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Working Paper 3

Financing Security through Elite Taxation:
The Case of Colombia's 'Democratic Security Taxes'

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July 2012

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First published by the Institute of Development Studies in July 2012

ISBN 978 1 78118 087 7

A catalogue record for this publication is available from the British Library.

Available from:
Communications Unit,
Institute of Development Studies,
Brighton BN1 9RE, UK
Tel: +44 (0) 1273 915637 Fax: +44 (0) 1273 621202
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Financing Security through Elite Taxation:
The Case of Colombia's 'Democratic Security Taxes'[1]

Gustavo A. Flores-Macías

Summary

Governments across the developing world in general, and Latin America in particular, tend to have difficulty in raising taxes from elites. In 2002, however, the Colombian government introduced the first of a series of wealth taxes aimed solely at rich individuals and companies with large liquid assets. Revenue from these taxes, which amounted to about 1 per cent of GDP, was earmarked for security. Drawing on elite interviews, surveys, government documents, and media sources, I examine why these taxes were introduced, and explore three different explanations: the combination of fiscal and security crises; elite solidarity; and perceptions that the government was making Colombia a safer place. It was the interaction of all three factors that led to this unusual outcome.

Keywords: tax reform; elite taxation; Colombia; public safety; crises; business-government relations.

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[1] I am grateful to two anonymous reviewers and to the International Centre for Tax and Development for providing funding to conduct field research in Colombia.

Contents

Introduction

Latin American elites have historically been in a good position to resist taxation (Kaufman and Stallings 1991, 19). This has contributed to the region‘s relatively low levels of taxation compared to developed countries (Bird 1992). Most Latin American countries collect in taxes between 14 and 18 per cent of GDP. This is considerably lower than most European countries, with over 25 per cent, or some Scandinavian countries, which collect over 50 per cent (International Monetary Fund 2011).[2] These low levels of taxation have impaired the ability of governments to provide public safety, deliver health and education services, alleviate poverty, and uphold the rule of law (Moore 2007). Inability to deliver these goods undermines the quality of democracy across the region, and becomes particularly damaging in societies experiencing internal conflict.

In this context, the rare cases in which government and elites reach a consensus to collect additional taxes are worth studying. One such case is Colombia‘s adoption of a wealth tax to finance its security effort against drug trafficking, and guerrilla and paramilitary groups. During Álvaro Uribe‘s presidency (2002-2010), the government collected a security tax on the wealthiest taxpayers, which was earmarked for defence and security expenditures.[3] Called the ‗Democratic Security Tax‘ (Impuesto de la Seguridad Democrática), it made a significant contribution to funding the country‘s security effort. It accounted for about 20 per cent of the total budget for the defence and security sector, and has been mostly allocated towards investment. This allowed for a 120 per cent increase in this sector‘s investment expenditure. Between 2002 and 2010, the tax accounted for about 5 per cent of tax revenue, or about 1 per cent of the country‘s GDP.

While governments in developing countries often fail to compel the wealthiest sectors of society to pay taxes, how was the Colombian government able to levy a tax allegedly borne by the wealthiest Colombians but benefiting the entire population? The adoption of the tax is particularly puzzling given that inability to tax elites has been at the heart of the failure of previous reform attempts in Colombia. As Richard Bird has noted (1992, 27), this country ‗has certainly not been able to overcome the fundamental problem bedevilling direct tax administration in most of Latin America: the political impossibility of enforcing taxes on rich and powerful taxpayers‘. In the words of Miguel Urrutia (1989, 24), ‗economic groups in Colombia … often seem to be able to block in Congress or within the parties government measures that clearly harm them‘. The adoption of the security tax should be no different, given the right-of-centre orientation of Uribe‘s government and the solidarity that characterises Colombian elites, factors that have been associated with difficulty in taxing this group of elites (Fairfield 2010).

This article explains the conditions that made possible the adoption and subsequent renewal of a security tax on economic elites in Colombia. In doing so, it seeks to answer the following questions. What factors contributed to the implementation of Uribe‘s security taxes? What were the different stakeholders‘ positions on the tax? What were the alternative courses of action evaluated by the government? What was the nature of the bargain between taxpayers and the government? How were the resources spent, and what impact did they have? What lessons does the Colombian experience bring to understanding the prospects for extracting revenue from elites elsewhere?
Drawing on evidence from elite interviews, surveys, government documents, and media sources, this study finds that three main factors interacted to make the adoption of the security tax

[2] Brazil is an exception. Once taxes collected by sub-national governments are taken into account, it is a high tax country.
[3] The tax continued during President Santos‘ administration.

possible. Initially, the country's fiscal and security conditions prompted the government to declare a state of emergency to adopt the tax by decree. Next, elite solidarity contributed to generating a consensus behind the tax through cooperation mechanisms and linkages between government and business. Finally, improving perceptions of the government's ability to provide security further defused opposition.

The article is organized as follows. First, I present an overview of the country's Democratic Security Taxes and their significance for the security effort. Second, I review the literature on elite taxation and identify different theories' expectations. Third, I discuss whether and how the expected dynamics played out in the adoption of the security tax. In the last section I elaborate on the significance of the findings for theory and policy, and their implications beyond the case of Colombia.

1 Colombia's Democratic Security Taxes

President Uribe adopted a wealth tax in 2002 aimed at the wealthiest taxpayers - those whose assets exceeded COP$169.5 million (US$65,000)[4]. It was set at 1.2 per cent of liquid assets[5] of both individuals and corporations. About 420,000 taxpayers were required to pay the tax, or 1 per cent of the population. Of these, an estimated 120,000 were corporations and 300,000 were individuals (personas naturales). Foundations and non-profit organisations, departments, municipalities, indigenous reservations (resguardos indígenas), unions, and parent-teacher associations, among others, were exempt from paying the tax. The tax was due in instalments at financial institutions, and the penalty for not paying was 160 per cent of the amount due.

In December 2003, the Colombian Congress approved a second tax for 2004-2006. The tax was set at 0.3 per cent, with a wealth threshold of COP$3,000 million (US$1 million), calculated as of 1 January 2004. Three years later, in December 2006, the Colombian Congress approved Law 111 establishing a third security tax for 2007-2010. The tax reverted to a rate of 1.2 per cent, with a wealth threshold of COP$3,000 million (US$1.3 million), calculated as of 1 January 2007.[6]

As Uribe's presidency was coming to an end, in December 2009, Congress approved Law 1370. This adopted the tax for 2011-2014. This time the tax provided for a two-tier rate: 2.4 per cent for assets over COP$3,000 million (US$1.4 million), and 4.8 per cent for assets over COP$5,000 million (US$2.3 million). Table 1 summarizes the main features of Colombia's Democratic Security Taxes.

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4 All dollar figures are nominal and were converted using the average yearly representative exchange rate figures from Banco de Colombia.

5 i.e., gross assets minus debt. The calculation of wealth included real estate, vehicles, cattle, ranches, bank accounts, factories, plant, and equipment.

6 The calculation of wealth excluded the first COP$200 million (US$117,000) of main residence (home or apartment), as well as the net value of stock in domestic companies.

Table 1 Colombia's Democratic Security Taxes, 2002-2009

Year Approved	Tax	Duration	General Objective	Expenditure
2002	1.2% of total liquid assets (gross assets minus debt) over COP$169.5 million as of 31 August 2002	1 year (2002)	Expand state presence across the territory as main goal of the Democratic Security Plan	Financed fuel, food rations, and the increase and professionalisation of the armed forces personnel
2003	0.3% of total liquid assets (gross assets minus debt) over COP$3000 million as of 1 January 2004	3 years (2004-2006)	Continue the effort to expand state presence in the context of the Democratic Security Plan	Armed forces personnel increased by 36.3% and soldiers increased by 45% between 2002 and 2006[7]
2006	1.2% of total liquid assets over COP$3000 million as of 1 January 2007	4 years (2007-2010)	Consolidate Democratic Security; improve mobility, intelligence, and manpower (pie de fuerza)	Purchased equipment including weapons, aeroplanes, helicopters, submarines, and frigates
2009	2.4% of total liquid assets above COP$3000 million 4.8% of total liquid assets above COP$5000 million, as of 1 January 2011	4 years (2011-2014)	Consolidate Democratic Security; alleviate natural disasters	Armed forces and disaster relief

The Democratic Security Tax added considerably to the government's coffers. When the tax was first adopted, it filled a gap of COP$2 billion (US$797 million), about 5 per cent of total government revenue or 1 per cent of the country's GDP. Since then, the tax revenue as a share of the government's total has fluctuated between 2.5 and 5 per cent (Dirección de Impuestos y Aduanas Nacionales 2011). The revenue from the security taxes was also significant for the armed forces. It represented 20 per cent of the defence and security budget (including costs of the armed forces, national police, and intelligence services[8]).

During the first four years of Uribe's presidency, these resources financed an increase in the size and professionalisation of the military (interview with Ramírez 2010; Ministerio de Defensa Nacional 2009). In addition to the procurement of fuel, food rations and maintenance of equipment, the funds allowed the armed forces personnel to increase by more than 100,000. Two divisions, 18 brigades, 15 battalions, 13 urban anti-terrorist units, and 598 town guard (Soldados de mi Pueblo) platoons, among other units, were created (Ministerio de Defensa Nacional 2009). During Uribe's first term in office, armed forces personnel increased by 36 per cent, and combat forces by 45 per cent (Vargas and García 2008, 46). This objective was at the core of the government's plan to expand its presence across the territory - the Democratic Security Plan (Política de la Seguridad Democrática).

During Uribe's second term, these resources allowed the armed forces to increase capital expenditure (interview with Giha 2011). Between 2007 and 2010 the tax raised COP$7.54 billion (US$3.9 billion), which contributed to the purchase of weapons, aeroplanes, helicopters, submarines, and frigates (Ministerio de Defensa Nacional 2009, 26). With these funds, the government mainly purchased military assets that could be used for both internal and external defence.

Before the security tax was adopted, the government had been severely constrained in carrying out these goals. About 92 per cent of the annual defence budget had been committed beforehand to cover ongoing operating expenses including wages, pensions, and fuel. Only 8 per cent of the budgeted funds could be used to increase the number of troops or acquire new

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7 For a detailed account of the expansion and modernisation of the armed forces see Schultze-Kraft, forthcoming.

8 The main intelligence agency, the Departamento Administrativo de Seguridad (DAS), was dissolved by executive decree on Oct. 31, 2011. Its reorganisation was ongoing at the time of writing.

equipment (Departamento Nacional de Planeación 2007). As a result of the security tax, investment expenditure more than doubled (interviews with Jiménez 2010 and Ortiz 2010).

The security tax also helped to fill the gap left by decreasing resources received from Plan Colombia (interview with Jaramillo 2010)– the multi-year assistance plan provided by the United States and secured by President Pastrana. In 2010, the last year of Uribe‘s presidency, Plan Colombia contributed COP$0.6 billion (US$316 million) to the armed forces, about a third of the funds received in 2000 (Haugaard, Isacson, and Johnson 2011, 5). This meant revenue from the security tax in 2010 was about four times Plan Colombia‘s military funds. By compensating for the loss of resources from foreign assistance, the security tax played a key role in preserving the government‘s room for manoeuvre (interview with Giha 2011).

2 Theories of elite taxation

The literature on tax reform in general, and the scant literature on elite taxation in particular, point to several factors that may explain the adoption of the security tax on the wealthy in Colombia. In this section I introduce three main explanations and discuss the theoretical expectations that stem from them. In the following section I show how they account for the adoption of the security taxes in Colombia.

2.1 Crisis as impetus for taxation

One of the most frequently invoked explanations for tax reform points to the occurrence of crises or major shocks to the polity as the impetus for extracting greater levels of resources from society (Bird 1992; Drazen and Grilli 1993; Weyland 1996; Mahon 2004; Fairfield 2011). Grounded in the economic reform literature of the 1980s and 1990s, this explanation argues that whenever a situation is perceived as unsustainable, society becomes willing to ‗swallow the bitter pill‘ and accept certain policies previously deemed unacceptable (Weyland 1996). As Bird (1992, 22) has suggested, ‗When the choice is as stark as ―adapt or cease to exist”, the fundamental societal instinct for survival might force almost any country to adopt reforms necessary to avoid extinction.‘ The same logic has been applied to elites. In this view, only severe threats compel economic elites to accept higher taxes because they believe ‗someone else can be forced to bear the burden‘ (Drazen and Grilli 1993, 598). As Dan Slater (2010, 13) has pointed out in the South East Asian context, ‗Given their propensity for parochialism, elites will not deemphasize their narrow factional interests on behalf of broader class interests except under extreme duress‘.

Latin America is no exception to this pattern. Governments‘ ability to carry out tax reforms in the face of elite opposition has been associated with crises - from drastic economic conditions, to conflict, to natural disasters. For example, in seminal articles on the determinants of tax reform in Latin America, James Mahon (2004) points to high levels of inflation and Richard Bird (1992, 10) to economic downturns as key determinants of tax increases. Centeno (2003) suggests that conflict forces otherwise unwilling elites to contribute resources to government coffers. More recently, Tasha Fairfield (2011) has shown how the 2010 earthquake in Chile played a major part in the adoption of extraordinary taxes by the business-friendly government of Sebastian Pinera in Chile.

One difficulty in following a crisis-based explanation is the question of how to identify a crisis that is severe enough to trigger reforms. As Javier Corrales (1997-98, 617-18) notes, the role of crises is hard to predict, and it is unclear what constitutes ‗the real" crisis … Wars, invasions, natural disasters, crass human mistakes, economic collapse, and political disasters are all likely candidates'. Responding to this issue, Slater (2010, 14) proposes a benchmark for such an exercise based on the type of crisis. Those perceived as endemic and unmanageable are likely to elicit elite collective action, whereas those perceived as contained or temporary are not. Although the line between these two types of crises may be blurred and borderline cases hard to classify, Slater's benchmark provides a useful first guideline in identifying the type of shock that may prompt elites to accept higher levels of taxation.

In the light of these theoretical considerations, this view would expect higher levels of extraction among elites to be a product of a situation that severely jeopardizes the livelihood of economic elites' and/or the national government's survival or ability to function. Additionally, the situation must be perceived as having escaped the reach of conventional policymaking alternatives. Armed conflict, hyperinflation, and fiscal collapses are cases in point.

2.2 Business-government relations

A second possible explanation for elite taxation focuses on solidarity and cohesion among business and political elites. There are two main views under this heading. The first one argues that elite solidarity is conducive to measures that tax the wealthiest sectors more heavily. Kurt Weyland (1997), for example, argues that cohesion lengthened Chilean business elites' time horizons, even in the presence of a left-of-centre government. It allowed them to focus on longer term development goals that tended to require progressive taxation. Similarly, in a study of Brazil and South Africa, Evan Lieberman (2003) suggests that the lack of solidarity among elites in the Latin American country negatively affected their willingness to contribute towards financing public goods, whereas cohesive elites in the African country were willing to bear additional taxes.

The second and more recent view has identified the opposite effect: elite cohesion defuses governments' efforts to extract fiscal resources from business sectors. For example, in a comparative study of elite taxation, Tasha Fairfield (2010) finds that business cohesion helped preclude progressive tax increases in Chile, while lack of cohesion allowed greater reforms to be passed in Argentina. Similarly, Wilson Prichard and Mirza Hassan (2012) point to elite solidarity as conducive to the capture of the state in Bangladesh, which results in a lighter tax burden on economic elites.

Both perspectives identify similar mechanisms as responsible for their preferred effects, including the establishment of linkages with key decision makers, consultation forums, and collaboration mechanisms. The first view expects these mechanisms to foster the exchange of information reflecting the different actors' needs and capabilities, and to lengthen the different actors' time horizons. These in turn are expected to undermine the elites' resistance to higher taxes. In other words, it expects these mechanisms to elicit a better understanding of the government's need to extract additional resources from business elites. The second view points to these mechanisms as playing a key role in making business elites' views clear, and pressing the government to follow them (Fairfield 2010, 38-39). In particular, they increase the effectiveness of lobbying, give business elites a continuous opportunity to voice their concerns, and encourage the formation of a unified front among business sectors.

Additionally, the right-of-centre orientation of a government is understood to be a catalyst for these hypothesized effects of elite solidarity. The first view would expect a right-of-centre government to be better able to exchange information with business sectors and enjoy greater credibility among them than a left-of-centre administration (Timmons 2010). This would result in right-of-centre governments finding it easier to extract resources from economic elites than their left-of-centre counterparts, because ‗right governments can credibly commit to using tax revenue in ways that benefit those elites' (Fairfield, 2011, 13; Hart 2010).

In contrast, the second view would expect a right-of-centre government to facilitate the elites' ability to prevent tax increases from taking place. This is because right-of-centre governments may make it easier for economic elites to directly influence the decision making process, both through formal and informal consultation and even key positions in government (Gibson 1996). In short, the nature of business and government elite solidarity has been identified as an important factor of elite taxation. However, its effects are indeterminate: existing explanations based on empirical evidence from a variety of contexts point to opposite effects based on similar mechanisms.

2.3 Perception of the public good

A third potential explanation for elite taxation draws on research that associates willingness to pay taxes with the perceived quality of the public good. This view suggests that opposition to taxation is not uniform. Instead, it is contingent on the perception of the benefit derived from the public good provided: the more taxpayers perceive a direct benefit from government services, the more they are inclined to contribute funds toward those services (Simonsen and Robbins 2003; Glaser and Hildreth 1996).

This connection has been found in a variety of goods, from relatively concrete to relatively intangible. For example, Hensher, Shore, and Train (2005) find that perceptions of the quality of tap water at home play an important role in determining how much to pay in taxes for this service. Similarly, Green, Kahneman, and Kunreuther (1994) find that perceptions of the quality of public education are an important determinant of willingness to pay school taxes. This relationship has been advanced for public goods and services provided by different levels of government—local, state, and national (Glaser and Hildreth 1999). Based on research in places as diverse as the United States (Scholz and Lubell 1998), the former communist bloc (Hanousek and Palda 2004), and Africa (Prichard 2009, 36), there is evidence that the nexus between perceptions of the quality of the public good and willingness to pay taxes holds in both developed and developing countries.

Evidence supporting this explanation would point to improving perceptions of public safety. In particular, economic elites - the main target of the tax - would be expected to report better conditions for carrying out their economic activities. Additionally, evidence would also point to an association between the role of the tax and those perceptions. Having discussed these theoretical considerations and their expectations, the following section assesses the extent to which these factors play out empirically in Colombia.

3 Explaining Colombia's security taxes

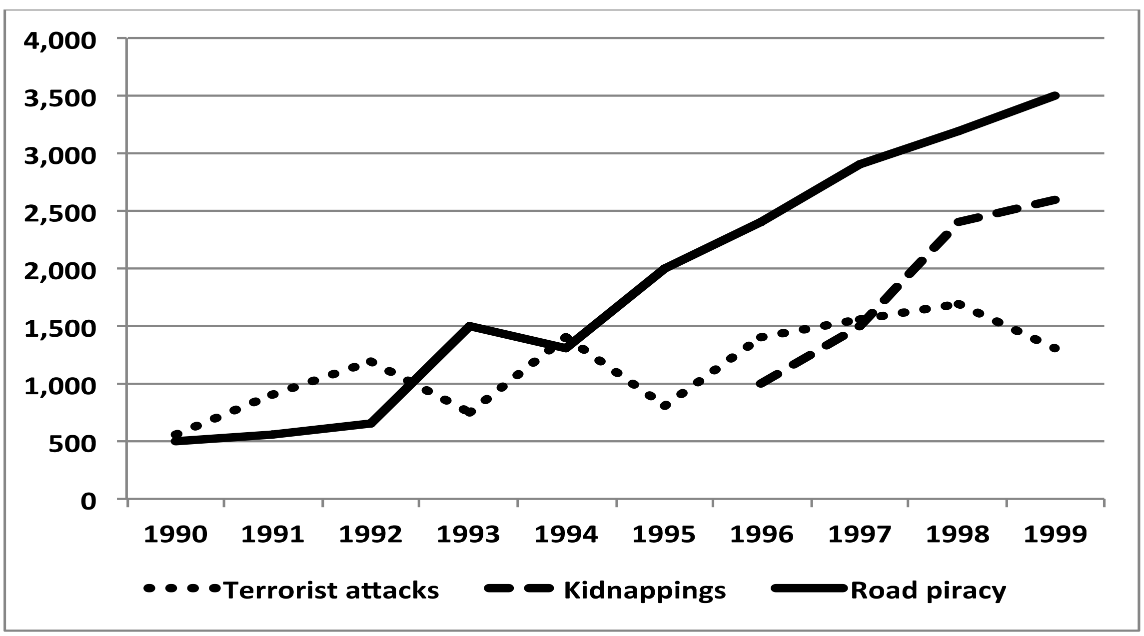
As the following case study will show, these three perspectives play a role in explaining the adoption of the security taxes in Colombia. The advent of a crisis is helpful in explaining the adoption of the first security tax in 2002, but does not provide much leverage in accounting for the adoption of subsequent taxes. Instead, elite cohesion played a key role in the renewal of the tax in 2003, and perceptions of improving security conditions among business elites did so in 2006 and 2009. Additionally, elite solidarity played a nuanced role, both in the government's ability to implement the tax, and the protection of elites from less favourable types of taxes. The following case study is divided into three sections - each corresponding to the theoretical perspectives discussed earlier - and presents evidence for how each factor played out empirically.

3.1 Crisis as impetus for taxation

The 2002 Democratic Security Tax emerged as a result of a crisis perceived as pervasive and beyond the government‘s control. This crisis was related to both the economy and security. As this section notes, the crisis did not initially prompt elites to ameliorate their opposition to the tax - as the theory might have suggested - but it did force the government to take extraordinary measures to secure resources, including declaring a state of emergency. These measures were effective in circumventing opposition, and raising much-needed funds in a short period of time.

Uribe was inaugurated president of Colombia on 7 August 2002 amid a precarious security situation, dismal economic conditions, and discontent among the wealthiest taxpayers, who were bearing the burden of mandatory security bonds. During the 1990s, an already bleak public safety environment steadily worsened (Romero 2002). Armed groups constantly targeted the country‘s infrastructure, and travelling by road between cities became dangerous for the average Colombian (Restrepo 2006). Piracy and hijacking were common problems (Figure 1).

Figure 1 Terrorist attacks, kidnapping, and road piracy in Colombia, 1990-1999



Source: Ministerio de Defensa Nacional 2009, 28. For kidnapping, no data are provided before 1996.

Between 1998 and 2002, during Andrés Pastrana‘s presidency, this situation deteriorated further. The number of homicides increased by 18 per cent and the number of kidnappings by 15 per cent (Departamento Nacional de Planeación 2003). According to one estimate, about 15 per cent of the more than 2,500 kidnappings per year during this period involved the business community (Rettberg 2004, 5). Additionally, the line between drug traffickers, guerrillas, and paramilitaries became increasingly blurred, as they cooperated to strengthen both finances and operations. Extortion and racketeering by these groups became pervasive. In large parts of the country, businesspeople and landowners were forced to pay to avoid attacks on their assets.[9]

In an attempt to respond to these challenges, between 1990 and 2002 Colombia more than doubled its security expenditure as a share of GDP, from 1.5 to 3.3 per cent (Ministerio de Defensa Nacional 2008). In spite of this, ‗the government always seemed one step behind in its efforts to keep up with the equipment and weapons employed by guerrillas, paramilitaries and drug traffickers because of lack of resources‘ (interview with Barco 2010).

In search of a solution to the armed conflict, the business sector initially embraced and participated in the El Caguán Peace Process. However, Pastrana‘s attempts to resolve the conflict through negotiations with the guerilla groups were widely considered a failure (Rettberg 2007, 489). Broad sectors of society were disenchanted by the perception that the FARC stood up the government at the negotiating table. By November 2000, a Gallup poll showed that only 11 per cent of respondents supported the continuation of the peace process, while 60 per cent supported stepping up the armed confrontation (*The Economist* 1999).

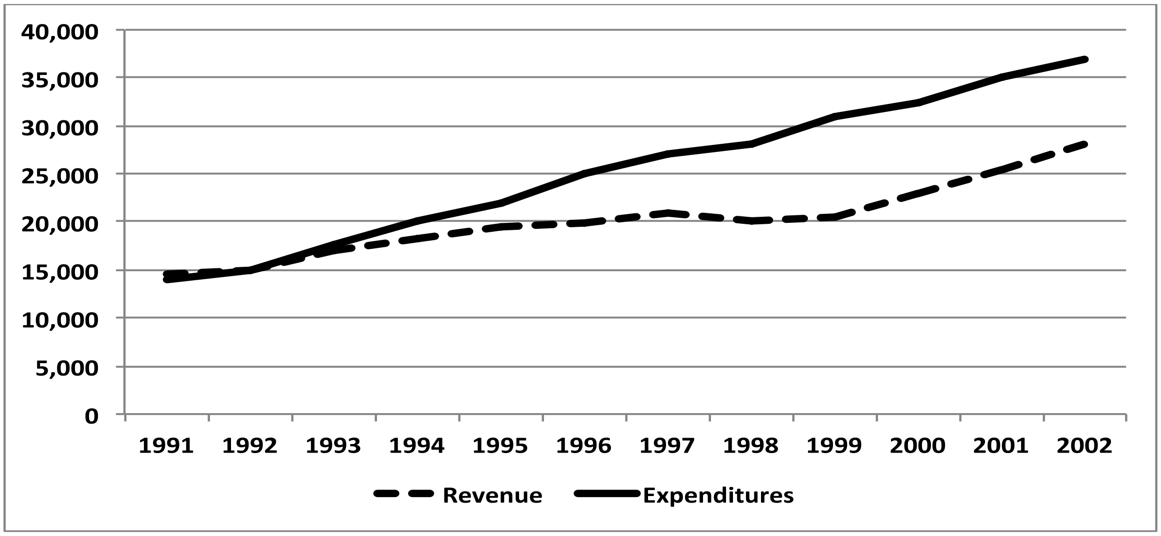
Upon the breakdown of the talks, business elites‘ disenchantment turned into vigorous support for Uribe‘s ‗strong hand‘ candidacy (interview with Llorente 2010). In a Gallup survey conducted among 498 private sector executives from the largest 5,000 companies in the country, more than two thirds of respondents supported a Fujimori-style, authoritarian government if the peace talks collapsed altogether (*El Tiempo* 1999). Thus, an overwhelming majority of respondents had reached a point at which they would willingly trade Colombia‘s long-standing democracy in exchange for public safety.

However, a fiscal crisis prevented Uribe from capitalizing on this support and delivering on one of his main campaign promises: increasing defence spending. During the 1990s, in an attempt to finance mounting security costs, governments mandated the purchase of bonds in exchange for modest returns (Ministerio de Defensa Nacional 2009, 25). In 1992 President César Gavíria (1990-1994) created Bonds for Social Development and Internal Security.[10] Ernesto Samper (1994-1998) issued Peace Bonds in 1996 and Security Bonds in 1997. In a similar effort, Andrés Pastrana (1998-2002) created Bonds in Solidarity for Peace.

Along with mounting security expenditure, the bonds contributed to the government‘s increasing gap between revenue and spending. Between 1995 and 2002, in real terms expenditure increased by 65 per cent, while revenue grew by only 46 per cent (Figure 2).

[9] A famous example was the FARC‘s Law 002 (Rettberg 2002).
[10] The Supreme Court ruled the bonds to be retroactive and therefore unconstitutional.

Figure 2 Revenue and expenditure 1991-2002, national central government
(Billions of 2002 COP$)

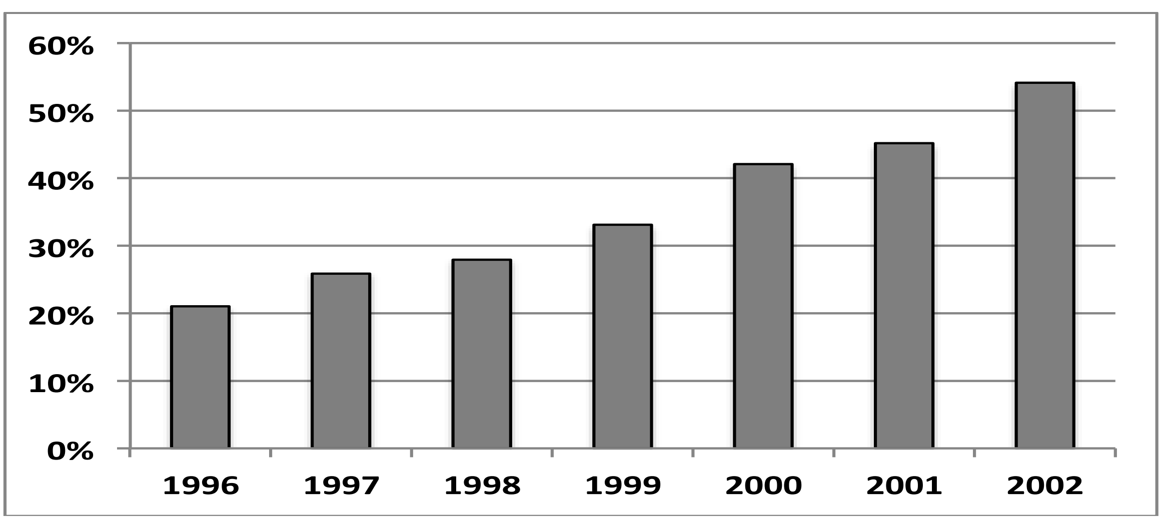


Source: *Gaceta del Congreso* 2003, 11.

This discrepancy resulted in a ballooning public debt. In 1996, the net debt of the non-financial public sector represented 21.3 per cent of GDP (Figure 3). By 2002, this debt had grown to 53 per cent of GDP. In a matter of six years, Colombia‘s public debt had more than doubled.

Moreover, the Asian crisis of 1997 and the Argentine crisis of 2001-2002 made it very difficult for Colombia to continue financing deficits through debt. As Uribe‘s finance minister put it, ‗we were desperate for resources and entirely shut out of the credit markets at the time‘ (interview with Junguito 2012). Reining in the drastic escalation of the debt became a priority for the government.

Figure 3 Net public debt 1996-2002, non-financial public sector (% of GDP)



Source: *Gaceta del Congreso* 2003, 11.

To make matters worse, the economy was in trouble, making the prospect of a revenue-increasing recovery very unlikely. Pastrana presided over one of the worst four-year periods in decades: the economy contracted by 4.2 per cent in 1999 and averaged 0.6 per cent growth between 1998 and 2002. When Uribe took office in August 2002 unemployment had reached 15 per cent, and in the previous three months the Colombian peso had depreciated by almost 20 per cent. Without securing extraordinary resources, Uribe‘s administration would have been unable to avoid bankruptcy, let alone follow through on his campaign promise to strengthen the government‘s security effort.

In this context, the new administration evaluated increases to Value Added Tax (VAT) and income tax rates. From the government‘s perspective, these taxes would be more favourable than bonds, since the latter would have to be paid back and would contribute to expanding the government‘s fiscal burden (interview with Junguito 2012). This, in turn, would affect the government‘s future ability to finance the security effort. In contrast, a tax would not mortgage the security effort, since there would be no obligation to pay interest on debt, and subsequent budgets would not be constrained as a result.

However, raising VAT and income tax rates was also problematic. Additional revenue from these taxes would take time to trickle into the government‘s coffers - because of how they are collected - and the government could not afford to wait. Moreover, these taxes would be paid by large sectors of the population and the political cost was deemed to be high (*El Tiempo* 2002a). In this context, maintaining - let alone expanding - current levels of security expenditure became unsustainable.

Contrary to what a crisis-based perspective would suggest, however, this situation did not undermine the opposition of the business sectors. Instead, their opposition to any extraction effort remained vigorous, explicit and public. In particular, business sectors pointed to the lack of results of previous administrations, the need to broaden the tax base, and the economic downturn as reasons why they opposed any extractive measure (*El Tiempo* 2002). For example, the Colombian Business Council (Consejo Gremial) - a semi-formal union of the country‘s most important business associations (Rettberg 2005) - and the Association of Micro, Small, and Medium Enterprises (ACOPI) denounced that previous governments had lost credibility because taxpayers‘ money had been squandered. As the vice-president of the Business Council put it, ‗We had no idea whether the government used those funds as intended‘ (interview with Mejía 2011). Similarly, the Federation of Colombian Insurers (FASECOLDA) expressed concern that additional extraction would hinder economic growth even further, at a time ‗when the country could not afford to lose investment and stop generating much needed jobs‘ (*El Tiempo* 2002a). Additionally, the Automakers Association (ASOPARTES) and Confederation of Chambers of Commerce (CONFECAMARAS) demanded that the government instead broaden the tax base. Thus, between Uribe‘s election and his inauguration, business actively and publicly opposed any potential extraction efforts.

Even though the fiscal and security conditions did not prompt business elites to change their views, they did prompt the government to take extraordinary measures. On 11 August 2002 -his first day in office - Uribe assessed the security and fiscal situation to be so precarious that he resorted to extraordinary decree powers. That day he decreed a State of Internal Commotion (Estado de Conmoción Interior) for three months, stating as the main reasons that ‗the entire Nation is submitted to a regime of terror in which democratic authority is capsizing and productive activities have become increasingly difficult to perform‘. (*Diario Oficial* 2002). ‗Further‘, the decree continued, ‗we have reached the highest crime rate in the world in a cumulative process that puts us at the gates of social dissolution. Moreover, armed groups have successfully threatened the legitimate representatives of democracy, spreading anarchy and generating a sentiment of helplessness in wide sectors of the country'.

In addition to referring to the country's precarious security situation, the decree also cited the government's fiscal troubles: ‗given the country's grave fiscal situation, the Nation does not have the necessary resources to finance the security forces and other state institutions in charge of addressing the issue; therefore, it is necessary to adopt new fiscal obligations'. The same day, Uribe issued another decree mandating the creation of ‗a special tax toward financing the expenditures in the government's general budget necessary to preserve Democratic Security' (*Diario Oficial* 2002a). The executive order made reference to the state of internal commotion and financial constraints in its motives. It also added that, ‗It is the duty of the natural and juridical persons to contribute to the financing of the expenditures and investments that allow for the preservation of Democratic Security'.

This course of action had two immediate consequences. First, in the fiscal realm, this measure addressed the problems of timing and collection. By mandating that the tax be collected in two instalments, the government could extract extraordinary resources in a short period of time. Additionally, a tax on liquid assets represented a fairly simple tax to collect because of the relatively small number of taxpayers. Second, in the political realm, it circumvented the conventional policy-making process typical of peacetime conditions. Rather than facing opposition from the business sector and their potential allies in the legislature, the measure left dissatisfied actors with the courts as their only recourse. Indeed, both the state of emergency and the tax were contested before the Constitutional Court. In the end, the government prevailed and began receiving the extemporaneous revenue shortly thereafter.

3.2 Business-government relations

Although the fiscal and security crises may explain the government's initial impetus in adopting a tax on the wealthy, they are less helpful in explaining subsequent adoption of the tax. Without the sense of urgency generated by deteriorating fiscal and security conditions, other, less contingent factors are necessary to explain the security taxes adopted in 2003, 2006, and 2009. One such factor is the nature of elite solidarity in business-government relations.

Elite solidarity played a role in the adoption of the 2003 security tax, as well as in the protection of elites from more threatening tax arrangements in 2005. On the one hand, as one theoretical view on elite solidarity expected (Weyland 1997; Lieberman 2003), the elites' cohesion and the right-of-centre orientation of the president helped to reduce opposition to Uribe's initiative. On the other hand, as the alternative view sustained (Fairfield 2010; Prichard and Hassan 2012), these factors also played an important role in deflecting other, more threatening measures that would have affected the business elites' pockets more severely. In the end, elites saw the security tax as a compromise that would help avoid a more comprehensive tax reform.

In the case of elite compliance, the main avenues for government-business collaboration discussed earlier - the establishment of linkages with key decision makers, consultation forums, and collaboration mechanisms - helped the government garner support for the adoption of subsequent security taxes in several ways. First, linkages between business elites and the executive branch prevailed throughout Uribe's administration. In line with his right-of-centre orientation, Uribe appointed prominent members of the business community to key cabinet positions from the beginning of his presidency. Throughout his administration this resulted in a cabinet comprising a majority of personalities with strong ties to the business community. The Ministry of Defence was led by Martha Lucía Ramírez, Jorge Alberto Uribe Echavarría, Juan

Manuel Santos and Gabriel Silva Luján; the Ministry of Finance was headed by Roberto Junguito Bonnet and Oscar Iván Zuluaga; the Ministry of Interior and Justice was led by Sabas Pretelt, the former head of the Colombian Business Council, to name a few examples. Naturally, not every minister was a member of the business community,[11] but business leaders occupied numerous prominent positions related to security and public finance.

Second, the affinity that resulted from the interweaving of business leaders and government contributed to meaningful consultation between the two. These linkages facilitated a series of meetings between the government and a handful of Colombia‘s wealthiest and most influential businesspeople at the presidential palace and Club El Nogal - an exclusive social club in Bogotá. At these meetings, Uribe himself laid out both the need to renew the tax and his plans to allocate the funds to the security effort (interviews with two anonymous cabinet members 2011). This was one of the business elites‘ main demands, as the yearly economic costs of the conflict were deemed to be 2 per cent of GDP (Castro, Wartenberg, and Celis 1999; Cárdenas 2001), in addition to 2 per cent in private security expenditure (Álvarez and Rettberg 2008).

At the meetings, as a cabinet member put it, the government‘s linkages with business leaders allowed President Uribe to strike ‗a gentlemen‘s pact guaranteeing that, in exchange for the funds, the extraordinary tax revenue would only be used towards security expenditures and a sunset provision would be included‘ (interview with anonymous cabinet member 2011.) As a result, first these businesspeople, and later the heads of Colombia‘s National Business Association (ANDI) and other business groups, gave their support to the president‘s initiative and committed to lobbying their affiliates on behalf of the proposal. The business elites‘ cohesion allowed for a concerted effort among the business leadership that enabled the government to obtain their support before presenting the initiative to Congress.[12]

Third, the nature of business-government relations also facilitated the establishment of ongoing cooperation mechanisms to address business concerns. Although business acknowledged the need to provide additional resources to the state, they requested strict oversight of expenditure to ensure that resources were spent effectively (interview with Junguito 2012). Consequently, the government created a joint oversight committee - the Ethics and Transparency Commission - to monitor security expenditure (interview with Pinzón 2011). Representatives of businesses, the business associations, university presidents, the attorney general, and the comptroller general formed the Commission. It held several meetings during the year and generated annual reports of the government‘s procurement - a by-product of the managerial background of the defence minister (interviews with Buendía 2010 and García 2010). Meetings were held in different locations to verify equipment acquisition and monitor progress (interview with Giha 2011).

The ability to monitor the government‘s compliance with its own objectives addressed one of the business sector‘s main concerns: that their contributions were reaching their intended purpose (interview with Vargas 2010). As a business leader who attended several of the Commission‘s meetings confided, ‗the meetings were important to us. We were able to visually corroborate the acquisition of equipment and to talk to defence personnel on the ground, sometimes the commander of a region, sometimes the officer in charge of an outpost, to evaluate progress‘ (interview with Mejía 2011).

However, these manifestations of elite cohesion - linkages, consultation forums, and cooperation mechanisms also played a role in supporting the other theoretical expectation: protecting

[11] Examples of those who were not members of the business community include Camilo Ospina Bernal in Defence, Alberto Carrasquilla in Finance, and Fernando Londoño Hoyos in Interior and Justice.

[12] Two of Uribe‘s cabinet members, who asked not to be identified, provided this account separately in personal interviews.

business elites from a more threatening tax reform than the temporary wealth tax, and compensating them through deductions and exceptions. First, the business-government linkages and the right-of-centre orientation of the president contributed to a unified front against tax reforms that would target mainly the business sector. On several occasions the government publicly echoed business‘ opposition to a greater tax burden through more comprehensive tax reforms. Uribe argued that doing so would jeopardize economic growth, and promised the business sectors - both in consultation meetings and publicly - not to follow that route (*El Tiempo* 2003). Instead, the government pursued other, less threatening ways to stretch the budget, including higher VAT, freezing public sector wages and pensions, and making exceptions for corporations (*El Tiempo* 2003a).

Second, consultation mechanisms between business and government served to protect business interests from a broader and more threatening tax reform. In June 2003, the government met 15 representatives of the main business sectors at the Presidential Palace to discuss the fiscal reform. At the meeting, the Minister of Finance and business leaders agreed to seek additional resources through changing the rate of VAT instead of a security tax, in order to distribute the burden more broadly across society. As a result, the government sent an initiative to Congress to increase VAT. The legislature approved the adoption of a rate of VAT of 2 per cent on basic consumption goods, such as milk, fruit, vegetables, and public transportation. In September 2003, however, the Constitutional Court struck down the tax (*El Tiempo* 2003b). This left the government again looking for alternatives, particularly after its proposals to cut expenditure were defeated in a referendum in October that year.

The government revised its initiative, again with the objective of making the additional tax burden much more diffuse. The new proposal included taxes aimed at different sectors of the population, such as a new wealth tax with a lower rate (0.4 per cent) and higher threshold (COP$3000 million or US$1 million), and for the tax on financial transactions to increase from COP$3 to COP$4 per COP$1,000. Significantly, the government pushed for an increase in the rate of VAT from 16 to 17 per cent and a tax on pensions, which tend to affect the salaried sectors of society.

The government also sought to reduce the tax burden of business sectors, arguing that the reform should transcend the revenue-generating impetus and stimulate economic activity (*El Tiempo* 2003c). Uribe proposed lowering the maximum marginal income tax rate from 35 to 15 per cent for corporations reinvesting their profits. In explaining the spirit of the reforms to the legislature, the government stated that it ‗asked all sectors of Colombian society to make comparable sacrifices and contributions‘ (*Gaceta del Congreso* 2003, 10).

On Dec. 29, 2003, Congress adopted a modified version of the government‘s proposal. The new measure included a new temporary security tax between 2004 and 2006 at a lower rate (0.3 per cent), a temporary increase in the income tax rate from 35 to 38.5 per cent for the same period, and an increase in the tax on financial transactions (*Diario Oficial* 2003). No consensus was formed between the Conservative and Liberal Parties - the main forces in Congress - regarding other measures: the VAT increase and taxes on pensions were deemed too costly politically (interview with Castro 2010). Therefore, the government decided not to include them in the discussion of the joint chambers to avoid any potential delays in the approval of the reform, which was running out of time if it were to come into effect in 2004 (*El Tiempo* 2003c).

In the end, the reform secured resources to maintain the government‘s security effort, but it also protected the interests of business. It expanded the tax base to lower income echelons, allowed companies to deduct up to 30 per cent of reinvested profits, and established sunset provisions for tax increases affecting business elites.[13] Immediately after the initiative was approved, the Interior Minister and prominent business leader Sabas Pretelt thanked legislators ‗for their courage and service to the nation' (*El Tiempo* 2003d).

In 2004, shortly after the 2003 tax was approved, the government promoted another major concession to business elites by promoting an exception for the wealthiest taxpayers in the form of Juridical Stability Contracts (Contratos de Estabilidad Jurídica). Approved by Congress as the Law of Confidence for Investors in July 2005, the contracts were in essence an agreement between major investors and the Colombian government in which the government guaranteed the preservation of the legal framework ruling at the time a substantial investment was made. The spirit of the contracts was to attract investment by providing legal certainty. In exchange for stable rules of the game, the investing party would pay 1 per cent of the investment amount (*Diario Oficial* 2005). The minimum investment amount was set for the equivalent of 7,500 minimum wages or about COP$3,000 million (US$1.2 million).

The contracts provided tax relief to the some of the wealthiest taxpayers that the security tax had originally targeted. Liberal Party Representative Simón Gavíria (interview 2011) summarized the effect of the contracts as, ‗ultimately, the contracts make the security tax a discretionary tax, one that is not paid by everyone who is supposed to pay it'. However, whenever this concern was raised by the opposition in Congress - mainly the few legislators from Polo Democrático Alternativo (interview with Borja 2011) - pro-government parties, Conservative, Liberal, and de la U, would close ranks to support the measure. They argued that, without the contracts, much needed investment and jobs would be lost and economic development would be compromised. As Conservative Party Senator Óscar Darío Pérez noted, ‗if we have investors buy insurance, we have to make that commitment valid and insurance effective' (*Colprensa* 2009).

Toward the end of Uribe's presidency, 67 companies had signed such contracts with the Ministry of Trade, Industry, and Tourism. One estimate puts the amount foregone by the government since 2005 at about 10 per cent of the annual security tax revenue (*Revista Dinero* 2011). However, Jorge Humberto Botero (2005), who played a key role in the initiative's approval as Minister of Commerce and has headed a number of prominent business associations, justified the contracts by stating that ‗the legal system is full of differentiated treatments whose validity is indisputable. Not all homicides receive the same sentence. There are laws that discriminate in favour of minorities. Likewise, it is indisputable that discriminating in favour of investment is praiseworthy'.

In short, the nature of business-government relations contributed, first, to garner support behind the wealth tax among business elites, and, second, to protect them from less palatable and more comprehensive fiscal reforms. In securing the approval of the tax, elite solidarity in the context of a right-of-centre government served two main purposes. On the one hand, it gave wealthy taxpayers confidence that the government had their interests in mind. By incorporating prominent members of the business community into cabinet positions, it facilitated interaction and communication between the key actors in government and business sectors to enhance transparency and improve accountability regarding how the money was spent (interview with Vélez 2011). A president ideologically sympathetic to business interests had a better chance of convincing business leaders that the wealth tax would be provisional, oversight over spending would be shared, and that their interests would be protected.[14] These factors contributed to convincing the business sector to accept paying the security tax.

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[13] The approval was controversial because the president convened an extraordinary session of Congress while many legislators were away for winter holiday recess.

[14] Uribe had a pro-business record during his term as governor of the Department of Antioquia 1995-1997.

On the other hand, these same factors also shielded elites from alternatives that were even less palatable. Members of the business community in Uribe‘s cabinet adopted pro-business positions and played a key role in interacting with business leaders through consultation forums and cooperation mechanisms. Even though the government needed to generate additional revenue, it strived to diffuse the burden among broader sectors of society and to make the taxes temporary. Whenever unpalatable reforms were unavoidable, the government generated important exceptions favouring elites, including exceptions to corporate income tax rates and juridical stability contracts.

Thus, the 2003 security tax and the exceptions that followed for elites are an example in which both hypothesized mechanisms of elite cohesion were at play. Linkages with business representatives in key positions, consultation forums, and cooperation mechanisms, allowed a compromise solution. In exchange for the adoption of limited and temporary security taxes, business sectors avoided other, potentially more damaging reforms and were granted important exceptions, particularly among the wealthiest and most influential taxpayers.

3.3 Perception of the public good

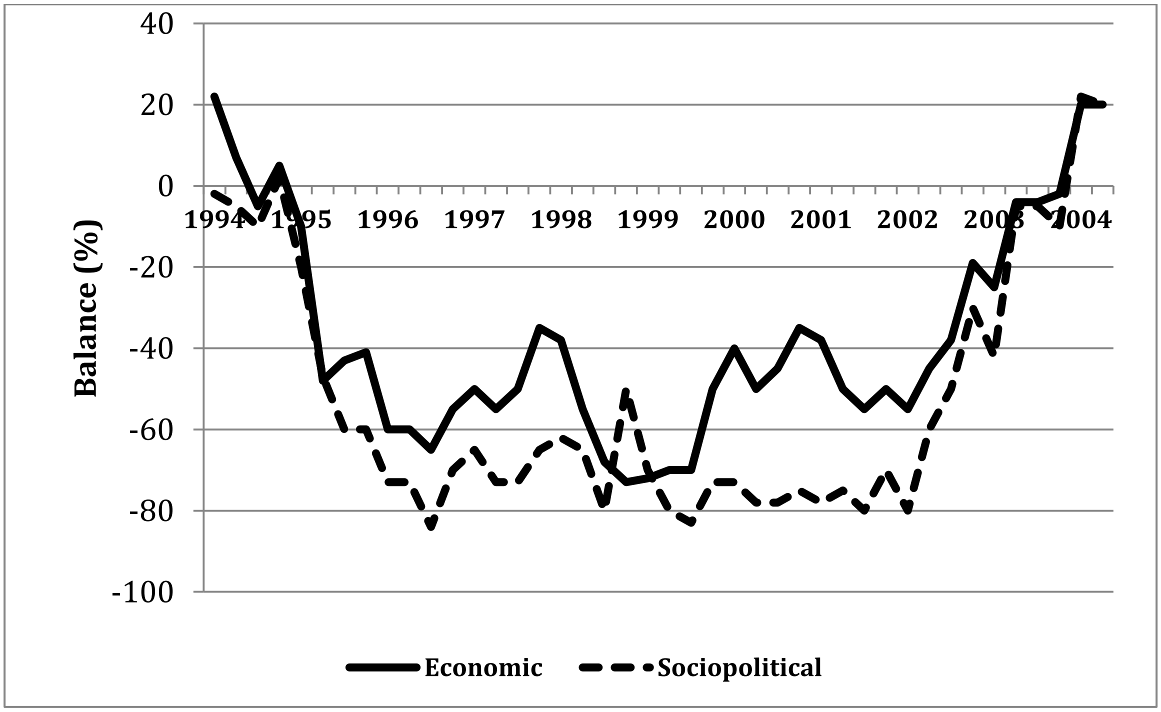
A third factor responsible for the continuation of security taxes is the perception of progress in the provision of public safety. This perception was important because the government explicitly linked the extraordinary wealth tax to security expenditure. Although the government could not formally earmark the funds for security expenditure because article 359 of the Constitution prohibits earmarks,[15] the government unambiguously linked the tax revenue *de facto* to the security effort in several ways. First, the name of the tax itself - Democratic Security Tax - alluded to the name of the government‘s security plan - Democratic Security Policy. The tax became widely known as the ‗war tax‘. Second, the government issued a series of reports outlining security expenditure - wages, equipment, weaponry, and pensions - paid for by the tax.[16] Third, as noted earlier, the president made a commitment to business leaders that the extraordinary tax revenue would only be used for this purpose. Therefore, for the wealthy Colombians required to pay the tax, government performance on the security front ‗served as a barometer of whether the tax was worth paying‘ (interview with anonymous president of management consulting firm required to pay the tax 2011).

From the state of emergency decreed on Uribe‘s first day in office, public opinion surveys show the business sector noted an improvement of security conditions compared to Pastrana‘s presidency. For example, a Fedesarrollo survey conducted among business sectors showed that respondents believed socio-political conditions for investment improved steadily once Uribe took office (Rettberg 2004, 6). In particular, there was a sharp improvement in perceptions from 2002, after a dip corresponding to the economic slump and the failure of Pastrana‘s peace negotiations (Figure 4).

[15] The only exception is social programmes.

[16] Reports made public by the Ministry of Defence were annual and those by the Planning Department spanned the duration of each security tax.

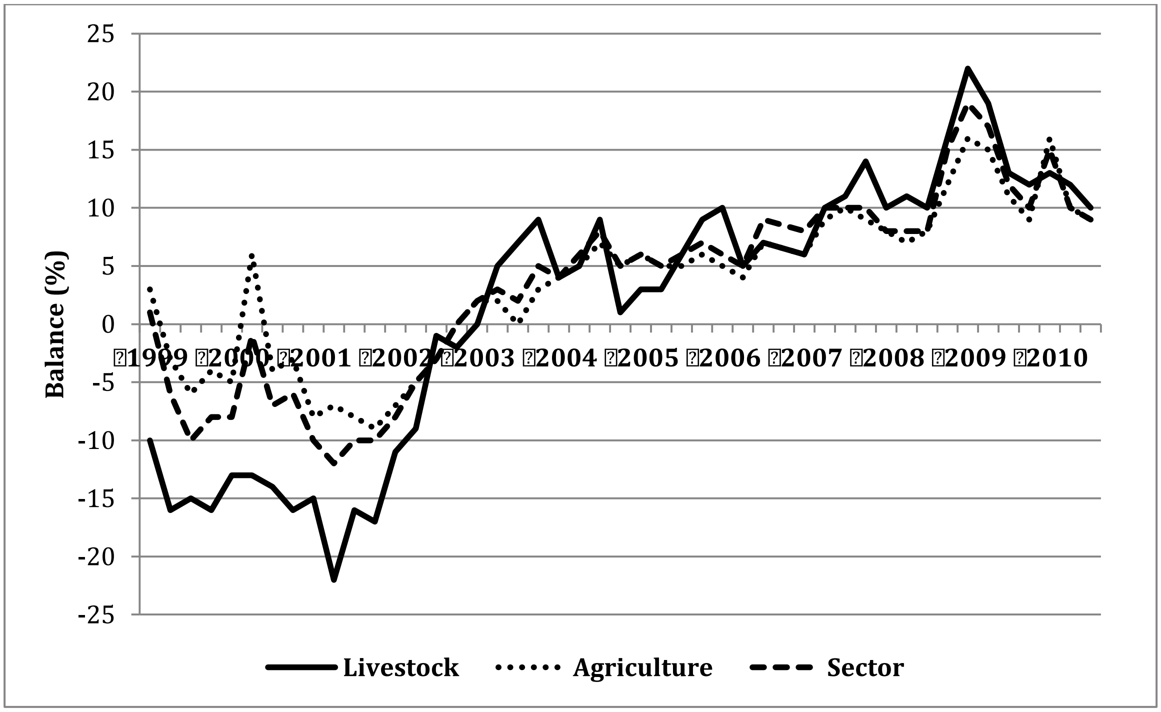
Figure 4 Quarterly perceptions of economic and socio-political conditions for investment among business sector, 1996-2004



Source: Fedesarrollo, Encuesta de Opinión Empresarial, May 2004, as shown in Rettberg, 2004, 6.

As Figure 5 shows, the same trend is appreciated in a Colombian Agricultural Society survey of 1,872 of its affiliates in the agricultural sector (Sociedad de Agricultores Colombianos 2011, 17). The lines reflect a balance (in percentage terms) of the perceptions of safety. This balance is calculated by subtracting the share of respondents who identified public safety as unfavourable from the share identifying public safety as favourable. There is a turning point in perceptions in early 2002 and by the end of 2003 favourable views surpassed negatives ones. These perceptions contributed to reducing opposition among business leaders to the renewal of the tax. Instead, many of them have publicly endorsed it, arguing that ‗maintaining the security tax, now that the state‘s internal enemies have been decimated, is of utmost importance' (Lafaurie 2010).

Figure 5 Quarterly balance of perceptions of public safety among affiliates of the Colombian Agricultural Society (SAC), 1999-2010



Source: Sociedad de Agricultores Colombianos 2011.

As Figures 4 and 5 show, there was a notable difference in perceptions of public safety between the adoption of the first security tax in 2002 and subsequent taxes, particularly in 2006 and 2009. Perceptions were around their lowest levels of the time series in late 2001/early 2002 - just before Uribe became president. By December 2003, when the second wealth tax was adopted, a sharp, initial improvement in perceptions of safety conditions had already taken place among the business sector.

The role of steadily improving perceptions is most noticeable in the approval of the 2006 and 2009 security taxes. In 2006, for example, perceptions hovered around highs not seen in over a decade. These perceptions allowed the government to push for the approval of renewal of the tax shortly after the beginning of Uribe's second term, arguing the need to consolidate the first term's security gains.

According to the Planning Department, the government faced a budget gap of COP$7.4 billion (US$3.2 billion) in its projected defence and security expenditures between 2007 and 2010. This gap represented 16 per cent of the total defence and security budget (COP$57.9 billion or US$24.5 billion) for the period (Departamento Nacional de Planeación 2007, 8-14). If the government wanted to increase, or even maintain, the same security effort, it needed additional funds to sustain the human and material resources acquired in the previous four-year period. Without these funds, the armed forces' investment in additional resources would have come to a halt. To make sure the connection was made between perceptions and the tax, the government called it the Democratic Security Consolidation Tax.

Perceptions of progress on security allowed members of the pro-government Conservative, Liberal, and Social National Unity Parties to echo the government‘s claims. In particular, they appealed to the generalized ‗social impact‘ of the security measures that led to improvement in the investment environment (interview with Posada 2010). They argued that improved security benefited all citizens alike, from the owner of the large business conglomerate to the small subsistence farmer, because ‗security generates trust, trust leads to private investment, private investment allows for social investment, which in turn justifies the further investment in security‘ (*Gaceta del Congreso* 2006, 4). With little opposition to these arguments, the legislature approved the measure by more than two-thirds of the vote. On 14 December 2006, Congress renewed the security tax, granting the government extraordinary tax revenue for another four-year period.

At the time the fourth tax was adopted in December 2009, perceptions were again at historical highs. Although still far from a generalized sentiment of mission accomplished, concerns about increasing the security apparatus to face the conflict began to give way to concerns about how to scale down the military apparatus (interview with Vargas 2010). Consensus around the improvements in security was such that most presidential candidates pledged to maintain Uribe‘s policies (Clavijo and Morera 2010). As leaders from several business organisations expressed in separate interviews, these conditions made it difficult to oppose the government‘s request for the adoption of another tax.[17]

It is worth noting that whether the security tax was mainly responsible for improving security conditions is much less relevant than whether it was associated with progress. Although the security tax compensated for shrinking foreign assistance (interview with Pinzón 2011), funds from Plan Colombia played an important role in stabilising the security situation. Regardless of the actual role of the tax compared to other sources of revenue earmarked toward security, business elites increasingly perceived that the government‘s strategy was improving the security situation.

Similarly, it is important to emphasize that this trend reflects perceptions among business elites - that is, many of those paying the taxes - and not necessarily actual improvement or society‘s agreement with the government‘s strategy. Indeed, there were several scandals related the armed forces‘ poor handling of the security offensive. Among the most prominent are the ‗false positives‘, in which economic incentives among the armed forces encouraged severe human rights violations, and the ‗parapolitics‘, which involved the discovery of links between politicians and paramilitaries (interview with López 2010). Different sectors of society have denounced the government‘s actions and share discontent regarding its security policies.

4 Conclusion

This article focused on the security taxes adopted during Uribe‘s presidency and identified the main factors that made them possible. As Colombia‘s historical difficulty in taxing elites suggests, the government‘s ability to extract extraordinary resources to finance the security effort was not guaranteed. The article showed that a combination of a crisis-based window of opportunity, elite solidarity, and improving perceptions of performance contributed to the adoption of taxes on the wealthy to fund the security effort.

[17] Federation of Cattle-Ranchers (FEDEGAN); Colombian Agricultural Society (SAC); Colombian Insurers Federation (FASECOLDA); and the Colombian Association of Electricity Generators (ACOLGEN).

Regarding the role of crises, the article showed how the government seized on the combination of dire and deteriorating security conditions and a looming fiscal crisis to declare a state of internal commotion. Although the crisis did not end business elites' opposition to the government's extractive efforts, it did compel the government to adopt drastic measures leaving elites little choice but to comply. This allowed the government to circumvent potential opposition to the tax in the legislature and to overcome the slow pace of alternative revenue-generating measures.

Although the emergency measures were a key first step for the two other factors to play a role, this article's findings transcend the tax reform literature's emphasis on conjunctural factors. This is an important step forward because of the difficulty in both establishing what constitutes a crisis (Corrales 1997-98) and, more importantly, because leaders may look to seize them as windows of opportunity but cannot try to replicate them. Regarding business-government relations, this article found that the different views that scholars (Weyland 1997; Lieberman 2003; Fairfield 2011; Prichard and Hassan 2012) have advanced regarding the effects of elite solidarity are not necessarily competing. Instead, they are complementary. The same business-government linkages, consultation forums, and cooperation mechanisms that assist governments in extracting resources from elites tend to help elites influence government decisions. These factors allow both sides to negotiate an acceptable solution. In the Colombian case, while the government succeeded in extracting additional fiscal resources from reluctant wealthy elites, these sectors preempted the adoption of more threatening reforms and secured important exceptions that reduced the tax burden.

Regarding perceptions of the public good, the findings support research that underscores the importance of government performance (Simonsen and Robbins 2003). In spite of its many flaws, the government's security strategy managed to generate perceptions of progress among business elites. As evidence from public opinion surveys and interviews with business leaders suggests, these perceptions contributed to reducing business opposition and generating overwhelming support in Congress in 2006 and 2009.

This connection between the tax and performance was based on several features of the security tax. First, the explicit link between the tax revenue and security expenditures contributed to the business elites' willingness to pay by persuading them that the money would go to their main priority. Even in places where a formal earmark is forbidden, as in Colombia, establishing the destination of the funds *de facto* contributed toward securing elite cooperation. Second, the establishment of consultation forums and collaboration mechanisms contributed to assuaging taxpayers' concerns that their money was used for its intended purpose. These mechanisms allowed business elites to monitor how their taxes were spent. Third, the temporary nature of the tax contributed to making future taxation efforts contingent on performance. Without generalized perceptions of progress among business elites, there would have been more room to defeat future taxes in Congress.

These findings speak to one of the main questions of the political economy of taxation, namely what are the key considerations that enable developing countries to tax more effectively (Brautigam 2008). Naturally, some factors cannot be replicated as a matter of policy prescription. In this category are drastic levels of violence and the government's fiscal troubles. However, the combination of low levels of fiscal extraction, deteriorating security conditions, and mounting public safety expenditure is not uncommon in the developing world. Given a context in which protracted internal violence directly affects large sectors of society, the insights derived from the Colombian experience may be valuable for other countries. El Salvador, Guatemala, Honduras, Mexico, Pakistan, the Philippines, and South Africa are cases in point. In the three Central American countries, for example, executives are considering the adoption of a security tax. This article's findings should inform such efforts. Although the incentives that played out in the Colombian case may vary somewhat with the types and levels of violence found elsewhere, these findings can provide a blueprint for places where addressing violence related to drugs, gangs, guerrillas, or paramilitary groups has become a serious challenge.

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People interviewed

Anonymous president of management consulting firm. 2011. June

Anonymous member of Uribe's cabinet. 2011. June

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Borja, Wilson. 2011. Representative serving in the Economic Committee, Polo Democrático, June

Buendía, Paola. 2010. Director for Planning and Security at the National Planning Department, March

Castro, Santiago. 2010. Representative serving in the Economic Committee, Conservative Party, March 26

García, Juliana. 2010. Deputy Director for Planning and Security at the National Planning Department, March

Gavíria, Simón. 2011. Representative serving in the Economic Committee, Liberal Party, June

Giha, Yaneth. 2011. Deputy Defence Minister for Foreign Affairs and former Director of Defence Budgets at the National Planning Department, June

Jaramillo, Sergio. 2010. Former Vice-Minister of Defence and special adviser to President Santos, March

Jiménez, Fernando. 2010. Director General for the Budget, Ministry of Finance, March.

Junguito, Roberto. 2012. Former Minister of Finance and head of Colombia's Insurers Federation, April

Llorente, María Victoria. 2010. Director of the NGO Fundación Ideas Para la Paz, March

López, Claudia. 2010. Journalist who contributed to unveil the ‗parapolitics' scandal, April

Mejía, Rafael. 2011. Vice-President of the Consejo Gremial and President of the Colombian Farmers' Society, June

Ortega, Juan Ricardo. 2011. Former Deputy Minister of Finance and head of the DIAN under President Santos, June

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Pinzón, Juan Carlos. 2011. Former Deputy Minister of Defence under President Uribe and Minister of Defence under Santos, June

Posada, Augusto. 2010. Representative serving in the Economic Committee, Partido de la U, March

Ramírez, Martha Lucía. 2010. President Uribe‘s first Defence Minister, March

Vargas, Mauricio. 2010. Budget Director at the Ministry of Defence, March

Vélez, María Zulema. 2011. President of the Colombian Association of Electricity Generators (ACOLGEN), June 14

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