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978-1-107-01909-6 - State-Building and Tax Regimes in Central America

Aaron Schneider

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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.

Aaron Schneider is the Jill H. and Avram A. Glazer Professor of Social Entrepreneurship and Associate Professor of Political Science and Latin American Studies at Tulane University. He is especially interested in the sources of and uses for the wealth of states, including taxation and expenditure. By treating public finance as a window into the politics of economic development, his work characterizes the way in which state actors interact with the evolution of global capitalism. He has conducted research in Central America, Brazil, Peru, India, sub-Saharan Africa, and closer to home in New Orleans. With a mix of quantitative and qualitative methods, Professor Schneider's outputs have included journal articles, book chapters, working papers, and policy briefs. Prior to joining Tulane University, he was a Fellow at the University of Sussex in the Institute of Development Studies (IDS) and Advisor to the Chief Economist for Central America and the Caribbean at the Inter-American Development Bank.

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AARON SCHNEIDER
Tulane University



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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
ANEP	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
CIDEEG	Evangelical Church of Guatemala Conference
CLE	Free Market Chamber
COPMAGUA	Coordinator of Mayan People's Organizations in Guatemala

COS	Collective of Social Organizations
CPPF	Preparatory Commission of the Fiscal Pact
CTH	Honduran Workers' Confederation
CTS	Salvadoran Laborers Central
CUTH	Unitary Workers' Central
DEES	Department for Economic and Social Study
DEI	Executive Tax Directorate
FEDECAMARA	Federation of Chambers of Commerce and Industry
FENAGH	National Federation of Agriculturalists and Cattle
FENASTRAS	National Federation of Salvadoran Workers
FIDE	Foundation for Investment and Export Development
FLACSO	Faculty of Latin American Social Sciences
FOSDEH	Social Forum of External Debt and Honduran Development
FMLN	Farabundo Marti National Liberation Party
FRG	Guatemalan Republican Front
FUSADES	Salvadoran Foundation for Economic and Social Development
GANA	Grand National Alliance
ICEFI	Central American Institute for Fiscal Studies
IEMA	Mercantile and Agribusiness Tax
IETAAP	Extraordinary and Temporary Tax in Support of the Peace Accords
IPES	Institute of Political, Economic, and Social Studies
LET	Tax Equity Law
MINUGUA	UN Mission to Guatemala
NGO	nongovernmental organization
PAN	Party of National Advancement
PCN	National Conciliation Party
PDC	Christian Democratic Party
PL	Liberal Party
PN	Nationalist Party
PP	Patriotic Party
RIT	Temporary Import Regime
SAT	Tax Administration Superintendence
SICA	Central American Integration System
UASP	Public Sector Analysis Unit
UNE	National Unity of Hope

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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

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Preface

In 1993, I arrived in San Antonio Los Ranchos, El Salvador, a community of repatriated refugees and Farabundo Marti 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,

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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 Culler 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.