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# Introduction

## *Contemporary State Building in Latin America*

> The revenue of the state is the state. In effect, all depends upon it, whether for support or reformation.
>
> Edmund Burke[1]

In 2002, decades into the country's civil war, the Colombian government initiated elite-financed security taxes equivalent to an additional 1 percent of the country's gross domestic product (GDP) – a major achievement in a region notorious for stagnant tax-to-GDP ratios (Everest-Phillips 2010).[2] More surprising than the sharp increase in yearly tax revenue is that the government did so by extracting it from the wealthiest taxpayers and that these taxpayers supported the tax. Charles Tilly (2009, xiii) observed that taxation "constitutes the largest intervention of governments in their subjects' private life." Colombia's government not only generated this revenue but also did so from the politically best-connected echelon of society, a group that has historically been able to resist taxation (Atria 2015; Bogliaccini and Luna 2016; Centeno 1997, 2002; Fairfield 2015; Kurtz 2009, 2013; Saylor 2014; Schneider 2012; Soifer 2009, 2015).

Costa Rica, El Salvador, and Honduras also adopted similar taxes to finance additional public-safety efforts, while in Mexico such taxes were adopted at the subnational level in some states. Yet other countries have made progress only to see negotiations collapse, as in Guatemala, and in

[1] From *Reflections of the Revolution in France, and on the Proceedings in Certain Societies in London Relative to That Event in a Letter Intended to Be Sent to a Gentleman in Paris* (1790).

[2] As Everest-Phillips (2010, 76) has observed, "tax levels remain surprisingly static in countries over long periods of time, despite frequent tax policy reforms."



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most other countries, there was no effort to extract additional resources from elites through targeted security taxes. What explains this variation? Why have efforts to extract additional fiscal resources to provide public safety been successful in some countries but not in others? What explains successful efforts to strengthen the state more generally? How have some countries compelled economic elites to pay taxes that finance increased security efforts, while others have remained incapable of engaging them in such efforts? Insofar as economic elites in Latin America contribute a large proportion of the state's economic resources – in part due to the region's high degree of inequality (UN Economic Commission for Latin America and the Caribbean 2010) – their involvement in the process of fiscal state building not only becomes essential but also puzzling and problematic.

Latin America has historically had low levels of state building relative to other regions. Why and how some countries have overcome those historical impediments is the subject of this book. The conventional wisdom points to crises involving, for example, the economy (Bird 1992; Mahon Jr. 2004a; Saylor and Wheeler 2017), security (Porter 1994; Thies 2005), and natural disasters (Fairfield 2015, 265) as drivers of state building, since they generate a sense of urgency among elites to accept higher tax burdens than they otherwise would. While this argument has intuitive appeal, most of the Latin American cases discussed earlier have experienced severe public-safety crises in the context of fiscal duress, yet elite engagement in state building has taken place in some places but not others – which suggests that more nuance is required in explaining the different outcomes.

To explain the adoption of elite taxes for public safety,[3] I argue that the main conventional crisis-centered explanations in the literature fall short in terms of explaining this outcome. Instead, I advance a theory of state strengthening through elite taxation based on the interaction of both demand and supply factors. The demand factors include not only crises as potential windows of opportunity for state building, but also the type of public good provided in exchange and the degree to which elites can find acceptable substitutes privately.

The supply factors are related to avenues through which elites can overcome mistrust toward governments' corruption and lack of

[3] By elite tax I mean a government-mandated compulsory contribution whose incidence falls disproportionately on the wealthiest sectors of society, including taxes on property, personal income, and corporate income.

accountability. These include the government's ideology and mechanisms of cooperation that derive from linkages between economic elites and governments. Contrary to research that points to left-of-center governments as conducive to greater fiscal extraction (Stein and Caro 2013), I argue that right-of-center governments generate a "Nixon goes to China" effect,[4] since they can more credibly commit to protecting elites' economic interests. Design features of elite taxes, including earmarking, sunset, and oversight provisions, can further contribute to assuaging elites' concerns.

In brief, whereas economic elites are generally reluctant to shoulder a greater tax burden, public-safety crises can soften this opposition – when affecting elites directly – and open the door to negotiations with the government. However, the deterioration of public-safety conditions is not enough to elicit elite taxation. Rather, the resulting tax arrangement will depend on the strength of business–government linkages. Robust linkages, which are typically present in right-of-center governments, contribute to overcoming mistrust between business elites and the government. These linkages – in the form of formal and informal collaboration mechanisms – facilitate agreements that in turn incorporate design features to tie governments' hands – including earmarks, sunset provisions, and civil society oversight. When linkages are weak, elite taxation is likely to fail, if attempted at all. Stronger linkages will make elite taxation more likely.

I support this theory by presenting empirical evidence from Latin America. Additionally, I evaluate competing explanations for their ability to account for variation in the extent to which elites have been engaged in the state-building process. These explanations include the availability of nonfiscal resources, such as natural resource rents and foreign aid (Morrison 2009; van de Walle 2001), and the degree of inequality in society (Agosín, Machado, and Schneider 2009). In the remainder of this chapter, I examine the historical difficulty in engaging elites in the state-building enterprise and contemporary crisis of violent crime affecting the region. Further, I discuss the importance of studying contemporary state building in Latin America and situate the book's scholarly contributions. Finally, I clarify the use of key concepts employed throughout and provide an outline of the organization of the book.

[4] In 1972, US President Richard Nixon traveled to the People's Republic of China as a first step in the thawing of Sino-American relations. Arguably, he was able to do so because of his credentials as a staunch anticommunist who could not be accused of being soft against Communism or China.

## ECONOMIC ELITES AND STATE BUILDING IN LATIN AMERICA

Economic elites have occupied a prominent place in the literature on state building, not only because of elites' concentration of resources but also because of their expectations regarding the prerogatives that must come in exchange of financing the coercive capacities of the state (e.g., Bensel 1991; Centeno 1997, 2002; Kurtz 2013; Lopez-Alves 2000; North 1981; Rasler and Thompson 1985; Slater 2010; Soifer 2015; Spruyt 1994; Tilly 1985, 1992). In particular, the literature points to existential crises as events that prompt elites to invest in state building in order to guarantee their own subsistence (Peacock and Wiseman 1961; Slater 2010). In the context of war, for example, medieval rulers often bargained with noble-dominated Estates over access to revenue to support the monarch's battlefield campaigns (Tilly 1992, 22). In fact, the extraction of resources from elites is so central in this literature that scholars have often defined the state in terms of its ability to tax. For Douglass North (1981, 21), for instance, the state is "an organization with a comparative advantage in violence, extending over a geographic area whose boundaries are determined by its power to tax constituents." Similarly, for Hendrick Spruyt, "the successful monopolization of violence itself will correlate with the ability of central governments […] to raise revenue" (2007, 202). In the words of Joseph Schumpeter, "an enormous influence on the fate of nations emanates from the economic bleeding which the needs of the state necessitates" (Swedberg 1991, 100).

In the Latin American context, however, scholars have documented the difficulty in engaging elites in the state-building enterprise compared with their European counterparts – even during times of existential crises such as war. Studying the responses of elites in Chile and Peru in the context of the War of the Pacific (1879–1883), for example, scholars have highlighted elites' reluctance to support the strengthening of the state's coercive apparatus (Centeno 1997, 2002; Kurtz 2009, 2013; Soifer 2009, 2015). When Chile's armies were approaching Lima in 1880, the Peruvian government attempted to levy a tax among elites to pay the troops and maintain the war effort, but the initiative was defeated in the legislature (Ugarte 1926, 165). Further, when the Peruvian government tried to borrow ten million soles from the population, it only raised one million mostly from the popular sectors because economic elites did not want to risk their wealth (Bonilla 1978, 99). On the Chilean side, the government failed on several occasions to adopt a wealth tax or an income tax (Sater 1986, 131).

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This experience was far from an anomaly in the region. During the first decades of independent life, the Mexican government sought to adopt a direct tax on elites to prepare for an imminent invasion from Spain in 1829. The opposition from elites was such that the government was overthrown by an elite-sponsored coup (Tanenbaum 1986, 34). This reluctance was prevalent again during the first French intervention in 1838 – also known as the Pastry War (Guerra de los Pasteles). Similarly, as American troops closed in on Mexico City in 1847 during the Mexican–American War, the Mexican government had a very difficult time negotiating loans from domestic sources because taxation was out of the question (Centeno 1997, 1593). In Bolivia, efforts by Antonio José de Sucre to adopt a direct tax on wealth contributed to an uprising that ended his government in 1828 (Lofstrom 1970). In Brazil, landowners consistently escaped the reach of the taxman, and discussions about adopting property or income taxes were consistently blocked by elites (Leff 1982). In fact, from the early years of independence, Latin American elites resented not only the financial burden that came with taxation but also being treated the same as other sectors of society – mainly Indians – for tax purposes (Lofstrom 1970, 282).

As Centeno (1997, 1594) has noted, "elites did not see the wars as threatening their social positions and thus did not have the incentive to permit greater political penetration. That is, the relevant elite did not appear to care which state ruled them as long as it was not markedly stronger than its predecessor." Rather, elites were more concerned about internal enemies. These enemies tended to be class or race based – and sometimes ideological as well – but keeping internal order did not require investing in the state apparatus.

Although major wars have been absent in the contemporary period in the region, elites' reluctance to invest in the state-building enterprise remains. In Guatemala, for instance, the government of President Julio César Méndez Montenegro (1966–1970) had to back down after adopting progressive tax reforms in 1966 that increased property taxes and closed loopholes because of the strong opposition of business sectors. Another attempt at increasing revenue through taxes on luxury goods ran the same fate the following year, in spite of the country's dire fiscal crisis (Best 1976, 63). This reluctance has not subsided even today. As Guatemala's former Minister of Finance Juan Alberto Fuentes Knight laments about recent efforts to tax elites,

> It is well known that in practice, many Guatemalan companies keep three books: what they show to the SAT [the tax authority] that reflects extremely low profits

or losses in order to pay low taxes; what they show to the banks to get loans, where they increase their profits to appear very successful; and the true accounts, that are secret (2012, 22).[5]

Although this discussion highlights the difficulty in engaging elites as partners in the state-building enterprise, economic elites are a sine qua non in the construction of the state. They are key actors in strengthening or undermining the core of political authority upon which regimes rest and depend (Centeno 2002, 2). As Benedicte Bull (2014, 119) points out, their "choices affect the centralization of power in the state, the ability to extract resources from society, and the establishment of a monopoly on legitimate violence."

To be sure, at times, elites have certainly played a favorable role in the construction of the state in Latin America not only in the early period of state formation but also in the contemporary period. For example, economic elites have played a fundamental role in post-conflict periods in Colombia, El Salvador, and Guatemala. Although one might disagree with their type of state-building project, in all three countries, "the domestic private sector was important in shaping both the political environment preceding the initiation of peace talks and the development of negotiations" (Rettberg 2007, 464). In Mexico, economic elites were central to the construction of the postrevolutionary state, both partnering with the government in the maintenance of the political regime and the creation of the so-called "stabilizing development" of the 1950s and 1960s (Ortiz Mena 1998; Tello 2010).

Further, there is evidence from other contexts that negative externalities in society can reach a point that compels elites to invest in state building. For example, de Swan (1988) points to the origins of the welfare state in Western Europe as an instance in which the potential threats of rising poverty prompted elites to fund the state's effort to expand social security institutions. In particular, the risk of internal revolt, the spread of disease, and the lack of labor due to migration were potential consequences that could affect elites' interests. More recently, Rueda and Stegmueller (2016) found that fear of crime results in more pro-distributive attitudes among European elites, including paying more in taxes. As Reis (2011, 95) observes in the Brazilian context, social awareness rather than good will might lead elites to perceive the problem as creating negative

[5] The recent revelations of elites' widespread use of offshore accounts meant to shelter wealth from the taxman, dubbed as Panama Papers and Paradise Papers, suggest that this behavior is more the rule than an exception. For respective overviews, see Harding (2016) and Forsythe (2017).

externalities, believe that something can be done about it, and feel that it is their responsibility to address it. Thus, although elites' investments in state building have been historically difficult, they have done so in key historical moments when their interests have been threatened.

## PUBLIC SAFETY AND THE CONTEMPORARY THREAT TO ELITES

Contemporary public-safety threats can be more direct for elites' interests than the limited conflicts of the nineteenth century. Whereas which state elites belonged to – whether Chile, Bolivia, or Peru – might not have been a concern for their economic interests and personal well-being then, the severe deterioration of domestic public-safety environments over the first decades of the twenty-first century directly threatened elites' wealth and lives in some countries. Latin America is today the most violent region in the world. It also holds the unenviable distinction of being the only region where homicide rates have increased in the twenty-first century (UN Office on Drugs and Crime 2014). The region averaged over 300 homicides per day, 110,000 per year, and more than 1.5 million between 2000 and 2015 (Villalobos 2015).

This public-safety situation is grim in comparative perspective. Latin America's average rate of twenty-three homicides per 100,000 people is almost four times the global average of six, about twice the rate of Africa, and more than seven times the rate of Europe. According to the UN Office on Drugs and Crime (2014), about a third of the homicides in the world take place in Latin America, but only 9 percent of the world's population lives there. Honduras is the most dangerous country in the world outside of a war zone, with 104 homicides per 100,000 people. The second most dangerous is Venezuela (58), followed by Colombia (44), El Salvador (44), and Guatemala (40). Although there is considerable variation in the region, as Figure 1.1 shows, only the countries at the bottom of the list – Argentina (6), Chile (5), and Cuba (5) – experience rates of violent crime close to the world's average.

Not surprisingly, public safety has replaced economic problems as the main public concern across Latin America. As Figure 1.2 shows, Argentines, Colombians, Costa Ricans, Ecuadorans, Salvadorans, Guatemalans, Hondurans, Mexicans, Panamanians, Peruvians, Uruguayans, and Venezuelans identify public safety as the number one problem in their country. In the rest of the countries where surveys have been conducted, it is a close second (Latinobarómetro 2013).

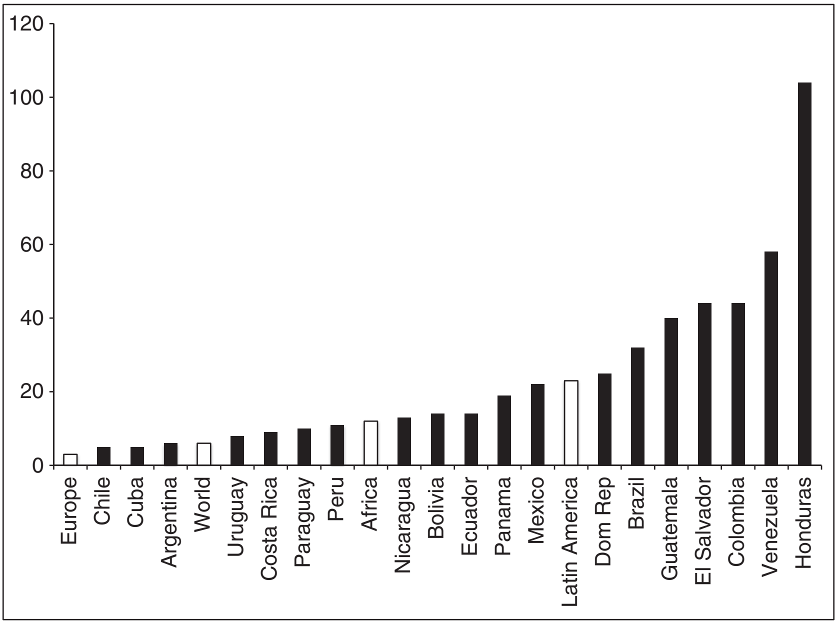


FIGURE 1.1 Homicide rates in Latin American countries and selected regions, ca. 2014.
*Source:* UNODC (2014).

The security threats generating such levels of concern across the region can be fairly concrete, such as the Armed Revolutionary Forces of Colombia (Fuerzas Armadas Revolucionarias de Colombia [FARC]) – a well-identified guerrilla group that would wear military uniforms and even control part of the Colombian national territory – or fairly abstract or diffuse, as is the case of the violent but loosely organized drug cartels operating as a multinational corporation under a franchising scheme, such as Mexico's Sinaloa Cartel. Either way, however, these threats translate into what Diane Davis (2010, 36) has referred to as "insecurity that permeates the most routine of daily activities, and is best seen in rising homicides, accelerating crime rates (despite a decline in reportage by victims), unprecedented levels of police corruption and impunity and an inability to move freely around with fear of armed robbery, violent attack, or extortion."

This type of violence is different from the historical patterns of civil conflict the region had experienced until the late twentieth century. Latin America had seen its fair share of internal conflict in the form of civil wars and insurgencies, such as Mexico's social revolution of 1910 and


FIGURE 1.2 Public safety as a public concern in Latin America.
*Source:* Latinobarómetro (2013).

the Cristero War that ensued in the late 1920s or Costa Rica's Civil War in 1948. During the Cold War, proxy wars between the United States and the Soviet Union were fought in El Salvador and Nicaragua, for example. In all of these cases, there was major mobilization among internal factions. In addition to civil conflicts, the region also witnessed a high degree of organized violence perpetrated by the state during the period of military dictatorships – mainly right wing but also left wing – in the 1960s, 1970s, and 1980s.

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The region's contemporary landscape of violence has changed. In contrast to the politically motivated and often state-led violence that had prevailed in the twentieth century, patterns of violence have again become less political and more Weberian. Rather than leading violence against certain social sectors, governments find themselves unable to assert control over it.

This shift in the nature of violence poses a very different security dilemma for elites in the contemporary period. Whereas, historically, business elites tended to benefit from state-led violence in the region – by eliminating competing political and economic projects – the new form of violence affects them directly and more indiscriminately in democratic contexts.

For example, the poor public-safety environment can affect elites' wealth directly in several ways. These include the lost wealth when they become victims of theft or extortion, the foregone business because of depressed economic activity, and the increased costs associated with protection. The private security industry has boomed since the 1980s at an average annual growth rate of 10 percent, even in countries considered safe as in Chile (Ungar 2007, 20). There are almost 50 percent more private security personnel (3,811,302) than government police (2,616,753) for the region as a whole. In Brazil, Costa Rica, Honduras, Guatemala, and Panama, the ratios are greater than two private guards to one police officer (United Nations Development Program 2013, 150). The region's private security guards are the most armed in the world, estimated on the basis of rates of gun possession per employee (United Nations Development Program 2013).

According to an estimate by the Inter-American Development Bank, the region's GDP per capita would be 25 percent larger if the region had a crime rate comparable to the world's average (Prillaman 2003, 1). In some places, the costs associated with the loss of property brought about by crime are a considerable proportion of GDP, as in Honduras (8 percent) or Paraguay (6 percent) (United Nations Development Program 2013, 103).[6] At the firm level, companies spend on average about 6 percent of their budgets in security, similar to Colombia (Nelson 2000, 22). While violent crime tends to affect all sectors of society, evidence suggests that in some countries – such as Costa Rica and Honduras – the wealthiest sectors are most affected by this type of crime (United Nations Development Program 2013, 65).

[6] This figure does not take into account the dollar value corresponding to the loss of lives or the cost to the government associated with investigation, prosecution, and social rehabilitation.

Further, the region's transition to democracy constrained governments' ability to address violent challenges. Although repression still takes place, the protection of civil liberties and human rights more broadly has taken a more prominent place in the region. Authoritarian solutions in the form of states of emergency, torture, and extrajudicial executions are politically costly for democratically elected governments.

The implications for business elites are significant. No longer able to benefit from state-sanctioned violence, and with governments unable to guarantee the necessary security conditions, elites are confronted with state-building imperatives in the form of public-safety crises. At the same time, with wealth highly concentrated in a handful of elites in each country, they are governments' natural go-to place to find additional resources to face the crises.

This type of threat is consistent with Peacock and Wiseman's (1961, 27) notion that, due to their importance for the fate of the polity, national crises generate state-strengthening dynamics "that in quieter times would have been intolerable." If Slater (2010, 5) is correct that "violent internal contention can 'make the state' as surely as international warfare," then the contemporary public-safety threat can translate into state-building efforts given what is at stake for elites.

## THE IMPORTANCE OF CONTEMPORARY STATE BUILDING IN LATIN AMERICA

Improving governments' provision of public safety has become a priority across the developing world since the third wave of democratization (Bergman and Whitehead 2009). However, the trend in terms of Latin American states' capacity to address this issue has run in the opposite direction since the 1980s. In particular, the period of dual transitions – to democracy and to a market economy – in Latin America led to the simultaneous retrenchment of the state in two ways.

The first one took place in the political arena, with the end of authoritarian regimes – most of them military in nature – and the transitions to democracy. Before the transitions, governments had been engaged in the persecution and control of different sectors of society and had developed domestic security apparatuses and intelligence agencies to do so. In Mexico's authoritarian regime, the Federal Security Directorate (Direccion Federal de Seguridad – DFS) – created for the purpose of "preserving the internal stability of Mexico against all forms of subversion and terrorist threats" – became an extensive and effective arm of the state for coercion and maintaining order. In countries with military dictators, these agencies engaged in more systematic repression, as with the Dirección de Inteligencia Nacional (DINA, Directorate of National Intelligence) in Chile, the Serviço Nacional de Informações (SNI, National Information Service) in Brazil, or the Secretaría de Inteligencia de Estado (SIDE, State Intelligence Agency) in Argentina, which spied on and persecuted groups suspected of subversion – often those that sympathized with leftist ideologies, community organizers, union leaders, and leftist politicians (Hunter 1997). In the political sphere, during this period, the state became synonymous with control over society and coercion – both of which require relatively strong state intervention and strength.

However, with the transitions to democracy came the withdrawal of the state from the political and social arenas. The coercive arms of the state were curtailed, and its budgets and personnel were reduced (Stepan 2015). Although to different degrees, and rarely to the extent that we see in advanced democracies, civil society gained considerable room to conduct activities without government intervention.

The second retrenchment took place in the economic sphere. During the 1950s, 1960s, and 1970s, Latin America enjoyed a gilded period of economic development – what has been dubbed in some countries as the period of stabilizing development – in which economic growth took place with relatively low inflation in the context of Import Substitution Industrialization (ISI), at least in the large economies where a domestic market was feasible as an engine of growth such as Argentina, Brazil, and Mexico. However, the ISI model ran into difficulties and out of steam during the late 1960s and 1970s (Hirschman 1968). Whereas governments had made important strides toward industrialization, the closed nature of the economy and the absence of competition resulted in goods and services of poor quality and high prices. Inflation and large government bureaucracies became important problems, and government intervention came to be associated with inefficiencies (Murillo 2001). Therefore, one of the main objectives of the structural reforms adopted by governments across the region during the 1980s and 1990s was to take the government out of the economy and bring in the market (Williamson 1990). To achieve this, governments privatized state-owned industries, laid off government employees, and eliminated subsidies and price controls, following the mantra that only the market would cure what the government had corrupted (Corrales 2002).

Although structural reforms did bring many benefits, including reining in inflation, reducing government inefficiencies, and improving the quality and prices of goods and services available to consumers (Baker 2009), they also brought important costs. Almost overnight, for example, it brought an increase in inequality as formally employed workers were pushed into the informal sector, relative prices increased substantially, and social security systems were decimated (Huber and Zolt 2004; Roberts 2012; UN Economic Commission for Latin America and the Caribbean 2010, 53). An important long-term consequence of these reforms was that the state became much less able to provide a social safety net for its citizens, from education and health care to pensions.

State retrenchment in both arenas has contributed to the deterioration of public order in Latin America. The vacuum left behind in terms of a safety net generated inequality and the weakening of a floor that guaranteed a minimum level of education, health, and general well-being. The legacy of the reforms included the "deregulation and contractual flexibilization, which fostered informal employment and unemployment, [...] privatized and commoditized social security, [...] and the underfunding of education and health services," all of which exacerbated inequality in the region (UN Economic Commission for Latin America and the Caribbean 2010, 190). Although there was a slight dent in the region's inequality in the 2000s (Huber and Stephens 2012; Lopez-Calva and Lustig 2010), Latin America remains the most unequal in the world. This inequality has contributed to the visibility of social disparities, whose salience can become fodder for alienated sectors of society that might seek redress through extralegal means.[7]

However, the minimalist mantra that has prevailed since the 1980s for the role of the state in economic matters has affected governments' ability to respond to the public-safety challenge. A common denominator across the region is governments' struggle to fund law enforcement agencies, prosecutors' offices, and courts systems (Bailey and Dammert 2005), without compromising prevailing levels of spending in other areas.[8] In particular, police forces tend to be underpaid and poorly equipped compared

[7] Research by Soares (2004) has found that there is a strong association between inequality and violent crime. Soares points to a 1 percent increase in the Gini coefficient resulting in a 1.5 percent increase in homicides. Other studies by the World Bank support the relationship between the two variables (Fajnzylber, Lederman, and Loayza, 1998, 2002). For a critique arguing the relationship is spurious, see Neumayer (2005).

[8] Existing social safety nets were generally dismantled during the period of structural reforms in the 1980s and 1990s (Pribble, Huber, and Stevens 2009, 390). This has contributed to the steady rise of crime rates – particularly violent crime – in many countries, which has undermined the quality of democracy in these places.

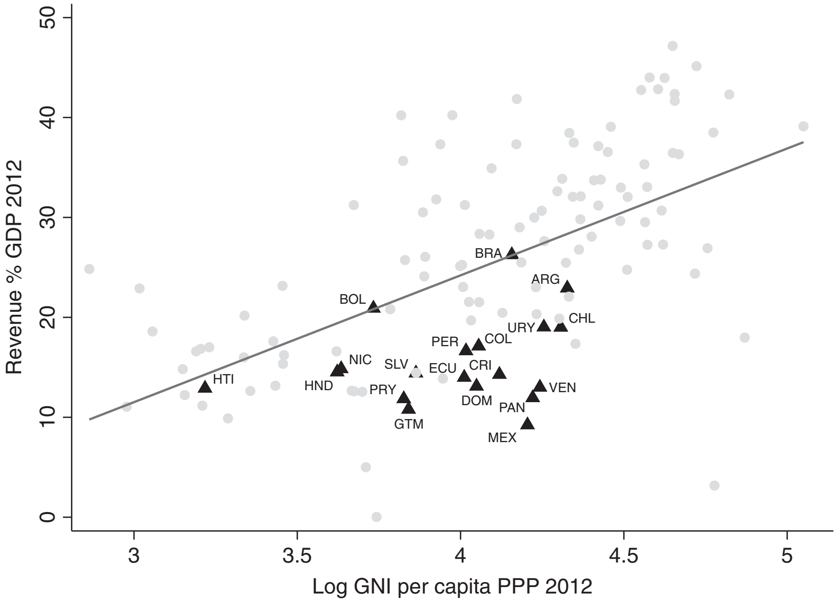


FIGURE 1.3 Fiscal revenue as a share of GDP by level of development.
*Source:* UN Economic Commission for Latin America and the Caribbean (2015) and Organization for Economic Cooperation and Development (2015).

to organized crime. Most policy discussions point to the need to improve police and justice systems, but governments' ability to increase extraction is largely taken for granted. This is an important oversight, given the difficulty in extracting resources from society (Migdal 1988). The elements of struggle arise because taxation represents "a permanent transfer of purchasing power by the taxpayer to the government," (Gilbert 1970, 4) a decrease in the value of their wealth as a result of taxation.

At the same time that Latin American countries are facing this public-safety challenge and citizens' demands to address it, governments have struggled to find the resources necessary to fund their security efforts. Indeed, the region has had difficulty in extracting adequate levels of fiscal resources from society, with most countries collecting in taxes between 9 and 26 percent of GDP.[9] As Figure 1.3 shows, with a handful of exceptions, Latin American countries' levels of fiscal extraction are well below the expectation for countries with comparable levels of development across the world. These low levels of taxation impair governments' ability to

[9] Excluding social security taxes.

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invest in alleviating poverty, improving security forces, and administering justice, all of which are crucial for the provision of public safety.

## CONTRIBUTIONS TO THE STUDY OF TAXATION, PUBLIC SAFETY, AND STATE BUILDING

This book combines the study of three main topics, namely taxation, public safety, and state building. It advances our understanding of different state-building arrangements between government and society, the role that economic elites play in them, and the factors that make such arrangements possible. Compared to previous studies, this book makes contributions in each of the following areas.

### State Building

First, this book makes a contribution to our understanding of the state in Latin America. Much of the research on the state in the region focuses on the early period of state formation after independence from the Spanish and Portuguese crowns (e.g., Centeno 1997, 2002; Centeno and Ferraro 2014; Kurtz 2009, 2013; Lopez-Alves 2000; Saylor 2014; Soifer 2009, 2015). However, there is comparatively little research in political science on the strengthening of the state in more recent times. Instead, work on the contemporary period has focused on bureaucratic capacity (e.g., Bersch, Praça, and Taylor 2017; Bresser Pereira and Spink 1999; Geddes 1996; Grindle 2000; Schneider 1991) or methodological considerations regarding the conceptualization and measurement of state capacity (e.g., Altman and Luna 2012; Giraudi 2012; Kurtz and Schrank 2012; Luna and Toro Maureira 2014; Soifer 2012).

In contrast, this book builds on the insights from the literature on internal conflict and state building to evaluate the consequences of the prevailing situation of violence in the region. In doing so, it engages existing debates as to whether internal conflict results in state building or state-weakening dynamics, but is among the first to apply it to violent crime. Whereas some authors have made the case that there are state-building consequences of civil conflict (Holden 2004; O'Kane 2000; Rodríguez-Franco 2016; Slater 2010), the prevailing view is that it "destroys, by definition, state capacity" (Cárdenas 2010, 2; see also Barnett 1992; Centeno 2002, 141; Lopez-Alves 2001, 162; Migdal 1988, 274).

Contrary to this dominant perspective, I argue that contemporary public-safety challenges have exposed elites to threats that elicit similar

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state-building opportunities as scholars have identified for other types of conflicts. However, I also show that high-stake public-safety crises are not a sufficient condition for state building to take place. Rather, the crises have to affect elites and the right combination of factors on the supply side must be present to overcome mistrust between economic elites and the government.

## Taxation

With notable exceptions, studies on taxation in Latin America have tended to ignore the political underpinnings of taxation. This is a significant oversight because political conflicts are at the heart of the obstacles to reforming tax systems. As Wagner Faegri and Wise (2011, 246) have noted, "Despite the central role of taxation in economic development and growth, political economists have yet to develop a program of research that fully captures the politics of tax reform in emerging-market economies. Although legislative coalitions for economic reform have emerged in even the most contentious political environments, tax reform remains one of the more contested and understudied issues in Latin America."

This book aims to contribute to addressing this oversight, by helping to understand the determinants of fiscal reforms in general and elite taxation in particular. It helps to understand the relative merits of different factors deemed central by the literature, including the role of crises (Bird 1992; Mahon Jr. 2004a), elites (Castañeda 2017; Fairfield 2015; Lieberman 2003; Schneider 2012; Weyland 1997), and the nature of the relationship between interest groups and the state (Schneider 2004, 2012).

Until recently, little attention had been paid to elite taxation as a matter of political economy.[10] Instead, the assumption has been that elites already paid taxes in systems with highly narrow tax bases. Whenever specific groups have been studied to find ways to extract additional revenue, it has tended to be the informal sector and micro and small enterprises. For example, a volume by Alm, Martinez-Vazquez, and Wallace (2004) focuses on assessing the magnitudes and implications of not taxing the informal sector – what they aptly call "the Hard to Tax." Similarly, research by Joshi, Prichard, and Heady (2014) on hard to tax sectors focuses on strategies to extract fiscal revenue from the informal economy. Only recently has elite taxation gained interest (e.g., Fairfield 2010,

[10] Although not strictly on taxation, Elisa Reis' (2011) work on elites' attitudes toward inequality constitutes an exception. Other recent work includes Amsden, DiCaprio, and Robinson (2015).

2013, 2015; Flores-Macías 2014; Lieberman 2003; Mahon Jr. et al. 2015; Scheve and Stasavage 2016; Schneider 2012), along with the increasing recognition that the wealthiest sectors in society do not necessarily pay the highest effective tax rates in many developing countries (e.g., Fairfield and Jorratt 2015).

In this context, this book contributes to theorizing the conditions under which governments can extract additional revenue from society to provide public goods, and elites might be willing to contribute funds for this purpose. By shedding light on both the conditions under which elites are willing to pay taxes toward public safety and the type of taxes they might support, this research seeks to provide much-needed tools with which to strengthen the state. The findings should inform taxation efforts across the developing world, where low levels of fiscal extraction, deteriorating security conditions, and mounting public-safety expenditures are common.

## Public Safety

The third contribution of this book is that it reconsiders the relationship between the demand for public goods and the willingness to pay for them in the context of public safety. Thus far, most of the literature has focused on the general aspects of a theoretical fiscal contract between governments and citizens. As Margaret Levi (1988) and others (e.g., Castañeda 2017; Castañeda, Doyle, and Schwartz 2020; Mahon Jr. 2019; Moore 2004; Timmons 2005) have argued, there is an expectation that comes with handing over part of one's wealth to the government, or what Fjeldstad and Semboja (2001) have dubbed the "terms of trade" in this relationship. In other words, there is a theoretical expectation that the level of satisfaction with the provision of public goods will contribute to determining people's support for increased taxation. Individuals feeling shortchanged in the exchange will likely be less supportive of increases in the tax burden.

However, the empirical work in this regard has ignored public safety in spite of its importance in the public good hierarchy. Instead, much of the research has been conducted with respect to compliance as a function of general views toward the government (e.g., Cummings et al. 2009; Fjeldstad and Semboja 2001) or has focused on willingness to pay for public goods such as parks and recreation (e.g., Glaser and Hildreth 1996).

This research is among the first to study the relationship between public safety and fiscal extraction. On the one hand, it seeks to understand how perceptions of public safety affect elites' willingness to pay more in taxes.

It shows that, for the purposes of engaging elites in the state-building enterprise, perceptions of poor public-safety provision are different from those of deficits in other public goods such as education or healthcare. On the other hand, it analyzes the difference that extractive efforts have made in the public-safety realm. It suggests that elite taxes for public-safety purposes can make a difference in generating virtuous state-building cycles in which both fiscal extraction and public safety are strengthened.

## CONCEPTUAL CLARIFICATION

Several concepts employed throughout the book require clarity in their definition, because they might have multiple connotations or might even be normatively charged.

The first one is economic elites, defined as those individuals who, due to their control over economic resources and means, "stand in a privileged position to formally or informally influence decisions and practices that have broad societal impact" (Bull 2014, 120). Or following James Robinson (2010, 3), I consider economic elites as a "distinct group within a society which enjoys privileged status and exercises decisive control over the organization of that society" because of their financial resources. In societies where wealth is concentrated in the hands of a few, economic elites are a natural sector for governments to turn to in order to gain additional resources. Unfortunately for governments, economic elites are also the sector best positioned to resist taxation (Castañeda 2017; Fairfield 2015).

The second is elite taxes, by which I mean government-mandated, compulsory contributions, including financial charges based on the value of the property, personal income, and corporate income, whose incidence falls disproportionately on the wealthiest sectors of society. While there can be other ways through which governments force economic elites to transfer wealth to public coffers, including the forced expropriation of assets, this book does not consider such extreme forms of extraction. Rather, it focuses on the formal and informal negotiations between governments and elites that can inform potential tax reforms in the future.

The third is state building. I borrow from Hillel Sofier and Matthias vom Hau (2008) in defining state building as improving the state's ability to exercise control over the territory and regulate social relations.[11] In the words of Centeno et al. (2017, 3) it is the ability to implement

[11] This definition is based on Mann's (1984) conceptualization of infrastructural power. See Soifer and Vom Hau (2008) for a distinction from state autonomy.

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governing projects. While scholars diverge on the relevant dimensions of state capacity, two are recurrent in most prominent definitions (e.g., Mann 1984; Skocpol 1985; Soifer 2012; Tilly 1985). The first is *public safety*, or the extent to which order is maintained across the country, which follows Weber's logic of the monopoly of legitimate violence in a given territory and responds to the fact that, regardless of ideological preconceptions about the role of the state, the provision of security remains one of its fundamental functions (Weber 1965). The second dimension, *fiscal extraction*, is often considered an approximation of administrative capacity writ large because of the centrality of extraction for the state to perform the rest of its functions (North 1981, 21; Spruyt 2007, 202).

Regardless of ideological disagreements as to what constitutes the core functions of the state – that is, whether the state should be involved in providing such services as health care and education, and to what extent – there is a consensus regarding the centrality of public safety and fiscal extraction as among the main functions of the state. The focus of the book – elite taxation toward public safety – embodies these two fundamental dimensions of the state like few other issues. They combine a state's first and foremost responsibility toward its citizens – guaranteeing their personal safety – with the sine qua non to fulfil it – the extraction of fiscal resources.

Although much of the research on state capacity focuses on the period of early state formation, this definition understands state building *not* as a feature that ended with the genesis of nation-states, but as a process that continues into the contemporary period and can take place at key moments related to the establishment of the legitimate monopoly of violence and the extraction of resources to fund it (Mazzuca 2021).[12] This implies that state capacity is likely to vary, not only across states but also over time (Kurtz and Schrank 2012, 617). Although many of the forces shaping state capacity can be slow moving (Kurtz 2013, 11; Soifer 2009), historical examples suggest that changes in state capacity may also occur in a relatively short period of time, particularly in the developing world. Cases in point are the rapid deterioration of state capacity in Cuba after foreign resources dried up with the Soviet collapse (Eckstein 2004, 316), and the quick setback for Haiti's state capacity as a result of the 2011 earthquake (Messner and Knight 2011).

[12] As noted by Aaron Schneider (2012, 31), state building is something that can occur at different points in time.

In particular, although the literature emphasizes major crises such as war and other critical junctures (Collier and Collier 1991; Kurtz 2013; Lipset and Rokkan 1967) as key moments shaping states, they are also shaped by everyday practices. Therefore, "in order to understand why and how weak or strong institutions evolve, we must also consider how key actors relate to weak institutional contexts and how the practices they apply contribute to further weakening or strengthening" (Bull 2014, 119).

## RESEARCH DESIGN AND PLAN OF THE BOOK

The main objective of the study is to contribute to our understanding of the political factors behind the adoption of elite taxes for public safety in some countries but not others. For this purpose, in the following pages, I make the case for the importance of understanding both demand and supply factors that make possible the fiscal and security strengthening of the state. I do so through small-n qualitative research.

Throughout the book, I rely on a number of primary and secondary sources to support my findings, including interviews with relevant actors such as leaders of business organizations, prominent businesspeople, government officials, legislators, party leaders, and journalists. In doing so, I incorporate views from a variety of perspectives to triangulate and corroborate accounts as much as possible. Additionally, the book draws on government reports, congressional transcripts, business organizations' documents and minutes, political party platforms, local newspaper articles, and other scholars' work.

Chapter 2 introduces the dependent variable by documenting variation in the adoption of security taxes in Latin America. It describes in detail the cases where security taxes on elites have been adopted, including in Colombia, Costa Rica, Honduras, and Mexico,[13] as well as cases where these taxes were first defeated in the legislature but subsequently approved, as in El Salvador, discussed but abandoned, as in Guatemala, or not discussed, as in the rest of the region. These countries span the potential values across the dependent variable, namely the adoption of wealth taxes on elites, adoption of a lighter tax burden on elites through more general taxes, or no adoption of elite taxes. These cases also show variation longitudinally, with Colombia, Costa Rica, and Honduras approving the taxes on more than one occasion, and El Salvador adopting the security taxes only the second time they were debated in Congress.

[13] In Mexico, only subnational taxes for public safety have been adopted at the state level.

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In discussing the different experiences, Chapter 2 documents the types of security taxes adopted, their purpose, and impact on public-safety expenses and the government's fiscal income more generally. By identifying the different types of security taxes and their destination, this chapter contributes to our understanding of the extent to which economic elites have participated in the strengthening of the state in the contemporary period.

Chapter 3 introduces the causal logic behind a theory of elite taxation. It explains how the conventional crisis-oriented approach in the literature cannot explain variation in efforts to involve elites in the state-building enterprise. Instead, it argues that both demand and supply factors must be taken into account, and disaggregates the components of each, including whether elites can satisfy their demand for public goods in the private market, the ideology of the government, and the extent to which linkages between business elites and the government exist.

Drawing on the main explanations put forth to account for the elite's efforts to strengthen the state, Chapter 3 also evaluates alternative explanations, including the availability of nonfiscal resources such as oil rents and foreign aid (Morrison 2009; van de Walle 2001), and the degree of inequality in society (Agosín, Machado, and Schneider 2009). These explanations are less parsimonious and show a weaker ability to account for differences in state strengthening among elites across cases. The evaluation takes place in three steps. First, I introduce the relevant theoretical considerations for each explanatory factor and formulate corresponding hypotheses. Second, I operationalize each factor with empirical evidence from the region. Finally, I compare the extent to which these explanatory factors covary with the dependent variable.

The causal logic of elite taxation in the adoption of security taxes is further explored through case studies in the following four chapters. Chapter 4 studies the case of Colombia's recurrent security taxes. Beginning in 2002, the government in that country adopted a series of security taxes on the wealthy to address a deplorable public-safety situation. With a historically difficult conflict and traditional set of elites, Colombia is the least likely case in which elites would have become invested in financing the strengthening of the state. Moreover, with the approval of security taxes on the elites on multiple occasions across administrations, the Colombian case allows us to study the conditions under which this investment becomes sustained over time.

Chapter 5 studies the case of Costa Rica, an example of a diminished form of elite taxation due to weak linkages between the government and business elites. Whereas average levels of violence have remained lower in Costa Rica compared to several of its Central American neighbors, economic elites concentrated in the province and canton of San José experienced sharp increases in violent crime. In 2011, the country adopted a flat tax on corporations and earmarked its revenue for public-safety purposes. However, Costa Rica's left-of-center administrations struggled to overcome obstacles related to elites' mistrust in government, which led to a much less targeted form of taxation.

Chapter 6 focuses on the case of El Salvador, which illustrates how temporal variation in the strength of government-elite linkages played a role in explaining the difference between a failed attempt in Mauricio Funes' administration and a successful one in Salvador Sánchez Cerén's administration. Even in the context of one of the highest levels of violent crime in the region, the country's first left-of-center administration failed to adopt elite taxes in order to increase public-safety expenditures. It wasn't until the government formed a coalition with right-of-center parties and linkages with the business sectors improved, that an increased tax burden on the wealthy became possible.

Chapter 7 studies the case of Mexico. This country's security situation has deteriorated dramatically over the last decade; yet, whereas a crisis-driven explanation would predict elites' investment in strengthening the state, the federal government has not adopted – or even entertained – security taxes. Instead, this chapter shows how Mexican elites have been relatively less affected than their counterparts elsewhere in the region. This has translated into much less pressure on the government to address the public-safety situation. Consequently, elites' impetus to invest in the fiscal strengthening of the state has been subdued at the national level and has taken place instead at the state level.

I conclude the book with Chapter 8 by addressing the broader implications of the study's findings. First, I discuss the theoretical implications for the study of state building, public safety, and taxation. Next, I evaluate the security benefits that elites' investment in strengthening the state has brought about in the region. In the final section, I address the sustainability of these efforts and their potential consequences for other aspects of political and economic development.

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