capacity of the state in Argentina and Brazil to tax the soybean sector for purposes of redistribution towards other economic sectors and to support political coalitions. While in the first case a complex fiscal federalism that relies on discretionary payments, and an almost complete lack of communication between agribusiness elites and government, allowed the national government to considerably increase its fiscal income through taxation of the soybean sector, in the second case the strong autonomy of the Brazilian subnational states and the direct involvement of agribusiness elites in the decision-making process limited considerably the national government's capacity to collect revenues from this growing sector.

The first section will introduce the soybean boom and outline a theoretical perspective that foregrounds the importance of institutional arrangements in understanding the design of fiscal policies. The second section will explore how these arrangements played out in Argentina and Brazil during the soybean boom. The third section will discuss the cases and explain how different institutional arrangements intervened in the implementation of fiscal policies, before presenting the concluding remarks.

Commodity booms and fiscal policy design

During the latest commodity super-cycle – which began in 2002/2003, driven by an increase in demand from emerging economies, particularly China (ECLAC, 2013; Giraudo, 2020) – soybean emerged as one of the most important assets worldwide, as its price increased by almost 65% (IMF Commodity Prices, 2017). South America is the world's largest producer of this oilseed, with a planted area across Argentina, Brazil, and Paraguay that equals the size of Spain. In 2013, export values of soybean worldwide reached almost US$100 billion, and US$48 billion for the combined export values of soybean, soybean cake, and oil for South America that same year (FAOSTAT, 2020). The commodity boom – and the soybean boom in particular – transformed the political economy of South America. The region experienced significant improvements in its terms of trade, contributing to growth levels in Latin America and the Caribbean not witnessed since the early 1980s (World Development Indicators, 2019). This development also ushered in a period of political change, during which left political parties came to power via free elections, resulting in the so-called 'Pink Tide'. Several scholars have seen this political transformation and the mobilisation of grassroots, indigenous, and workers' movements in favour of these parties as a sign of deepening democracy in the region (Spronk, 2008).

The political-economic impacts of revenues stemming from natural endowments has been extensively studied, particularly in Latin America. Raúl Prebisch and the ECLAC structuralist school warned in the 1960s of the dangers of an economy based on exports of primary commodities (Prebisch, 1949). Other scholars have pointed out that natural resource abundance results in negative outcomes through several mechanisms: the sudden inflow of large sums of foreign currency that accompanies a boom leads to the appreciation of the local currency, harming other economic sectors and affecting growth, a phenomenon known as Dutch Disease; and the opportunity for extraction of profits in the short-term incentivises rent-seeking behaviour and corruption (Rosser, 2006). Known as the resource curse, this strand of literature links resource wealth with the political, economic, and social difficulties faced by developing countries (Ross, 2015; Nem Singh and Bourgeoin, 2013).

While there is a broad scholarly consensus concerning the negative impacts of the natural resource sector on growth, quality of democratic institutions, and overall development of Global South countries (Nem Singh and Bourgeoin, 2013b), the case of Latin American complicates this picture. During the boom years, Latin America experienced an average annual GDP growth of almost 4% (including the 2008/09 crisis), poverty and extreme poverty declined, the Gini coefficient for inequality fell from 0.53 to 0.47, and the levels of satisfaction with democracy showed an upward trend throughout the period (CEPALSTAT, 2019; Foa et al., 2020). However, despite this common experience, the responses and achievements of the different national governing elites in Latin America has not homogenous (Nem Singh and Bourgeoin, 2013b; Weyland, 2009).

This article addresses this puzzle: how did resource-rich Latin American countries govern the challenges of the commodity boom? This question is explored by analysing how the different institutional conditions present in the two key soybean-producing countries in South America – Argentina and Brazil – resulted in divergent fiscal strategies to govern the soybean boom. It builds upon critical literature that calls for a greater emphasis on domestic institutions and political conditions (Melhum et al., 2006; Saad-Filho and Weeks, 2013; Nem Singh, 2010, 2014). In doing so, this article sheds light on the manner in which domestic institutional structures can help determine whether the availability of resources stemming from natural endowments becomes a *constraining* or *enabling* force (Weiss, 2003).

While much of the resource curse scholarship, as well as more recent analyses of natural resource governance and extractivism (Haarstad, 2012; Nem Singh and Bourgeoin, 2013a; Veltmeyer and Petras, 2014), focus on 'point' resources - such as hydrocarbons and minerals, which are geographically concentrated and are thus more likely to be rent-generating (Papyrakis, 2017: 178; Stevens et al., 2015), this article contributes to Neal Richardson's approach of including agricultural commodities in the study of the political-economic impacts of resource wealth by focusing on the case of soybean (2009). In the context of a global boom, agricultural commodities share a similar 'time profile' to rent-generating commodities: volatility in their price is translated into volatility in their profitability (Segal, 2012). Moreover, given its characteristics as a monocrop in South America, and as a commodity that experienced one of the highest price hikes during the boom, soybean has been the object of study in several analyses of extractivism and natural resource governance (Giarracca and Teubal, 2014; Grigera and Alvarez, 2013; Gudynas, 2010; Turzi, 2016; Lima de Oliveira and Alonso, 2017; Richardson, 2009).

Fiscal policy has been a crucial instrument for the governance of the commodity boom, particularly with regards to agricultural commodities like soybean. In countries with more traditional extractive activities, such as oil and mining, the commodity boom quickly translated into higher revenue collection through the payment of royalties or state participation in mining or oil producing companies (Nem Singh, 2012, 2014). Yet in agricultural production, the revenues and benefits from the commodity boom were much more diffused between producers, industrial sector, and traders. Therefore, the main mechanism for the state to capture part of the wealth created through the commodity boom in this sector was the fiscal structure.

Political economy literature on taxation highlights that economic growth is often accompanied by increasing fiscal collection and hence more availability of the state for developing welfare policy and redistribution (Doyle, 2018). This is confirmed in the case of the commodity boom in Latin America, as in the entire region there has been an upward trend in tax revenue collection, rising from 19.6% of GDP in 2000 to 23.6% of GDP in 2011, with tax burdens – that is, the amount of tax paid by taxpayers – increasing on average from 15.4% to 19.1% of GDP respectively, a significant part of which is explained by an increase in proceeds from natural resource exploitation (CEPAL, 2013). Further, tax strategies during the soy boom in South America in particular are in line with previous analyses that identify taxation and redistribution in Latin America as pro-cyclical and with a negative correlation to trade openness (Wibbels, 2006; Doyle, 2018). As David Doyle (2018) explains, it is unsurprising that there was an expansion in social spending in the 2000s, with the commodity boom providing greater fiscal space for Latin American countries. Primary commodities – particularly soy – emerged as an 'under-tapped revenue base' (Fairfield, 2015: 10), resulting from changing trends in the global economy that, in the political context of the Pink Tide, allowed for redistribution and the constitution of a new state-society nexus (Grugel and Riggirozzi, 2012).

However, not all countries exhibited the same capacity to use taxes as a strategy for enlarging the state's spending capacity and hence its redistributive power. Indeed, tax revenues varied across the key soybean-producing countries, with Argentina experiencing a 10% increase in tax revenue as a share of GDP over the 2000-2011 period, while for Brazil the rise was 4.7% (CEPAL, 2013: 13). Variations in the level and type of social spending and taxation across Latin America have been explored in the political economy of taxation literature, with scholars pointing to the influence of levels of market integration (Wibbels and Arce, 2003), the organisation and power of business groups (Castañeda, 2017; Fairfield, 2010, 2015), and the role of domestic institutions and representation in tax structures (Ardanaz and Scartascini, 2013; Besley and Persson, 2013). This article contributes to these analyses by exploring how, in the context of a commodity boom, domestic political institutions mediate states' capacities to manage and tax the large inflows of money proceeding from natural resource abundance. These varying fiscal strategies have an impact not only on the redistributive capacity of states, but also on the governance of extractive sectors in the region.

There are two mediating institutional dimensions that can help us to explain the difference between the Argentine and Brazilian states' fiscal strategies to govern the soybean boom: the state's administrative structure; and the level of elite embeddedness and coalitional politics. The first dimension explores how tensions over the distribution of resources unleash power struggles between different levels of government – expressed in federal systems as a conflict between the central government and regional states. The type of fiscal federalism determines the rules that establish tax collection and spending responsibilities, the capacity for different levels of government to develop their own fiscal policy and budget autonomy, and the relationship between national, sub-national, and local authorities. How resources are distributed among different levels, and the source of those resources, can even have consequences for the levels of democracy and authoritarianism found in subnational governments (Gervasoni, 2018). While both Argentina and Brazil are federations, the different levels of centralisation of their respective federal systems speaks to the level of authority and capacity to collect revenues from the commodity boom. The form that the distributional struggles over resource revenues take depends on the degree of fiscal authority centralisation within the country (Diaz-Cayeros, 2006; Gervasoni, 2018).

The second dimension refers to the relationship between economic elites and government, or the level of elite embeddedness. Fairfield (2010) identifies the existence of informal government-business linkages as a source of instrumental power for business elites, that is, it provides these elites with the capacity to influence policy-making decisions. Elite embeddedness is, however, affected by the broader pattern of political coalitions that prevails. This is significant in the context of the commodity boom in Latin America, as this period saw the consolidation of left-of-centre governments that accessed power by highlighting the extreme social inequality that the previous decade of neoliberal policies had created. The post-neoliberal state that emerged emphasised the need to recast the state-society nexus through a new understanding of state responsibilities, in which redistribution and addressing inequalities played an important role (Grugel and Riggirozzi, 2012). The pattern of coalitions is thus key in determining the conflict over the distribution of revenues arising from commodity booms and sheds lights on the government's disposition to intervene in 'helping, or hindering, export-oriented actors' goals' (Saylor, 2012: 304). As a mediating arrangement in the design of fiscal policy, the nature of the relationship between political and agribusiness elites can affect the pressure exercised by the state through these channels. There is, then, a 'vital coalitional dimension to the resource curse' (Saylor, 2014: 645), whereby existing alliances can determine the distribution of the resources. In sum, while the administrative structure tells us how the legal framework condition or enable state capacity for taxing, the embeddedness of elites sheds light on the *political* conditions for increasing taxation.

It is also important to situate these mediating conditions and states' capacities for fiscal policy design within the broader nature of the fiscal system, namely its progressive or regressive design. More progressive fiscal systems will tend to tax profit generating activities like soy in order to fund the state's public spending on transfers; while more regressive systems will rely on Value Added Tax (VAT) and privilege efficiency in agribusiness over redistribution of income. The policy framework imposed in Latin America during the 1980s and 1990s, as part of the Washington Consensus, emphasised 'economic efficiency and fiscal solvency', favouring a fiscal system that relies on indirect taxation, such as VAT, which is generally considered a regressive tax (Gómez Sabaini, Jiménez, and Rossignolo, 2012: 12).[i] Recent years have seen a change in this consensus, with calls for an increasing role of direct taxation on income and profits (Fairfield, 2013: 43), and since 2002 this type of taxation has been the second most important factor explaining a higher fiscal burden in the region (Gómez

Sabaini, Jiménez, and Rossignolo, 2012: 14). However, it is against this backdrop of regressive fiscal frameworks that the commodity boom took place.

The following section will analyse the fiscal policies deployed by governments in Argentina and Brazil during the soybean boom, with a particular focus on the mediating arrangements mentioned above. While these countries were exposed to the same hike in demand for soybean and improvement of their terms of trade, as well as sharing similar levels of production and export of soy, important national differentiations remain. A closer look at the institutional factors mediating the state's fiscal space reveal significant variations in their capacity to govern the commodity boom and the sudden availability of wealth stemming from natural resource abundance.

Governing the commodity boom: Argentina and Brazil

The soybean boom in South America presented an opportunity for the post-neoliberal governments of the region to support the renewed state-society nexus that they were proposing. Argentina and Brazil shared similar levels of exposure to the commodity boom, with equivalent agricultural resource endowment, and comparable electoral coalitions to sustain, but these countries' use of fiscal strategies for the redistribution of wealth accumulated during this boom was very different. This section explores these differences by looking at: i) the characteristics of the fiscal administrative structure in each country – while both Argentina and Brazil are federations, the levels of autonomy and relationship between central and subnational governments diverge; and ii) the level of embeddedness of the agribusiness elite in the decision-making processes. The cases presented here show how these institutional frameworks result in different capacities to use fiscal strategies as a mechanism for the redistribution of wealth stemming from the soy boom. Whereby the central government in Argentina was able to repurpose some of the profits created in the soybean complex towards social expenditure, in Brazil, it is only the subnational states that have been able to collect revenues from the soy boom, albeit at diverse levels, depending on their tax rates (see Table 1).

[Table 1]

Argentina: Export-dependent fiscal enlargement

Argentina is one of the countries with the highest tax rates in Latin America, even surpassing some OECD countries. The expansion of the state's fiscal income occurred in the last two decades, with the tax burden increasing by 10% of GDP since 2000 (CEPAL, 2013: 14). In the same period as the aforementioned fiscal expansion, soybean's international price and its domestic production soared, and tax revenues from the commodity's value chain went from 1.6% of total Treasury income in 2000/2001 to 8.4% in 2009/2010 (Cohan, 2012:79). The expansion of the Argentine state's fiscal capacity was thus inseparable from the soy boom. The most important (and controversial) tax instrument was the export duty on soy and its by-products.

The national government of Argentina, under President Cristina Fernández de Kirchner (2007-2015), developed a commanding capacity to impose high rates of taxation in order to fund the state's expansion, collecting US$9.2 billion from the soybean value chain in the 2008-09 harvest, an 830% increase from the 2000-2001 harvest (Cohan, 2012: 78-79). This was key for the national government, which was looking to maintain and expand its multi-class electoral coalition. This was done through enlarged spending on education, health, and social assistance, as well as extensive subsidies to transport and energy, which increased considerably after 2006, reaching 4% of GDP in 2014 (Puig and Salinardi, 2015:2). Fiscal revenues from the soybean sector were considered key in achieving this. The two mediating institutional conditions studied in this article were significant in the government achieving this. While Argentina is a federal system, the inherent tendencies towards centralisation were exacerbated and politicised during this period, allowing the National government to concentrate fiscal revenues from the agricultural export sector and use them for political purposes through discretional revenue-sharing with subnational governments. Rural elites, for their part, were disorganised and had no connection with the National government. While the Kirchner administration failed at imposing a mobile tax scheme, the elite's low level of embeddedness with policy-makers facilitated the imposition of high rates of export tax, which in November 2015 stood at 35% for unprocessed soybean and 32% for vegetable oil and other products such as pellets.

I. Discretional federalism

Argentina was defined by Diaz-Cayeros (2006: 180) as 'a centralised but asymmetric federation', due to Buenos Aires' privileged position. Today, while this imbalance remains, the main asymmetry lies between subnational governments[ii] and the central administration. Although subnational states have considerable autonomy in taxation, the federal government maintained a hegemonic position by controlling the most relevant sources of tax revenue, such as custom duties. As a mechanism for counter-balancing Buenos Aires' fiscal authority, in 1934 a fiscal pact established a system of revenue-sharing, which was included in the 1994 constitutional reform. While this was an attempt to formalise and clarify the tax-sharing system, the Argentinian federal fiscal structure still remained one of the most complex in the region, dubbed a 'labyrinth' by the federal tax agency itself (Diaz Cayeros, 2006: 181; CFI, 2017; Saiegh and Tomassi, 1999: 3).

Despite attempts to make this labyrinth as institutionalised and formal as possible, political bargains and discretionary distribution based on alliances still prevailed, and the availability of soybean revenues offered new opportunities for federal/state tensions to arise. Every level of government wanted 'a piece of the cake',[iii] but the most significant fiscal tool – export taxes – is collected at the national level. By reducing the programmed transfer amounts, centralisation of resources in the hands of the federal government was both exacerbated and politicised by the Kirchner administration, with an increase in the discretionary nature of these transfers (interview, former Ministry of Economy official, 2014).[iv] Subnational states whose governments were aligned with the Kirchner administration were thus likely to receive additional funds, consequently allowing greater social spending (Nogués, 2014). In turn, this preferential fiscal system had a significant effect on the electoral results throughout the country.

Not only were subnational states excluded from the collection of international trade duties – and subject to the central government's will on how to share those resources – but neither did they participate in deciding the rate of such taxes. While the constitution establishes that it is the responsibility of the national congress to determine export and import taxes, this was delegated to the executive power, which in turn has transferred this function to the Ministry of Economy (Teubal and Palmisano, 2010: 222). Consequently, it eliminated a potential site of bargaining for representatives from subnational states that did not share the political leanings of the ruling party.

II. Rural elites' lack of political embeddedness

Rural producers in Argentina are grouped together in different unions, some of which have been traditionally opposed to one another. They represent divergent interests, from the Argentine Rural Society (SRA - Sociedad Rural Argentina), which unites the most conservative sector of large landowners, to the Inter-Cooperative Agricultural Confederation (CONINAGRO - Confederación Intercooperativa Agropecuaria Limitada), a federation that gathers the agricultural cooperatives. While in the past, the SRA has had a high level of embeddedness with the national government, the Peronist party – to which Fernandez de Kirchner belonged – has had historical differences with this sector (Schneider, 2004; Halperin Donghi, 2017[1969]). Moreover, the absence of coordination that resulted from the diversity and lack of cohesion among agricultural producers meant the rural elite had little capacity to influence decision making, or what Fairfield (2010) calls ‘instrumental power’.

Export taxes were not new to the Argentine agricultural sector, with President Eduardo Duhalde increasing the rate in the aftermath of the 2001 economic crisis. Fernández de Kirchner extended this tax to other crops and increasingly imposed higher rates, the highest being on soybean, which by November 2007 reached 35%, at a time when soybean prices peaked at US$412 per tonne. Throughout these increases, agricultural producers had failed to present a strong opposition to export taxes or the difference in taxation between raw and processed products,[v] as their lack of embeddedness within policy-making processes prevented them from doing so.

In early 2008, with soy prices rising above US$400, the Fernandez de Kirchner government introduced a variable tax scheme for agricultural export duties. The mechanism meant that the tax rate for soy and wheat could increase above 60% depending on the evolution of their international price, and subsidies would be paid in the case of a price plunge, although there was no trust on the government keeping its promise if the latter situation arose. The government reasoned that, as one of the country’s most competitive sectors, with a net inflow of US dollars, agricultural production had to contribute to the national budget.[vi] The only way to ensure the redistribution of these ‘extraordinary profits’ (Teubal and Palmisano, 2010: 195) and enforce the payment of tax duties was through a system of *retenciones*.[vii]

The decision created an unexpected alliance between unions of rural producers that opposed the measure, and together they organised a series of protests and road blockades that lasted from March to July 2008. Only agricultural producers were actively involved, as while the trading companies effectively paid the tax, the burden of taxation was pushed back down the supply chain onto the rural producers. In fact, while the legal name of this fiscal instrument was ‘Export Rights’, the popular name was *retenciones*, which means ‘withholding’; a label that, according to Teubal and Palmisano (2010: 222), certain economists adopted in an effort to distinguish it from other export taxes. Teubal and Palmisano (2010) argue that this tax was effectively privatised. Traders used the time-gap between the announcement and the implementation of a new tax rate to register sales in advance – hence subject to the ‘old’ rate. However, they would charge the producer the latest, *higher* rate, leaving a differential favourable to the trading company (ibid, 2010: 224). According to the former President of the

National Board of Grains, the amount retained by the exporters reached US$2 billion in 2008 (Perfil, 2008).

As Teubal and Palmisano (2010: 194) explain, this conflict was not over the viability of the agribusiness model, led by soybean, but was instead related to 'who and in which proportion appropriated the land rents resulting from the increase in international prices of commodities mainly after 2003'. The conflict confirmed the lack of trust between the government and the rural sector, and a complete break in communication between political leaders and agricultural producers characterised the remaining years of the Fernandez de Kirchner administration. While the rural elite was successful and the measure was finally repealed, the alliance of rural producers failed to capitalise on the popular support for their campaign, and were not able to reinstate a dialogue with the government, nor reduce the rate for export taxes, which remained at 35%.

In sum, Argentina's highly centralised federal system has allowed the central government to capture revenues at the expense of subnational states and agribusiness elites. This has in turn expanded the state's fiscal capacity to strengthen the state-society contract through social expenditure and reap the consequent electoral rewards.

Brazil: mixed state capacity

Brazil's tax revenue is similar or even larger than the average OECD country, as over eighty-five different taxes are imposed at the municipal, state, and federal levels (Higgins and Pereira, 2013: 6). Between 2003 and 2014 – during the Worker's Party's (PT) governments of Lula da Silva and Dilma Rousseff – the Brazilian government collected on average tax revenues exceeding 32% of GDP, the highest in Latin America (OECD, 2019; CEPALSTAT, 2019). This constitutes a 5-point increase from the average revenues during the second half of the 1990s (CEPALSTAT, 2019), with government spending also experiencing expansion, rising from 21% of GDP in 2000 to over 31% in 2014 (World Bank, 2019). The country's extensive fiscal burden is the result of a compound of municipal, state, and federal rates, particularly in the imposition of VAT, which results in Brazil having one of the highest rates in the region, with an average of 20.5% (CEPAL, 2013:6). In the case of agricultural products, there are a total of 44 taxes applied at different governmental levels, which account for 34% of the final cost of food (EMBRAPA, 2004: 18), creating a 'cascading effect' (Higgins and Pereira, 2013: 6). These existing mechanisms lead to the characterisation of the Brazilian fiscal system as regressive.

When the PT accessed power, through the election of Lula da Silva, their political aim was to encourage a participatory democracy through the inclusion of poor and working-class sectors, which were the ruling party's main political base (Samuels, 2008). The flagship policy of the PT administrations was the direct cash transfer (CCT) program 'Bolsa Familia', which had a striking impact on reducing inequality and poverty, accounting for 21% of the drop in the Gini Index between 1995 and 2004 (Soares et al., 2010:179). In 2009, the total of direct transfers from the central government – including Bolsa Familia – accounted for 4.1% of GDP (Lustig, 2011: 14). However, the revenue collecting capacity of the central government is limited by a strongly federalist and complex fiscal system. Distributional conflicts among local states and with the federal government have resulted in one of the most complicated fiscal structures in the region, whereby the location of (dis)incentives and compensations is more a result of historical struggles than conscious policy decisions.

This highly fragmented federalism trumps the capacity of the national government to develop a central fiscal revenue from the soybean sector, and the tax burden on this sector is different across states at the subnational level. At the same time, the agricultural elite has a high level of embeddedness in the Brazilian central government, which additionally limits the government's space for pursuing expanded fiscal policies. As such, while the coalitional politics supporting the PT administration required a redistribution of resources and expansion of social expenditure, the strongly federalist system and high embeddedness of the agricultural elite meant that the soybean sector made little contribution to this welfare enlargement.

I. Strong fiscal federalism

While there have been several attempts by the federal government to centralise its fiscal authority, subnational states have managed to hold on to this capacity and maintain a 'highly peripheralized fiscal arrangement' (Diaz Cayeros, 2006: 2010). This feature sets the scene for many of the debates and conflicts around taxation of the soybean sector.

The tax on the circulation of goods and services (ICMS) is enforced and collected by subnational states, as a kind of state VAT. The rate is determined by each state and varies depending on the type of product or service, making it one of the most complex elements of the Brazilian fiscal system. Given that ICMS does not reach the federal coffers, soybean's contribution through this tax is a function of the geographical distribution of production throughout the country. States with a higher concentration of soy production will hence be capable of capturing more revenue. While soybean was the main contributor to tax revenues among agricultural products for the South and Centre-West regions, revenue collection in the economically poorer states in the North and North-East is much smaller, reinforcing geographical imbalances in levels of social provision, and thus poverty and inequality (EMBRAPA, 2004:28). The different productive structures and diverse rates of ICMS tax partly explain the significant variation in budget sizes. Revenue collection through ICMS and hence the availability of fiscal resources can range from US$110 million in Roraima, in the North of Brazil, to almost US$25 billion in the state of Sao Paulo. This is conditional not only to the rate of ICMS that each state determines, but to the main sectors that the state hosts, as for example even large soy producing states like Mato Grosso and Mato Grosso do Sul remain behind the industrial powers of Sao Paulo and Minas Gerais in terms of tax collection (IPEA, 2017).

An additional element limiting the capacity of the national government to use the fiscal system to increase revenues from the soybean sector is the ‘Kandir Law’, which eliminates the imposition of the ICMS on exports of primary goods and certain semi-elaborated industrial products (EMBRAPA, 2004:20; Varsano, 2013:2). This complementary law incentivised the export of grains to the detriment of industrialised by-products such as oil, meal, and flour. The argument put forward was that producers whose goods went to export markets – where the price is set at the international level – were incapable of transferring the cost of tax onto consumers. The Kandir Law allowed for the export of grains without punishing the producer, but meant a loss in the subnational governments’ revenue collection. As compensation, the federal government committed to pay an ‘income insurance’ that would help states in the first transition period of implementation (ibid: 2). When this period ended, transfers from the federal government continued over time, hence creating a federal subsidy for grains exports, which in 2012 amounted to US$517,000 (ibid: 28).[viii] The Kandir Law is also a clear example of the capacity of the agribusiness elite to influence fiscal policy through their high level of embeddedness in the decision-making process.

The complexity of the Brazilian fiscal system is a reflection of the main distributional conflict: the subnational struggle over resources. While this is not exclusive to soybean, this commodity is a good example of how subnational states’ interests can be conflicting, leading to power struggles over the appropriation of revenues. As tax capacity largely remains with the subnational state, a strong imbalance is created between states with extensive industrial and agricultural production, and poorer states particularly in the North-East.

II. High embeddedness of business and rural elites

There is a stark contrast between the disorganised nature of Brazil's complex federal fiscal system and the high level of organisation of Brazilian agribusiness elites. This 'globally connected and locally grounded' elite has succeeded (Turzi, 2012:5), both at the state and federal level, in attaining a large degree of influence over political decisions and cultivating a powerful position vis-à-vis the Brazilian government.

As agribusiness producers increased their power and political participation, several groups emerged to represent their interests, organising by sector and in far-reaching associations. One of the most influential groups is the Confederation for Agriculture and Livestock production (CNA – Confederação da Agricultura e Pecuária do Brasil), which unites the agricultural federations of all states and smaller unions grouped by municipality, and runs an extensive network of research and support for all producers, as well as working very closely with the national congress. The power of the CAN shows a start contrast with the situation in Argentina, as there is a much higher level of cohesion across the sector and throughout state divisions.

This unified position has facilitated the high level of embeddedness of the agribusiness sector in the national decision-making processes, with large rural producers occupying key decision-making positions. Sector representatives have been part of the government's cabinet, both during Lula da Silva's presidency (Hopewell, 2014: 299), and during the administration of Dilma Rousseff. The latter appointed CNA president at the time, Kátia Abreu, as Minister of Agriculture, Livestock, and Provision. Rousseff's successor, Michel Temer, gave that role to Blairo Maggi, owner of the soy-producing company Amaggi Group, who had previously served as federal Senator and Governor of Mato Grosso. In the legislative branch, agribusiness interests are represented by the Parliamentary Front of Agriculture and Livestock (FPA - Frente Parlamentar da Agropecuaria). This alliance, commonly known as 'Rural Bench' (Bancada Ruralista) was established in 1995 and has since represented rural interests in both the Senate and the Congress.

As such, agribusiness elites not only work closely with political elites, but there is also a strong overlap of private and public interests (Turzi, 2012: 6). The high level of embeddedness of this elite, through institutionalised channels, gives the sector significant instrumental power, which has been maintained throughout different governments. As mentioned before, the Kandir Law is a clear example of how elite embeddedness, in conjunction with a strongly federalist system, has limited the capacity of the Brazilian central state to collect revenues from the booming soybean sector for redistributive purposes.

Varieties of resource governance

The recent commodity boom created different development possibilities in Latin America. In a context of political transformation and redefinition of state capacities and responsibilities, so-called 'Pink Tide' states found in the commodity boom the revenues necessary to fund programmes for social inclusion, and re-build the state-society nexus. However, the extent to which the wealth originating from soybean production has translated into redistribution, that is, *enabled* the state to govern global economic dynamics, has been influenced by domestic arrangements. The cases explored in the previous section demonstrate how these institutional frameworks result in different capacities to use fiscal strategies as a mechanism for the redistribution of wealth stemming from the soy boom.

In Argentina, the availability of resources originating from the soy complex was channelled into a higher tax take, driven mainly by the increase in rates of export duties. The sharp increase in the state's fiscal income – provided by the growth of the soybean complex – was key in expanding social expenditure, particularly social welfare programmes and subsidies. The consequent rebuilding of the state-society nexus constituted one of the key foundations of Cristina Kirchner's government's cross-class coalition. This system of promoting soy exports in order to expand fiscal collection and hence the state's capacity for social spending was dubbed 'export oriented populism' by Richardson (2009). The author's argument is based on the shift in the production pattern of Argentine agriculture – from producing wage goods, like beef and wheat, to producing and exporting soy, which is not consumed domestically. There was a clear electoral drive behind this surge, Richardson (2009: 243) argues, as social expenditure increased in the months leading up to the 2007 presidential election, when Cristina Kirchner won in the first round with 45% of the vote, and the increase in soybean export taxes followed in an attempt to fund this expenditure.

The increase in soybean export taxes to 35% was motivated by the need to solve a creeping fiscal imbalance created to strengthen and sustain the electoral coalition. This article has highlighted the institutional conditions that allowed the Argentine government to move towards 'export oriented populism'. Argentina's highly centralised federal system, and the low level of embeddedness of agribusiness elites with decision-making processes, permitted the capture of revenues at the expense of subnational states and rural elites. Even with the failure of Resolution 125, as the agribusiness sector found short-term unity and mobilised public support against it, the Argentine central government was able to collect a significant volume of fiscal income from the soybean sector, reaching over US$9 billion in the 2008/2009 harvest alone (Cohan, 2012).

By contrast, in Brazil, subnational states hold a strong autonomy and fiscal capacity, while at the same time agricultural elites maintain a very high level of embeddedness within government, which limited the national government's capacity to collect revenues from the soybean sector. The efforts by subnational states to retain fiscal autonomy and maintain production within their own borders expresses how soybean became a significant source of power for states in regions in the country's Centre-West. In fact, the ICMS sparked the emergence of fiscal wars between local governments, generating a tendency for a 'race to the bottom' within the country itself, as subnational states offered increasingly lower taxes in a bid to attract investments.[ix] While this has not yet been the case for soybean, it does illustrate the pernicious dynamics of the fragmented fiscal structure. The embeddedness of agricultural elites has been persistent throughout governments of different ideological strands, namely through the institutionalisation of this integration, most evidently expressed in the Rural Bench group in the legislature. Here again, there is an important difference with the Argentine case, where the access of rural elites to decision-making process is dependent on informal relations and ideological allegiances with different political parties, and to different groups within the sector.

The Kandir law is a great example of how these two mediating conditions came together in Brazil, with the agribusiness elites obtaining a waiver of all taxes for exports – and in compensation for the considerable level of domestic rates imposed at subnational level – while the central government had to disburse funds towards subnational states to compensate for the loss in tax revenue. In almost the exact opposite situation to that of Argentina, the Brazilian government not only did not collect any fiscal revenue from soybean exports, but in fact incurred higher expenditure.

The empirical analysis presented here showed the importance of domestic mechanisms that enable or constrain the state's capacity to collect revenues from natural resources. It builds on literature highlighting the power and organisational capacity of elites in determining tax policy (Fairfield, 2010, 2013; Castañeda, 2017), as well as their political representation (Ardanaz and Scartascini, 2013), and incorporates the administrative structure as a significant mediating condition that plays out in fiscal policies together with the role of elites.

Conclusion

The recent commodity boom and the consequent improvement in terms of trade for export-dependent countries generated a significant source of revenues for these economies. In Latin America, this coincided with a new political moment, which involved the redefinition of the role of the state in the aftermath of the neoliberal era, and, in many cases, entailed a renewed social contract. While resource governance literature has favoured a homogenous picture of the negative consequences suffered by resource-rich countries, South America's experience of the soybean boom has been neither homogenous nor simply negative. This article contributes to literature that highlights the role of domestic institutions in governing globalisation and natural resource abundance. This paper addressed the capacity of the state and the enabling conditions that arise from the availability of revenues proceeding from natural resource exploitation in the context of a global commodity boom. This was done by asking how *existing* institutional, political, and social arrangements impact the governance dynamics surrounding resource wealth. To do so, this article focused on the tax system and how the design and implementation of fiscal structures mediate distributional conflicts.

The cases analysed differ as to the manner in which federal institutions and the embeddedness of agricultural elites interact and play out. In Argentina, tensions over the distribution of soy revenues were most evident, and the highly centralised nature of the federal system, together with a very low level of elite embeddedness allowed an abundant tax take from soy revenues. With a political context similar to Argentina in terms of coalitional politics, and regressive fiscal system, Brazil's very strong federal dynamic and high-level elite embeddedness produces a quite different result. Brazilian subnational states hold extensive authority in the levying of taxes, which creates tensions across states as well as with the federal government, and prevents the centralised collection of fiscal revenue from the soybean sector.

The commodity boom has demonstrated the enormous impact that agricultural commodities can have on national economies, particularly in the developing world. The analysis of fiscal strategies deployed during the soy boom in the countries explored here offers insight into the conditions mediating the capacity of the state in governing such a dynamic. This article has supported the work of scholars like Neal Richardson (2009), and Alfredo Saad-Filho and John Weeks (2013) as well as Weiss' call to 'bring domestic institutions in' (2003), by demonstrating the importance of focusing on state policy instruments in order to understand the different governance models that are established in times of commodity booms. It has also contributed to literature in the political economy of tax in Latin America, by bringing together levels of fiscal federalism and the role of business elites as mediating dimensions in explaining tax variation across the region. Moreover, the empirical analysis highlighted the role of domestic institutional, political, and social conditions in the formulation and implementation of such policies, and how these have in turn influenced the redefinition of the state in Latin America in the 21st century.

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[i] VAT is widely considered regressive, since a flat tax applied to all sectors of the population equally, will represent a higher percentage of income to low earning sectors rather than to more affluent groups (Lustig, 2011: 10).

[ii] While terminology for subnational political units is different in every country, the term 'subnational state' will be used here for Argentina and Brazil.
[iii] Interview, former Secretary of Political Economy, Buenos Aires, 2014.
[iv] Interview, former Secretary of Political Economy, Buenos Aires, 2014.

[v] A lower tax rate to processed products in detriment of grains in natural state was meant to incentivise local development of mills and oil processing establishments that could provide domestic rural producers with a growing domestic market, hence buffering the instability of a volatile international market (interview, lead economist at FIEL, Buenos Aires, 2014).

[vi] Interview, Official of Ministry of Agriculture, Buenos Aires, 2014.

[vii] Interview, former Secretary of Agriculture, Buenos Aires, 2014.

[viii] Estimations based on exchange rate of April 4th 2016 between Brazilian real and US dollar (BRL/USD 3.675).
[ix] Interview, Former Secretary of Trade, Brasília, 2014.

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Table 1. Institutional arrangements and fiscal capacity in Argentina and Brazil.

	Argentina	*Brazil*
Administrative Structure	Highly centralised fiscal federalism	Strong (decentralised) fiscal federalism
Level of Elite Embeddedness	**Low** High conflict	**High** Institutionalised mechanisms for elite representation