State-Building and Tax Regimes in Central America

In Central America, dynamic economic actors have inserted themselves into global markets. Elites atop these sectors attempt to advance a state-building project that will allow them to expand their activities and access political power, but they differ in their internal cohesion and their dominance with respect to other groups, especially previously constituted elites and popular sectors. Differences in resulting state-building patterns are expressed in the capacity to mobilize revenues from the most dynamic sectors in quantities sufficient to undertake public endeavors and in a relatively universal fashion across sectors. Historical, quantitative, and qualitative detail on the five countries of Central America are followed by a focus on El Salvador, Honduras, and Guatemala. The greatest changes have occurred in El Salvador, and Honduras has made some advances, although they are almost as quickly reversed by incentives, exemptions, and special arrangements for particular producers. Guatemala has raised revenues only marginally and failed to address problems of inequity across sectors and between rich and poor.

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Acronyms

AHIBA    Honduran Association of Banking Institutions
AHMON    Honduran Association of Municipalities
AIFLD    United States Institute for the Development of Free Labor
ALBA     Bolivarian Alliance for the Americas
ANDI     National Association of Industries
ANDI     National Industrial Development Association
ANEPE    Salvadoran Private Enterprise Association
ARENA    Republican National Alliance
ASC      Civil Society Assembly
ASESA    Agreement on Socioeconomic and Agrarian Issues
ASIES    Social Research and Study Association
BCIE     Central American Bank for Economic Integration
CACIF    Coordinating Committee of Agricultural, Commercial, Industrial and Financial Associations
CACM     Central American Common Market
CAEM     Entrepreneurial Chamber
CBI      Caribbean Basin Initiative
CD       Democratic Convergence
CGS      General Union Central
CGT      General Workers’ Central
CICIG    International Commission against Impunity
CIEDEGV  Evangelical Church of Guatemala Conference
CLE      Free Market Chamber
COPMAGUA Coordinator of Mayan People’s Organizations in Guatemala
<table>
<thead>
<tr>
<th>Acronyms</th>
<th>Description</th>
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<tr>
<td>COS</td>
<td>Collective of Social Organizations</td>
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<tr>
<td>CPPF</td>
<td>Preparatory Commission of the Fiscal Pact</td>
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<td>CTH</td>
<td>Honduran Workers’ Confederation</td>
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<td>CTS</td>
<td>Salvadoran Laborers Central</td>
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<td>CUTH</td>
<td>Unitary Workers’ Central</td>
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<td>DEES</td>
<td>Department for Economic and Social Study</td>
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<td>DEI</td>
<td>Executive Tax Directorate</td>
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<tr>
<td>FEDECAMARA</td>
<td>Federation of Chambers of Commerce and Industry</td>
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<td>FENAGH</td>
<td>National Federation of Agriculturalists and Cattle</td>
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<td>FENASTRAS</td>
<td>National Federation of Salvadoran Workers</td>
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<td>FIDE</td>
<td>Foundation for Investment and Export Development</td>
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<td>FLACSO</td>
<td>Faculty of Latin American Social Sciences</td>
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<td>FOSDEH</td>
<td>Social Forum of External Debt and Honduran</td>
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<td>FOSDEH</td>
<td>Development</td>
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<td>FMLN</td>
<td>Farabundo Marti National Liberation Party</td>
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<td>FRG</td>
<td>Guatemalan Republican Front</td>
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<td>FUSADES</td>
<td>Salvadoran Foundation for Economic and Social</td>
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<td></td>
<td>Development</td>
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<td>GANA</td>
<td>Grand National Alliance</td>
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<td>ICEFI</td>
<td>Central American Institute for Fiscal Studies</td>
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<td>IEMA</td>
<td>Mercantile and Agribusiness Tax</td>
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<td>IETAAP</td>
<td>Extraordinary and Temporary Tax in Support of</td>
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<td>the Peace Accords</td>
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<td>Institute of Political, Economic, and Social</td>
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<td>Studies</td>
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<td>LET</td>
<td>Tax Equity Law</td>
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<td>MINUGUA</td>
<td>UN Mission to Guatemala</td>
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<tr>
<td>NGO</td>
<td>nongovernmental organization</td>
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<tr>
<td>PAN</td>
<td>Party of National Advancement</td>
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<td>PCN</td>
<td>National Conciliation Party</td>
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<tr>
<td>PDC</td>
<td>Christian Democratic Party</td>
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<td>PL</td>
<td>Liberal Party</td>
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<td>PN</td>
<td>Nationalist Party</td>
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<td>PP</td>
<td>Patriotic Party</td>
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<td>RIT</td>
<td>Temporary Import Regime</td>
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<td>SAT</td>
<td>Tax Administration Superintendence</td>
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<td>SICA</td>
<td>Central American Integration System</td>
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<tr>
<td>UASP</td>
<td>Public Sector Analysis Unit</td>
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<td>UNE</td>
<td>National Unity of Hope</td>
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Acronyms

UNOC  National Unity of Workers and Peasants
UNTS  National Salvadoran Workers United
URNG  Guatemalan Revolutionary National Unity
URNG  National Revolutionary Unity of Guatemala
USAID U.S. Agency for International Development
VAT   Value-Added Tax
ZIP   Industrial Processing Zone Laws
ZOLI  Tax Free Zone
ZOLT  Tax Free Tourism Zone
Preface

In 1993, I arrived in San Antonio Los Ranchos, El Salvador, a community of repatriated refugees and Farabundo Martí Front for National Liberation (FMLN) ex-guerrilla combatants not far from the Honduran border. I was assigned the task of teaching them accounting skills, the set of double-ledger calculations that could tell the men that they were losing money on the sides of mountains they cultivated with back-breaking labor and indicate to the women that they were barely breaking even on the putting-out system of sewing they conducted in their homes. I lived among them for a year, sharing their experiences of the war and seeing their struggles to care for family and community. Everything I now understand about global political economy I first learned from them.

This book is close to my heart because Central America is close to my heart. While I lived in El Salvador for a year, I toured the isthmus by motorcycle, and I was struck by the beauty and the horror of the region—spectacular mansions and abject poverty. To help me make sense of these contrasts, I owe much to the community leaders I met in San Antonio Los Ranchos and associated movements, men like Father Jon Cortina. I also owe a great debt to José Roberto Gochez, his wife Ana Teresa, and children Diego, Antonio, and Rebeca. They were my Salvadoran family, welcoming me into their home on nights spent in San Salvador, making sure I did not crack my head open riding a motorcycle on still war-torn roads. Roberto was my boss for 1993–1994, he is now a vice minister of the Salvadoran government, and he has been a friend and source of insights always.

To begin to organize such insights for myself, I returned to graduate school and wrote a Master’s thesis about FMLN political strategy in...
its transition from guerrilla fighting force to electoral competitor. I was guided through graduate school by attentive and wonderful advisors and professors, especially David Collier, Ruth Berins Collier, David Leonard, and Henry Brady. They helped me put order to my thoughts on political economy, teaching me especially to choose questions that are interesting and important, and how to go about answering such questions. Of course, no graduate school experience is completed alone, and I could never have survived without the companionship and incredibly good ideas of my colleagues, all of whom are still good friends: Ben Goldfrank, Ken Greene, Marcus Kurtz, Emil Levendoglu, Evan Lieberman, Julia Lynch, Khalid Medani, David Moon, Marc Morje-Howard, Lise Morje-Howard, and Lauren Morris-McLean. While learning from them in graduate school, I began an ongoing curiosity about Brazil, where I saw global economic change through the experience of a troubled, but emerging, developing world power.

My reintroduction to Central America came in 2001, when I joined the Institute of Development Studies at the University of Sussex, and I met my wife, Rebeca Zuniga-Hamlin, a Nicaraguan who reminded me that the small, open, vulnerable countries of Central America have much to teach us about the highs and lows of the global economy. Rebeca and her family, brother Marcelo and mother Maria, along with their community of friends in Nicaragua and Guatemala, have taught me much about the role of struggle and dignity and justice.

At the Institute of Development Studies, I was encouraged to narrow my political economy focus to public finance issues, especially taxation. I was guided in this task by excellent colleagues: Arnab Acharya, Robert Chambers, Richard Crook, John Gaventa, Peter Houtzager, Richard Jolly, Anu Joshi, Raphie Kaplinsky, James Manor, Lyla Mehta, Mick Moore, Peter Newell, Rachel Sabates-Wheeler, and Hans Singer. Working in the U.K. taught me a different way to be an academic and provided opportunities to explore methodologies, empirical cases, and policy engagement that would never have been available to me in the United States.

One such opportunity was a U.K. Department for International Development placement in a temporary position at the Inter-American Development Bank (IADB), also supported by the Swedish International Development Cooperation Agency and Norwegian Agency for Development Cooperation. At the IADB, I was placed in the Central America and Caribbean division, directed by Máximo Jeria, and assigned to Chief Economic Advisor Manuel Agosín. I joined his team of researchers, Roberto Machado, Claudia Martinez, Vibeke Oi, Humberto Petrei,
Preface

and Alejandro Tamola, who had devised fiscal reforms for the governments of the region, but they were baffled as to why so few seemed to get off the ground. They wanted a political scientist to help them understand, and in the process they taught me to engage and understand economist colleagues. Manuel was particularly helpful as a guide for how to combine policy relevance and academic contribution, and he helped me navigate the labyrinthine maze of large, international bureaucracies.

That experience set up this project directly, as another colleague, Peter Solis, helped me to identify trust funds for IADB research set up by other donor agencies. They backed my plan to coordinate colleagues in the region in the analysis of tax reforms in each of their countries, following a parallel and complementary methodology. Supervised through the application process by Juliana Pungiluppi, guided in the initial stages of research by Susana Sitja-Rubio, and coaxed to completion by Alberto Barreix, I produced methodological guides, selected researchers from each of the countries, and oversaw the completion of their work. I was assisted in these tasks by Juliana Arbalaez-Mungo. Jorge Vargas Cullel produced a background paper on Costa Rica; I assisted Leticia Gonzalez in the production of a background paper on Guatemala; and, Alex Segovia worked with me to produce the background paper on El Salvador. On the background paper I produced on Honduras, Hugo Noe Pino provided first-hand knowledge. These papers served as useful inputs, with primary research offered by colleagues who understand their own countries far better than I.

The visits involved in this collaboration produced many additional contacts and an equal number of debts to individuals from the region. I am particularly indebted to Juan Alberto Fuentes Knight, who started the Central American Institute for Fiscal Studies (ICEFI) and invited me to become a member of its advisory board. Through that position, I made the acquaintance of regional experts, such as the next ICEFI director, Fernando Carrera, and the rest of the ICEFI team, Adelma Bercian, Maynor Cabrera, Maria Castro, Vivian Guzman, Jonathan Menkos, Iliana Pena, and Martin Rodriguez. In Honduras, Nelson Avila has been a friend and useful source of contacts, and Armando Sarmiento provided insights to tax administration as well as visits to a local watering hole. Lourdes Aguilar welcomed me with an occasional place to stay and provided an indispensable double-check on my incipient understanding of Honduran society. None of my work would have been possible without the aid of Juan Carlos “Bebe” Gómez Sabaini, an Argentine economist and perhaps the foremost expert on tax in the region, who provided data
and background materials. With Bebe and the other regional experts on fiscal affairs, “fiscalistas” as they call their select club, I look forward to further exchanges, especially at the annual Regional Seminar on Fiscal Policy of the Economic Council of Latin America and the Caribbean, run by Ricardo Martner.

Since 2008 I have been at Tulane University in New Orleans, where I have benefited from the guidance and support of excellent colleagues. In addition to dribbling circles around me on the soccer field (Tony Pereira) or leaving me in the dust on the bicycle (Tom Langston), colleagues like Gary Brooks, Brian Brox, Mary Clark, Chris Fettweis, Khaled Helmy, Casey Kane-Love, Celeste Lay, Nancy Maveety, Gary Remer, Ray Taras, Martyn Thompson, Raúl Sanchez Urribarri, Mark Vail, and Dana Zartner have smoothed my reentry to U.S. academia. They helped me make sense of teaching undergraduates again, and they supported my year sabbatical in 2010, making it possible for this project to be completed. Research support was provided by the Tulane Stone Center for Latin American Studies, where I am indebted to James Huck and Director Tom Reese and the research assistance provided by Mariana Alcoforado, Jennifer Boone, and Leslee Dean. Additional funding has been provided by the University of New Mexico Latin American and Iberian Institute, through a 2010 Richard Greenleaf Library Fellowship. In Albuquerque, I have been oriented by Andrew Schrank and longtime Central America observer, Bill Stanley.

I am particularly grateful to the team at Cambridge University Press, especially Lew Bateman, who has shepherded this project to its completion. Anonymous reviews strengthened the book significantly, and the professional production staff ensured that the final product was polished and tight.

This project would certainly not have been possible without the help of the people and institutions mentioned here, and I am sure there are many others I have missed. Utmost gratitude goes to my family, father Mark, mother Susan, and sister Miriam. This book bears your imprint, you believed before I did that I was capable of completing such a project. I promise not to miss any more Thanksgivings.

The most important acknowledgment goes to my wife, Rebeca, who forgives my occasional absences and frequent distractions. Most of all, Rebeca inspires me to do work that is both professionally rigorous and morally just. This is the way she lives her life, and it is the way I hope to live mine. Rebeca, I fall in love with you every day, and because of you, I have fallen in love all over again with the people of Central America, for whom this book is written.