The politics of Taxation in Central America

A thesis submitted to Dublin City University in fulfillment of the requirements for the degree of MA by Research, School of Law and Government.

Supervisors:

Prof. Robert Elgie, School of Law and Government

Prof. Iain McMenamin, School of Law and Government.

Student name: Nicolás Pablo González Galeotti

Student number: 57127972

July 2016

I hereby certify that this material, which I now submit for assessment on the programme of study leading to the award of MA by Research is entirely my own work, that I have exercised reasonable care to ensure that the work is original, and does not to the best of my knowledge breach any law of copyright, and has not been taken from the work of others save and to the extent that such work has been cited and acknowledged within the text of my work.

Signed: ________________________ (Candidate) ID No: 57127972

Date: 18th of July 2016

Acknowledgements

I would like to acknowledge the dedication, encouragement and patience of my supervisors, Prof. Robert Elgie and Prof. Iain McMenamin, who accompanied this project through its many phases and were always supportive of my work—despite my numerous changes of country along the way. It was a true privilege to be able to benefit from their lucid and critical advice, as well as their great human qualities.

I would also like to thank Dr. John Doyle for his generous support since the very first time I wrote him inquiring about a Postgraduate Scholarship at DCU. The financial support of Irish Aid and the School of Law and Government was key for this project to advance to this stage.

DCU was also the place where I met my wife Victoria Diaz, whose love, support and encouragement has been crucial for finishing this research project. Gracias!

Table of contents

List of abbreviations

BANAMER	Banco de América
BANIC	Banco de Nicaragua
CACIF	Comité Coordinador de Asociaciones Agrícolas, Comerciales, Industriales y Financieras
CACM	Central American Common Market
COHBANA	Corporación Hondureña del Banano
COHEP	Consejo Hondureño de la Empresa Privada
CONSUFFAA	Consejo Superior de las Fuerzas Armadas
CTH	Confederación de Trabajadores de Honduras
ECLAC	Economic Commission for Latin America and the Caribbean
FAP	Frente Amplio de Oposición
FAR	Fuerzas Armadas Rebeldes
FENAGH	Federación Nacional de Agricultores y Ganaderos de Honduras
FNCH	Federación Nacional de Campesinos de Honduras
FSLN	Frente Sandinista de Liberación Nacional
GDP	Gross Domestic Product
GNP	Gross National Product
IADB	Inter American Development Bank
IBRD	International Bank for Reconstruction and Development
ICEFI	Instituto Centroamericano de Estudios Fiscales
IMF	International Monetary Fund
INBIERNO	Instituto Nacional de Bienestar Rural
MDN	Movimiento Democrático Nacionalista
MHCPC	Ministerio de Hacienda y Crédito Público y Comercio
MLN	Movimiento de Liberación Nacional
OAS	Organization of American States
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
PID	Partido Institucional Democrático

PN	Partido Nacional
SEH	Secretaría de Economía y Hacienda
SHCPC	Secretaría de Hacienda y Crédito Público y Comercio
SIG	Secretaría de Información del Gobierno
UDEL	Unión Democrática de Liberación
UFCO	United Fruit Company
UN	United Nations
UNO	Unión Nacional Opositora
UPEB	Unión de Países Exportadores de Banano
US	United States
USAID	United States Agency for International Development
VAT	Value Added Tax

List of Figures

Abstract

The politics of Taxation in Central America

Nicolás Pablo González Galeotti

How do dictators take decisions on tax policy? Building on the basic intuitions of "theories of political survival", this thesis offers an argument to account for tax-policy variation in authoritarian Central America. By focusing on instances of major tax reforms during the second half of the 20th century, this thesis draws links between reform outcomes and coalitions supporting authoritarian governments in Guatemala, Honduras and Nicaragua. Broad-based coalitions enabled governments to establish progressive taxation in the form of income, property and agricultural-exports taxes. Narrow coalitions, by contrast, translated into the pre-eminence of regressive taxes exempting elites and targeting consumers at large. Case studies show how regime change, and the associated shifts in the composition of supporting coalitions, was conducive to some traceable changes in the orientation of tax policies. A comparative research design allows ruling out alternative explanatory factors.

1. Introduction and Puzzle

Scholarship on the history of 20th century Central America has accounted for distinctive trajectories among apparently similar countries. A number of regional surveys contrasted developments in the long-term and provided grand narratives addressing structural commonalities as well as hypotheses for divergences in outcomes (e.g.: Booth and Walker 1999; Dunkerley 1989; Pérez-Brignoli, 2000; Woodward 1999). Case studies provided detailed accounts about the origins and the character of local autocracies and domestic political actors during the 20th century (e.g.: Adams 1970; Black 1984; Crawley 1979; Euraque 2001; Millet 1977; Morris 1984; Walter 1993).

Comparative-historical analyses on Central American politics typically focus on "grand questions" such as the occurrence of revolutions and civil war (Bataillon 2008; Goodwin 2001; Paige 1997) and regime transitions (Mahoney 2001; Marti i Puig 2004; Yashar 1997). In these accounts, contrasting outcomes are explained as the result of "critical junctures" which led to country-specific configurations of otherwise similar causal factors (Mahoney 2001; Yashar 1997). Detailed historical research pointed at the interplay of key variables at specific moments, as well as the legacies of these causal configurations over the long-run.

Central American dictators of the 20th century are often described by these authors as guardians of the conservative order. For historian James Dunkerley, for example, dictatorship represented a “dominant block” allowing local oligarchies, the military and conservative political organizations control key state resources and repress social dissent. A similar interpretation can be found in Jeffrey Paige' research on coffee elites. Paige argues that Central American authoritarian regimes are better understood as resulting from the trade-off between "the right to rule for the right to make money" between the military and economic elites of agrarian origin, at the expense of peasants and workers (Paige 1997, 22). This informal alliance would explain the longevity of Central American autocracies, the prevalence of the economic interests of the national oligarchies and the brutality of the means used by the state to maintain order.

While these perspectives may shed light on the fundamental power arrangements sustaining authoritarian regimes in Central America, they often obscure the fact that the “tacit alliance" between military and economic elites were ridden by conflict. Indeed, as this thesis shows, the relations between military dictators and domestic economic elites were far from harmonious. These internal disputes constitute the main focus of this thesis, which posits taxation as a particularly fruitful arena to examine the relations between dictators and the economic elites backing authoritarian regimes.

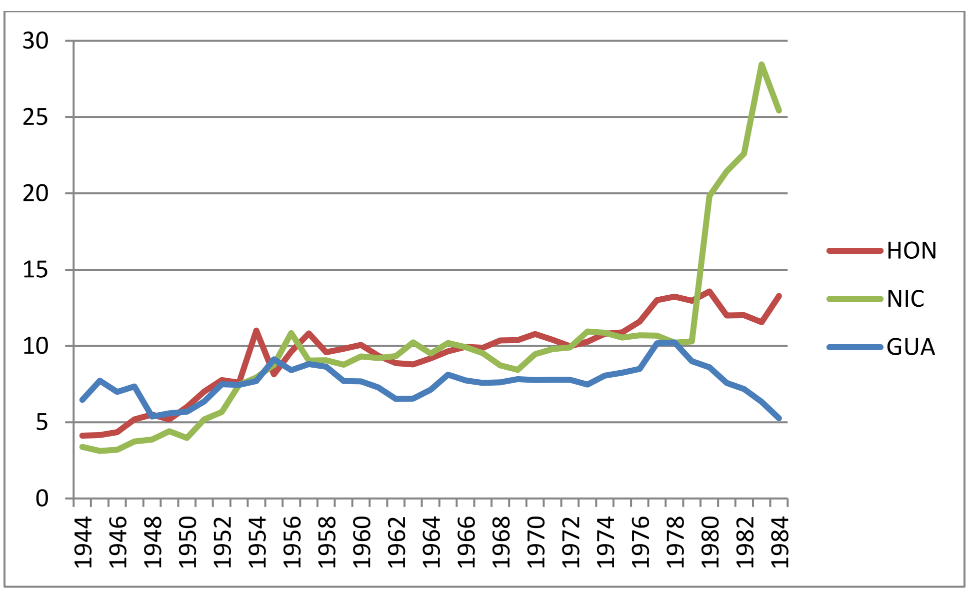
Puzzle

The decades studied in this thesis were a period of major political change in Central America. Conservative dictatorships established in the early 1930s were gradually replaced by governments with a mandate to transform state functions by enacting a number of long-delayed institutional reforms aimed at modernizing domestic economies.

Economic modernization at the time essentially meant diversifying export agriculture and promoting Import Substitution Industrialization--the cornerstone of the development paradigm that would mark Latin American policies in the 1950s and 1960s. Matching these twin objectives required granting the state a more activist role into the economy by introducing major institutional changes. Central Banks, Development Banks, Social Security Institutes, Planning bodies and an array of new Ministries and autonomous institutions were founded. The new developmental states also increased public investment on health, education and productive infrastructures (mainly roads, ports and power facilities).

Growing state functions required additional public revenues, but existing sources were ill-suited to cover the large budgets required by the new "developmental" states (Adler, Schlessinger and Olson 1951; Garvy 1952; IBRD 1951; 1953). As Figure 1 shows, total tax collections (as percentage of the Gross Domestic Product) remained around 5% in the late 1940s. Although the reforms introduced by governments in the 1950s increased tax revenues, total tax collections remained below 12% of GDP until the late 1970s.

Figure 1. Guatemala, Honduras, Nicaragua: Tax revenues as percentage of GDP. (Central government)



Source: Reports of Ministries of Finance and Central Banks, Various years.

By 1950, the tax structures or the countries studied here were biased towards regressive taxes.[1] The lion's share of government resources originated in excises, custom and stamp duties. Guatemala, Honduras and Nicaragua had avoided income taxation, and levies on business profits, property and personal wealth yielded anecdotal gains. Moreover, families and firms involved in export agriculture, the most dynamic economic sector in all three countries, went basically untaxed.

The magnitude of the investments planned by modernizing leaders required revamping the old-fashioned tax systems that were in place. The concentration of wealth in these three countries made taxing the income and assets of wealthy sectors the preferred choice of reformers. Indeed, various missions of foreign experts deployed to the region by the recently-created International Bank for Reconstruction and Development (IBRD), International Monetary Fund (IMF) and UN Economic Commission for Latin America (ECLAC) explicitly recommended increasing the tax burden held by upper-income groups (Adler, Schlessinger and Olson 1951; Garvy 1952; IBRD 1951; IBRD 1953). Recommendations emphasized strengthening direct taxation by reforming property and wealth taxes, increasing taxes to agricultural exporters and, above all, introducing income taxation, seen at the time as "the foundational stone of all modern tax systems" (Garvy 1952: 8). [2]

Establishing progressive taxation was a major challenge in the context of Central America both for technical and political reasons. On the technical side, governments had to build from scratch the institutional and technical capacities required to administer modern taxation. Treasury offices were inefficient, severely ill-staffed and had a limited territorial reach. Tax farming was still a common practice in rural areas and in Guatemala public works were carried out using compulsory work on the part of indigenous communities.

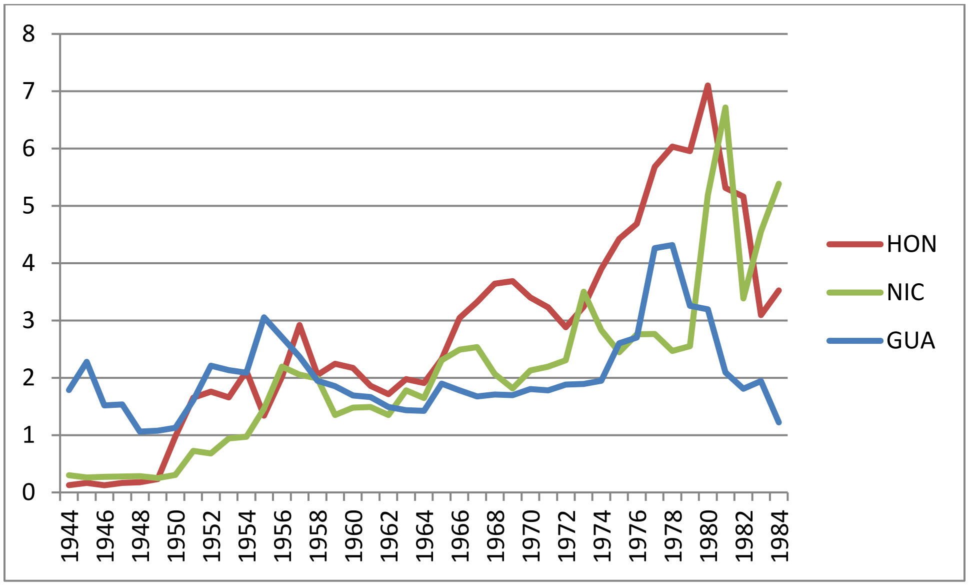
On the other hand, and perhaps more decisively, progressive taxation was politically challenging because it directly affected the interests of groups with major power resources. Taxing upper-income groups represented a definitive breakdown with the previous conservative order, where powerful local oligarchies had long enjoyed veto powers over fiscal matters (ICEFI 2007). Remarkably, despite the resistance of richer groups, progressive taxation was introduced in all three countries, although with different degrees of success. . As Figure 2 shows, rulers in Guatemala, Honduras and Nicaragua increased the share of direct taxes as percentage of GDP between 1944 and 1980. However, as

[1] A tax is said to be regressive when an inverse relation exists between tax rates and the ability to pay of taxpayers, measured by income, property or consumption. Regressive taxes take a large percentage of income from low-income than from high-income payers.

[2] Direct taxes are taxes paid to the government directly by the final tax payers. Indirect taxes are paid by someone other than the person on whom it is imposed.

Figures 3 to 5 show, the yields of taxes on capital, income, property and export agriculture varied across cases.

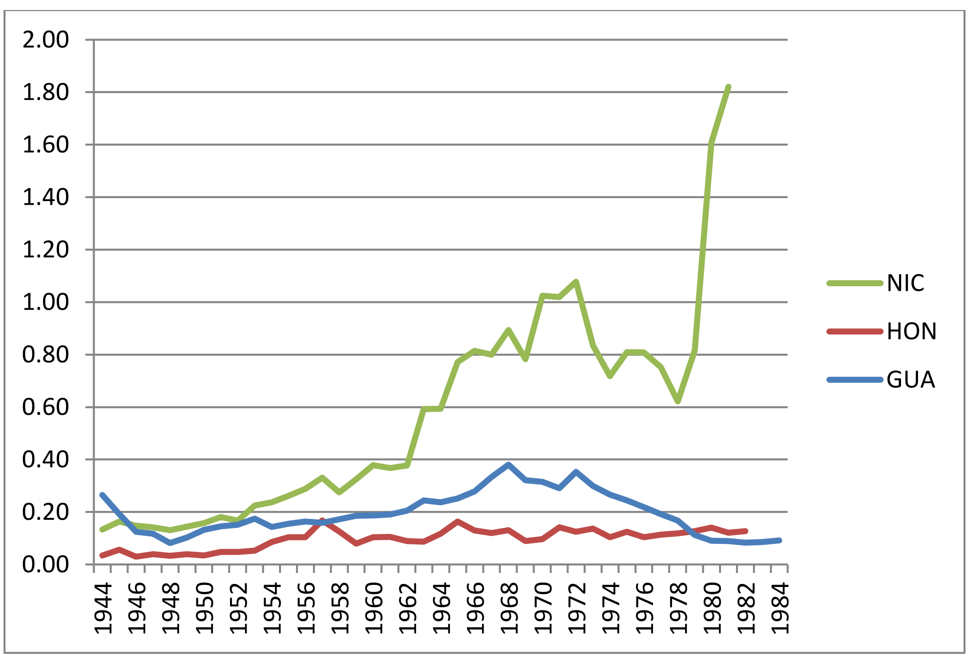
Figure 2. Guatemala, Honduras and Nicaragua: Income + Property + Export Tax Collections (% of GDP)



Source: Reports of Ministries of Finance and Central Banks, Various years.

And countries look even more divergent when these taxes are considered separately. As Figure 3 shows, Nicaragua collected higher taxes on property than Guatemala.

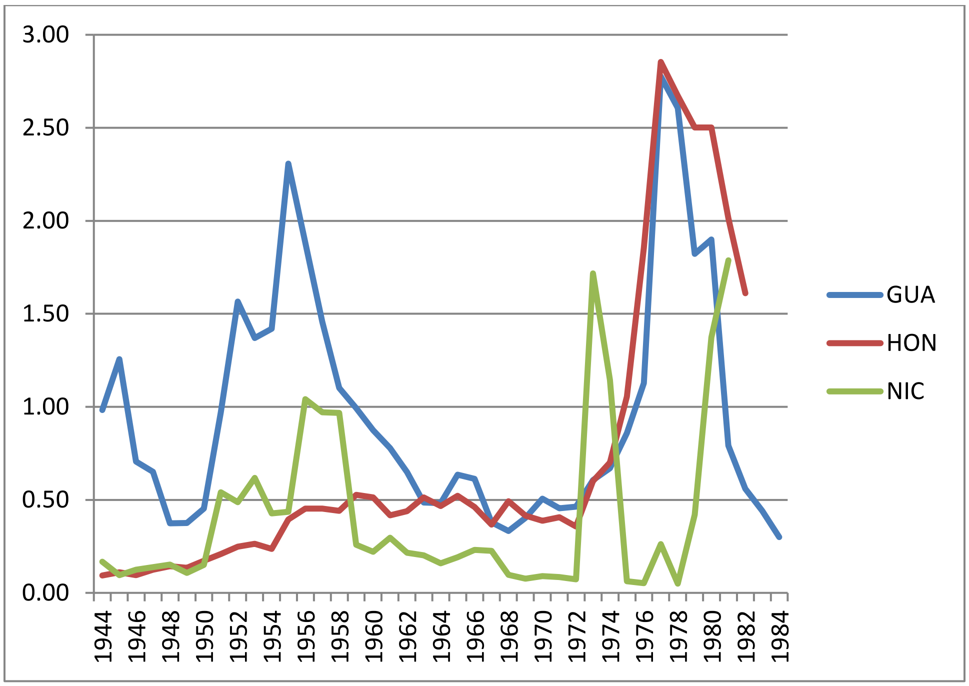
Figure 3. Guatemala, Honduras, Nicaragua: Property Taxes (% of GDP)



Source: Reports of Ministries of Finance and Central Banks, Various years.

Guatemala, by contrast appears as a case where governments were able to substantially increase the tax burden of agricultural exports during specific junctures (Figure 4).[3]

Figure 4. Guatemala, Honduras, Nicaragua: Export taxes (percentage of GDP)

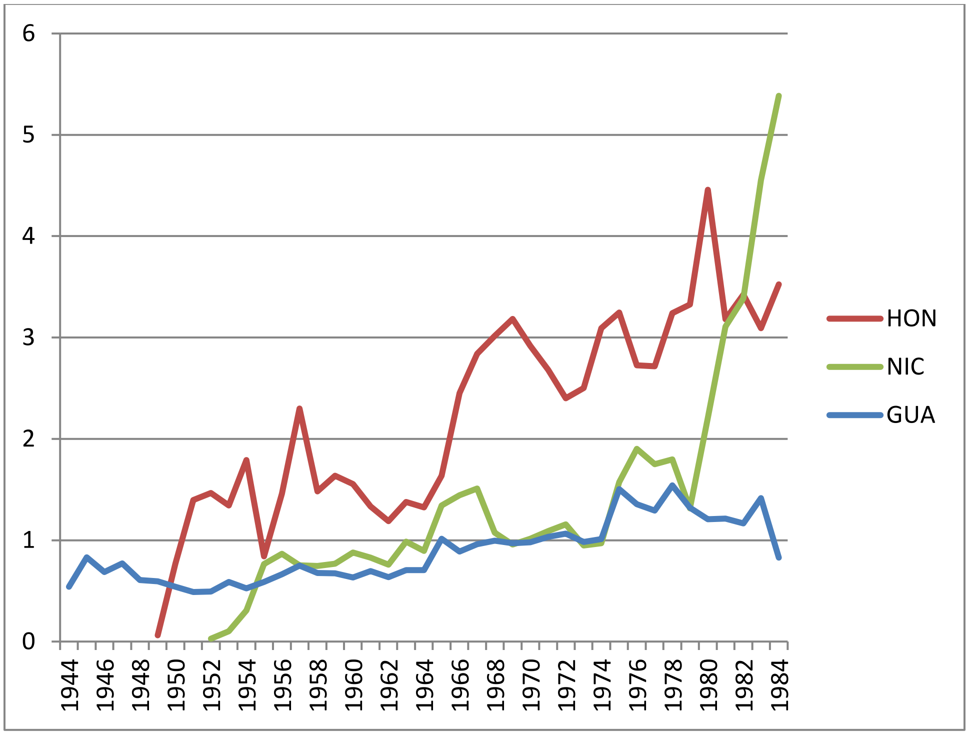


Source: Reports of Ministries of Finance and Central Banks, Various years.

Finally, as shown in Figure 5, neither Nicaragua nor Guatemala collected substantial amounts of public revenue through income taxes, but Honduras did.

[3] Similar trends are evident when taxes are reported as percentage of total tax collections. The corresponding figures can be found in the Annexes, which also include country tables.

Figure 5. Guatemala, Honduras, Nicaragua: Income Taxes (%of GDP)



Source: Reports of Ministries of Finance and Central Banks, Various years.

What explains these distinctive country trajectories? Under what conditions are authoritarian rulers more likely to succeed in mobilizing domestic resources through progressive taxation?

Plan of the thesis

The thesis is divided in four sections. A literature review follows this introduction. Section 3 presents the criteria for case selection and the methodological approach chosen to analyse the cases. Section 4 presents case studies on Guatemala, Honduras and Nicaragua and Section 5 present some general conclusions.

***

2. Literature Review

This chapter presents an argument about the literature that aims to justify the relevance of the research question and the approach chosen for answering it (McMenamin, 2006: 133). The chapter begins reviewing some of the main theories on the political determinants of progressive taxation, building on successive debates about the relevance of structural factors, agency and institutions in accounting for the emergence and evolution of welfare states in advanced capitalist societies. It then discusses the limitations of these general approaches to explain policy outcomes in non-democratic developing countries. A theoretical perspective that sheds light on policy variation in poor, authoritarian countries is introduced in the second part of the chapter. The last section reviews relevant comparative work on taxation in Central America, pointing out its strengths and weaknesses and arguing in favour of the approach chosen in this thesis.

The determinants of progressive policies in democracies

Despite the centrality of taxes in the functioning of modern states, studies on taxation remained relatively marginal in political science and sociology until the 1990s (Lieberman 2002). In recent years, however, taxes had attracted increasing scholarly attention as a factor capable to illuminate major research agendas. These include problems of collective action, state-building, governance, state-society relations, state capacity and distributive justice (Lieberman, 2002; Moore, 2008; Prasad *et al.*, 2009).

As fiscal-sociology proponents argue, taxation stands as a fruitful arena for research because of the ready availability of highly standardized data covering most countries in the world for considerable time-spans (Campbell, 1993; Lieberman, 2002). Some of the most innovative contributions on fiscal sociology have linked tax outcomes to previously-neglected explanatory variables, including identity politics, regionalism, power inequality, ideologies and grassroots mobilization (Lieberman 1998; Prasad and Morgan 2009; Martin 2013).

Our understanding of the political economy of progressive taxation, however, continues to be deeply influenced by the debates about the origins and development of tax-financed systems for social protection in advanced capitalist societies. The literature on welfare states has provided some of the leading theories to explain cross-national variation in social expenditures, and with these, differences in the way states pay for the costs of increasing social protection policies.

Broadly speaking, the massive scholarly work on welfare states has taken three distinctive focuses. While some scholars explain variation across countries putting forward structural-functional explanations, others emphasize agency and power resources, and yet others concentrate on the role of bureaucracies and institutions (Hill, 2006: 25-26).

Early scholarship on the origins and evolution of welfare states in advanced capitalist societies was puzzled by the positive correlation between levels of economic development and aggregate social expenditures (Wilensky 1975). In short, the size of the public sector relative to the national economy was larger in wealthiest nations, which also tended to spend more in the provision of social protection.

In accounting for these patterns, structural arguments linked welfare-statism to the process of modernization. Countries of the North were the first to experience "high levels of economic growth, industrialization and demographic change" (Olsen and O'Connor, 1998: 4). Welfare states were established in the decades of economic expansion following the Second World War in order to protect citizens against the shocks of industrial change (May, 2008: 425). Wilensky, for instance, argued that economic growth and its associated demographic and bureaucratic changes led to the establishment of comprehensive welfare programmes and an increase of overall social expenditures to protect workers (Wilensky, 1975: xiii).

Many of these works assumed that policy innovation was a product of the tensions associated to the transit from traditional agrarian to modern industrial economies. However, they provided no specification of the ways in which modernization led to specific policy outcomes. Countries were expected to converge in an equilibrium of increased social protection and decreasing class-based political tensions (Skocpol and Amenta, 1986; Olsen and O'Connor, 1998). The consolidation of the fiscal technology associated to the modern "tax states" was seen as a by-product of the process of economic modernization, which allowed for an ever expansion of public revenues as the economy grew and tax bases broadened and diversified (Tarsychs 1988).

Marxist-inspired theories of the welfare state also focused on the functional needs of capitalist societies in light of major structural change (Hill, 2006: 24; Skocpol and Amenta, 1986). Under these perspectives, social policies were seen as mere mechanisms for the social-reproduction needs of advanced capitalism (O'Connor, 1975; Skocpol and Amenta, 1986: 134). For some Neo-Marxists, welfare policies were a "conscious effort to increase output, stabilize or revitalize the economy, and pre-empt or defuse working-class militancy" (Olsen and O'Connor, 1998: 4). Besides helping to pre-empt class-warfare, social protection allowed capitalists to retain democratic legitimacy while making society assume the costs of securing the welfare of workers in the form of contributory schemes or taxes (Hill, 2006: 24)

Structural arguments resulted of little help to explain cross-country variation in the provision of welfare and its associated financing schemes. The effect of political agency, in particular, remained obscured in structural-functionalist accounts. As a result, a new generation of “society-centred” scholars focused on the influence of political actors which included class-based collective actors, as well as an array of interest groups and political organizations (Immergut, 2008: 558).

Pluralists explained variation in policy outcomes among advanced democracies as the result of the pressure of competing societal interests on policy-makers. Scholars on this tradition proposed a dispersed view of power where no single group or faction could prevail in the policy-making process. Pluralists argued that numerous interest groups had the capacity to influence policies in different moments and at different arenas in the policy-making process (e.g. Dahl, 1971). Policy outcomes were seen as the result of a process of lobbying and bargaining among social groups with equivalent access to policy-makers. In these views, which were rooted the analysis of policy-making in the US and liberal political philosophy, governments acted as mere arbiters of interest group competition. Hence, policy outcomes reflected a "natural equilibrium of citizen and group preferences" (Immergut, 2008: 558; Olsen and O’Connor, 1998; Pollack, 1996).

Critics disregarded pluralist theories for failing to take into account differences in power resources among social groups and the relevance of class-based cleavages (Hill, 1997: 41; McLennan, 1997: 53, 54). Society-based theories, by contrast, associated distinctive policy outcomes to the power of collective actors and their political organizations (Korpi, 1983; Esping Andersen, 1985a). In power-resources theories, democratic politics allowed workers to gain control over the state despite the superior power resources of the “capitalist class” (Skocpol and Amenta, 1986: 140-141). Generous welfare provision was related to labour mobilization and the influence of reformist political parties at foundational moments. Large labour unions and strong social democratic parties were necessary for the establishment of universal social protection schemes and generous benefits in northern European countries (Esping Andersen, 1985b; Korpi, 1983; Skocpol and Amenta, 1986). Where the left was strong, social expenses were mainly financed through regular tax revenues, while contributive schemes and market mechanisms were prevalent in liberal Anglo-Saxon and conservative European welfare states (Esping-Andersen, 1990).

"Society-centred" approaches were in turn criticized for failing to consider the state as a relevant actor in itself (Skocpol and Amenta, 1986; McLennan, 1997). Power-resources theories were accused of treating the state as "something neutral to be captured” (Hill, 1997: 42). A new research agenda emerged as scholars called to stop treating political institutions as epiphenomenal and "bringing the state back in" (Skocpol and Amenta 1986; Olsen and O’Connor, 1998: 19). In these views, states were more than mere “arenas of political conflict or passive administrative tools to be turned to the purposes of any social group that gains governmental power” (Skocpol and Amenta, 1986: 147, 149).

The next breakthrough in the literature on welfare policies was thus a renewed interest on institutions. After many decades of relative neglect, institutions regained a privileged status as key explanatory variables to account for variation in politics and policy outcomes in advanced capitalist societies. In line with the emerging neo-institutional research agenda in economics, "institutionally-centered" approaches to the welfare state saw states as intervening variables capable of shaping the political process in two important ways. On the one hand, bureaucrats and politicians could be autonomous actors advancing their own interests. On the other, institutions could restrain political access, influence the preferences and choices of relevant stakeholders, structure the policy-making process and establish patterns of policy implementation (Immergut 2008: 559).

Historical, neo-institutional analysis proposed studying institutions as both a dependent variable and as an explanatory variable in its own right (Peters 2001: 306). For Sven Steinmo, for instance, variations in tax policies between Sweden, the United States and Britain can be explained as a result of the way in which different institutional configurations structured politics (Steinmo, 1996). A model of fragmented decision-making permeable to particularistic demands would explain why the US ended having an inefficient tax system, where high income taxation coexists with multiple loopholes in the tax code. Meanwhile, the argument goes, a more corporatist decision-making structure made harder for interest groups to influence policy outside broader, hegemonic coalitions in Sweden. As a result, the Swedish tax system was more efficient, benevolent with capital and relatively less progressive. Finally, a unique constitutional structure and a "party government" type of political process would explain Great Britain's complex and incoherent tax structure.

The study of structures, agency and institutions centred many of the debates on the evolution of welfare states and the associated models of public finance. This accumulated knowledge has also informed the study of social and fiscal policy beyond advanced capitalist societies. To name but an example of a large literature, the Inter-American Development Bank has advocated for a “systemic approach” to study tax policy-making in contemporary Latin America (IADB 2007). While recognizing the relevance of the effects of “structural variables on the configurations of polities, policy-making and policies”(IADB 2007: 11), the Bank called for an understanding of the policy-making process “in all its complexity, [with the] multiplicity of actors with diverse powers, time horizons, and incentives that participate in them; the variety of arenas in which they play the game; and the diversity of rules of engagement that can have an impact on the way the game is played” (IADB 2007: 7).

Broadening the sample

Some scholars have called into question the capacity of this literature to explain variation in policy outcomes beyond OECD countries (Mares and Carnes 2009). Although capitalist countries in the developing world adopted the development paradigm set by industrialized countries and implemented similar social and fiscal policies, policy outcomes did not converge with those of advanced capitalist societies. The results brought about by similar social and fiscal policies varied widely across countries in the developing world (Mares and Carnes 2009).

There are issues of scale behind this variation. . Different resource endowments, economic trajectories and models of economic development led to distinctive economic outcomes. Poor countries tend to have smaller economies and many are dependent on the export of commodities. Diverse economic structures constrained tax bases and set objective limitations on the capacity of governments to mobilize domestic resources for social protection.

But there are also crucial differences in the political conditions that led to the adoption of broad social policies. Social protection and fiscal policies were mostly introduced by authoritarian rulers in the developing world. As Mares and Carnes (2009) note in their analysis of a sample of 73 developing countries, disability benefits were first introduced by non-democracies in about 9 out of each 10 cases. Similarly, twice as many autocracies as democracies instituted old-age and health insurance schemes (Mares and Carnes, 2009: 97).

Theories of the welfare state seem of limited use to explain policy variation under authoritarian regimes for two important reasons. First, the formal political institutions of authoritarian regimes hardly conformed to the open, accountable and relatively predictable institutions of the advanced democracies. Legislatures and the Judiciary were often co-opted by authoritarian rulers; electoral competition was constrained and elections often ridden. Bureaucracies usually were key mechanisms of patronage; and decisions on taxation and the provision of public goods were often made by political reasons. Secondly, state-society relations were different from those prevailing in democracies. In authoritarian Central America, for instance, labour unions and leftist political parties were directly targeted by state violence. Some dictators build temporary, tactic alliances with labour unions, but in general workers had little voice in policy-making.

Understanding authoritarian politics: the logic of political survival

The study of authoritarian regimes has boomed in recent years. Much of the early work on autocracies produced classifications of types of regimes that described the singularities of particular cases (Brooker, 2000; Linz and Stepan, 1996). The lack of a unified theoretical framework and the relative scarcity of systematic comparative work on the politics of authoritarian regimes generated a taxonomy of authoritarian regimes including "neo-sultanistic, neo-patrimonial, personal, bureaucratic authoritarian, military, inclusive military, exclusive military, single party, dominant (or hegemonic) party, semi-authoritarian, autocratic, and totalitarian" (Haber, 2006: 694; Mares and Carnes 2009). However, as Mares and Carnes point out, this literature demonstrated to be of little help to account for the variation in policy outcomes among non-democracies (Mares and Carnes 2008: 98).

Efforts to theorize on the policy output of non-democratic regimes have increased substantially. Prominent among this growing body of work have been attempts to model the internal dynamics of autocracies and their distinctive distributional consequences (Olson, 2000; Haber, 2006; Bueno de Mesquita, *et al.*, 2005; Mares and Carnes, 2009). Unlike early research on dictatorships, based on the in-depth study of single cases and typologies, this literature proceeds deductively building theoretical models that then are tested across cases and epochs.

Bueno de Mesquita and his co-authors argue to have found the "essence of politics" in dictatorships and democracies in the logic of survival (Bueno de Mesquita *et al.*, 2005: 28, 29). Similarly, Stephen Haber drafts an overarching "logic of authoritarianism" applicable to all types of non-democratic regimes (Haber 2006: 694). For these authors, the output of authoritarian regimes is best understood as a result of rulers' calculations about how to retain the loyalty of their core supporters and building a stable coalition to back their regimes. That is, dictators' take decisions on the allocation of public and private goods aiming at securing their political survival.

Bueno de Mesquita *et al*. build on the premise that no leader can rule alone and even brutal dictators cannot survive the loss of support among their core supporters (Bueno de Mesquita *et al.*, 2005: 28, 29). The size and nature of the "winning coalition" backing autocrats vary from case to case and can be highly idiosyncratic, but they control "the essential features that constitute political power in the system" and thus have the capacity to maintain or depose the leader (Bueno de Mesquita *et al.*, 2005: 7).

The leader, which can be an individual or a group, uses the tools at hand to punish opposition groups and reward supporters. Their capacity to reward depends on their ability to take binding decisions regarding taxation and the distribution of private or public goods. Examples of private goods would include "special privileges, access to graft and bribes, favourable tax terms, favourable contracts, judicial favouritism, and the like" (Bueno de Mesquita *et al.*, 1999: 149). By contrast, public goods benefit everyone in the state, and can take the form of "political freedoms, national security, general economic growth policies that lift the total size of the pool of resources in the state, and the like" (Bueno de Mesquita *et al.*, 1999: 149).

The authors of the "selectorate model" have developed some theoretical implications for tax outcomes (Bueno de Mesquita *et al.*, 2005: 87). In this view, rulers are revenue maximizers which prefer high taxes to increase the pool of resources available for graft and co-opt members of their winning coalitions. Where coalitions are small, leaders compensate their supporters for the losses associated to high taxes allocating private goods. By contrast, large coalitions produce low taxes because autocrats cannot compensate all of their supporters for the costs of high taxation.

Similarly, Stephen Haber developed a theory building on an equivalent logic to understand the internal political dynamics non-democratic governments (Haber 2006). Like in the "*selectorate model*", Haber's "logic of authoritarianism" builds on the assumption that the main end of non-democratic leaders is securing their own survival. Autocrats are “inherently insecure” since they cannot know for sure who supports them. Dictators establish strategic interactions with the members of the coalition that launched their regime and keeps them in power. Thus, for Haber, leaders and supporters engage in permanent power disputes (Haber 2006: 704).

The interactions between autocrats and their core supporting coalitions can take four main forms. Dictators can become “benign despots” to avoid conflict with the members of the launching coalition. More likely, they may try to impose their will by terrifying the leadership of the launching organization. This strategy, however, may undermine the ability of the government to function, as coalition members permeate the formal organizations within the state that allow leaders to “run the country”. As Haber puts it, “the dictator cannot simply declare the dissolution of the launching group: it is integrated into the state” (Haber, 2006: 696). State terror will also dampen investment by undermining security of property rights, and will increase the appropriative character of the regime.

Alternatively, dictators can choose to co-opt the leadership of the launching group. This strategy implies establishing rent-sharing arrangements that require narrowly distributing rents and privileges. According to Haber, “the heart of this system is the creation of economic rents by reducing competition through regulatory barriers to entry, such as narrowly allocated import permits, preferential tax treatment, or the requirement of licences or concessions to enter particular lines of economic activity” (Haber, 2006: 701).

Finally, the ruler may choose the strategy of founding competing organizations to undermine the capacity of the coalition to solve collective-action problems. “Organizational proliferation” will require dictators to confer economic rights and opportunities to a broader percentage of the population, although these may coexist with selective benefits to individual coalition-members. “Property rights to secure jobs, loans from government-run banks, and the opportunity to receive bribes and kickbacks must be provided to rank and file members, while the selective allocation of trade protection, tax preferences, or contract enforcement must be provided to the organization’s leaders” (Haber, 2006: 701).

Building on these theories, Mares and Carnes advance a number of hypotheses about the consequences of the strategies of autocrats on the design of social protection policies (Mares and Carnes 2009). While no particular social policies should be expected from a despotic, predatory ruler, the strategy of collusion may lead to the creation of restrictive social policies, directed to narrow clienteles. By contrast, a “chaotic mix of economic policies granting selective benefits to a variety of groups” can be expected in contexts where dictators choose the strategy of organizational proliferation (Mares and Carnes 2009:

100).

As we have seen, leading theories of political survival develop hypothesis about the logic behind the decisions of autocrats regarding taxation. Most of these, however, focus on total tax revenues and are insensitive to the distributive consequences of different types of taxes. As explained in detail at the next chapter, this thesis will try to deal with this simplification by focusing on progressive taxation.

Existing comparative research on the politics of taxation in Central America

Central American tax systems have attracted the attention of various generations of scholars. One of the early comparative attempts to explain variations in tax outcomes in Central America was made by Michael Best in 1975. Best argued that economic variables could not explain differences in the tax effort shown by these countries. Alternatively, he suggested that the explanation lied in distinctive patterns of political power among social actors. The influence of landed elites prevented the tax effort of Guatemala, El Salvador and Nicaragua to match that of Honduras and Costa Rica, where tax revenues were higher. Since the tax system was biased towards indirect taxation (8% of GNP) and against direct taxation (2% of GNP), he concluded that the power of the landlord class, and to a lesser extent industrial and merchant classes, had blocked attempts to increase direct taxation.

Best linked the preferences of specific social classes on taxation (which he assigned arbitrarily based on incidence assumptions) with the actual tax structure, concluding that "the preferred tax ordering for the great majority of the population is almost exactly opposite the actual ordering of taxes by absolute magnitude in the government budgets (…) The actual composition of taxes is in fact nearly the same as the hypothetical preference ordering for only one group – the large landowners" (Best, 1975: 71).

Best, however, did not elaborate on the causal mechanisms that explained such outcome. Although he mentioned as possible explanations the lack of channels of participation for popular sectors, the deterrent effect of the anticipation of sanctions, lack of information, and the "hegemony of individualistic ideologies", he did not attempt to measure their impact. Best suggested further research to test his hypothesis using the "reputational method", [i.e. studies of access to positions of government authority] and analysing the "successful initiation and veto of policy proposals within governmental arenas" (Best, 1975: 74).

In a paper published in 2006, the economist Juan Alberto Fuentes echoes Best's hypothesis about the lack of channels of popular participation to explain the divergence in the distribution of tax burdens in Central American. Fuentes argues that Guatemala and El Salvador may have smaller states (measured as the size of the public sector as percentage of GDP) than the rest of the countries in the region, and lower taxes, because of their "closed political systems". By contrast, the exceptional welfare policies of Costa Rica and the relatively higher tax revenues of the Honduran state reflected their relatively longer representative tradition. Finally, Fuentes argues, the fact that poor Nicaragua has a bigger state than their richer neighbours at the north of the isthmus was as a legacy of leftist governments following the *Sandinista* revolution of 1979 (Fuentes 2006: 44, 45). Fuentes offers an argument that point to the internal working of authoritarian regimes. However, his analysis lacks a systematic consideration the interaction between economic and military elites and is insensitive to variations in tax structure.

Aaron Schneider proposes an alternative argument in his classification of the distinctive political trajectories of the countries of the isthmus (Schneider 2006). According to Schneider, Guatemala, El Salvador and Nicaragua are countries that experienced an *aborted liberalism.* Traditional elites, the military and external actors conspired to avoid the liberalization of politics, and created an authoritarian political model that distorted their fiscal practices and biased them towards the interest of the conservative groups. Therefore, “ineffective tax capacity, inadequate social spending, increasing inequality and failing social indicators” were the outcomes in these countries (Schneider 2006: 10). Costa Rica and Belize, by contrast, are cases of *smooth liberalism*, where modernizing elites incorporated middle groups and popular classes to displace the powerful local elites, and therefore established “modern, liberal, and progressive fiscal practices appropriate to 20th century development strategies”. Finally, Honduras and the Dominican Republic are cases of *delayed liberalism from above*, an intermediate category in which modernizing elites emerged from the military and traditional elites, imposing a liberal transition from above. However, "there was not a wholesale deepening of the fiscal and political system, perhaps because they occurred at a later moment in historical time when 20th century fiscal models were less viable” (Schneider 2006: 5).

A recent comparative study of the political economy of taxation in Central America also underscores authoritarian politics (ICEFI, 2007). The authors argue that the interests of powerful agrarian elites dominated taxation during the first half of the 20th century. However, they took different paths of political reform during the 1940s and 1950s. While Costa Rica emerged as a democratic polity, authoritarianism prevailed in the rest of the isthmus. The consolidation of authoritarian regimes meant that the actors which could counterbalance the power of the economic elites remained excluded from the policy process. “The unstable and often repressive political conditions, with the exception of Costa Rica and (partially) Honduras, did not favour the creation of ample alliances that could face or weaken the strong and concentrated opposition of agrarian elites” (ICEFI, 2007: 140). Income tax regimes were weakened because economic elites forced governments to introduce an array of exceptions. Calls for increasing export taxes and taxing capital gains were fruitless for the very same reason.

The approach of ICEFI is more sophisticated than other comparative studies since it includes considerations about the influence of economic factors, regional political processes and international actors along with its narrative on the distinctive influence of social groups. Moreover, it frames changes in tax policies under the successive phases of the isthmus's economic history, distinguishing between the early economic model based on export-agriculture, the years of Import Substitution Industrialization and a more recent period of "crisis and adjustment in globalization". However, the research of ICEFI was not designed as a structured, controlled comparison, with well-specified variables and a discussion of alternative explanations. Moreover, it focuses excessively on business interests as a whole, failing to acknowledge divisions among economic elites.

A comparative analysis like the one proposed in this thesis may help to overcome some of the limitations identified in the existing literature. The next chapter present the research design and methods.

***

3. Research design and methods

Why did dictators ruling over similar countries made different choices regarding the allocation of fiscal burdens and privileges? This thesis intends to examine the logic behind dictators' decisions on taxation in authoritarian Guatemala, Honduras and Nicaragua. The key intuition this dissertation intends to test is the hypothetical relation between the composition of the coalition that sustained autocratic leaders and the allocation of tax burdens and privileges.

Authors working on theories of political survival have called to test their hypotheses in different empirical contexts (Haber, 2006: 711; Mares and Carnes, 2009: 101; Bueno de Mesquita *et al.*, 2005). This thesis will examine the implications of the logic of political survival on taxation, a policy area that is only partially explored in the literature reviewed. As noted in the previous chapter, the expectation is that broad coalitions allowed tax reformers to introduce income, property and export taxes targeting upper-income groups. Restrictive coalitions should lead to weaker direct taxation, regressive tax systems targeting consumers at large tax and fiscal measures aimed at punishing opposition groups. Finally, changes in the composition of the winning coalition should lead to changes in the distribution of privileges and the tax burden.

In their influential book about research design, King, Keohane and Verba argue that, in addition to contribute to an identifiable scholarly literature, a relevant research project "should pose a question that is important in the real world" (King *et al.* 1994: 15). This thesis deems to be relevant in these terms for two reasons. First, the 2009 military coup against President Manuel Zelaya in Honduras demonstrate that authoritarian reversals remain a realistic scenario in "third wave" democracies. In the light of these developments, improving our understanding of the logic that governs the politics of authoritarian regimes appears as a valid endeavour.

Secondly, I shall argue that in order to improve the odds of reforming the tax systems of Central America to make them more efficient and equitable, it is essential to know the forces that have limited progressive policies in these countries through history. It is common to hear Central Americans complaining about poor tax collections, regressive tax systems and numerous loopholes and particularistic privileges eroding the fiscal capacity of states. However, our understanding of the causes lying at the roots of these outcomes remains limited.

In the next section I explain the analytical strategy chosen to account for variation among cases and justify the selection of cases. I also present substantive reasons for studying these cases for the period roughly between 1940 and 1980. Next I describe in greater detail the logic of authoritarianism as developed by theorists of political survival, discussing its basic assumptions. A description of the operationalization of key variables follows. The control variables which are "held constant" by studying these specific cases are described in the last section of the chapter.

Research design

This thesis study how authoritarian rulers in Guatemala, Honduras and Nicaragua took decisions on tax policy during the second half of the 20th century. As noted in the introductory chapter, despite the commonalities that these countries show in a number of relevant variables, autocrats' capacities to enforce progressive taxation varied across cases. Part of the explanation for such variation, this thesis will argue, was due to the fact that different leader-coalitions configurations existed in these countries.

The core of this thesis consists in a comparative analysis of the evolution of tax systems in three Central American countries. In this chapter I describe the methods chosen to make causal inferences based on both primary and secondary sources. The proposed analytical strategy implies a combination of comparative and historical approaches. Comparing cases allows for significant variation in both, the dependent and independent variables. Studying intra-case variation across time increases the leverage of the research design. This mixed strategy can render much analytical leverage for making valid scientific inferences in small-N comparative research (Lieberman, 2001).

Comparative analysis helps defining the empirical problem by identifying unexplained variance on the dependent variable and ruling out rival hypotheses (Lieberman, 2001: 1015). In turn, intra-case analysis allows testing "the effect of over-time change of key explanatory variables on over-time change in the dependent variable" (Lieberman, 2001: 1017). Studying intra-case variation over time may also help to reduce some of the problems associated with small-N research designs, as comparing different periods for the same country allows increasing the number of observations while holding background variables constant.

Comparative design

The logic that governs the research design behind this thesis is that of establishing a controlled comparison. The rationale behind the selection of cases lies in the analytical leverage that can be gained by choosing countries similar in as many ways as possible but which show varying values in both the dependent variable and key explanatory variables. Such is the basic logic of the comparative method.

The comparative method is a distinctive method in political science which aims to establish empirical propositions with a limited level of generality. It can be distinguished from other scientific methods, such as experimental, statistical and case studies (Lijphart 1971: 682). Similarly to experimental research in natural sciences, proponents of the comparative method argue in favour of setting research designs that compare cases that are as similar in as many ways as possible, so that it is feasible to determine the isolated effect of a given explanatory variable on the outcomes of interest (Lijphart 1971: 687; Pollock 2003). Establishing designs that compare across "most similar systems" has long been recognized in the literature on comparative politics as a valid analytical strategy in order to develop causal explanations (Przeworski and Teune, 1970).

Establishing a controlled comparison is also a way to partially overcome the "fundamental problem of scientific inference" in social sciences (King *et al.,* 1994: 199), i.e.: the impossibility of rerunning history and applying different "treatments" to the same observation, so that the effect of our hypothesized explanatory variable can be fully determined. In social science research, comparing partially homogeneous observations is the best way to deal with this issue.

By choosing cases that vary in the outcome to be explained and in the main explanatory variables, while "holding constant" the values of other potentially relevant explanatory factors, we set ourselves in the position to rule out alternative explanations. Thus, in a first instance the decision to narrow my study to the Central American region and the cases of Guatemala, Honduras and Nicaragua is justified by their similarities in variables that may otherwise be relevant for explaining variation in tax policies. Importantly, these cases also show variation in the explanatory variable, i.e.: there were different leader-coalition configurations in each country.

Designing a research project in this way implies a number of challenges. An important caveat identified by both, proponents and critics of small-N comparative research, lies in the risk of trying to derive causal inferences from an indeterminate research design (King *et al.,* 1994: 118). A research design is said to be indeterminate when there are more explanatory variables than cases. This situation is problematic because it makes it difficult to attribute causality to any given variable when other potential explanations also have explanatory power. Indeterminacy may render a causal hypothesis useless.

Lijphart argues in favour of well-designed, controlled comparisons as a partial remedy for that problem. According to Lijphart, "by using comparable cases in which many variables are constant, one can reduce considerably the number of *operative* variables and study their relationships under controlled conditions without the problem of running out of cases" (Lijphart 1971: 687, emphasis in the original). Real-world complexity, however, makes it almost impossible to rule out all competing explanations in this way.

Increasing the number of cases seems to be the only way out. Lijphart calls for designs that allow for intra-case comparison (Lijphart, 1971: 689), and specifically to extend the number of cases geographically or longitudinally (Lijphart, 1971: 686). King and his co-authors also point in that direction for making causal inferences in small-N research designs. In addition to adding new observations to the sample, they suggest modifying or substituting the dependent variable; or, depending on the research subject, testing the same causal logic with new dependent and explanatory variables (King *et al.*, 1994: 219-228).

In order to try to come to grips with the problem of many variables and few cases, in this research project I opt to use the "standard" approach; that is, testing how theory performs at different instances in each case (King *et al.*, 1994: 221). In other words, in order to increase the leverage of this research design I will study intra-case variation over time. This requires analysing how the hypothesized logic of authoritarianism worked at different periods. In other words, studying junctures in each country when distinctive leader-coalition settings were at function, as well as subsequent periods of change. If leader-coalition configurations did not change substantially, there should be little variation in the trajectory of each country. But if original leader-coalition settings were modified, a different policy orientation should be observable.

In sum, in order to account for intra-case variation on the independent variable and its effect on tax policies, I will proceed in two-steps. First, the moments in which new leader-coalition settings were established at about mid-century are studied. The aim is to show that the creation of such arrangements put these countries in different paths. Secondly, instances of tax reform at later periods will be studied. Where changes in leadership were not accompanied by substantial changes in the size and composition of the coalition backing authoritarian regimes, the general orientation of policies should remain stable. By contrast, substantial changes in the composition of the ruling coalition should have observable effects in the fiscal realm.

This thesis covers a period that goes roughly from the late 1940s to the early 1980s. I decided to set the beginning of this study at the mid-20th century because in those years the countries of the isthmus experienced important political transformations. A decisive "critical juncture" occurred at the equator of the 20th century, establishing certain directions of change and foreclosing others (Collier and Collier, 1991; Yashar 1997).

In their path breaking study on Latin American labour unions, Collier and Collier define a critical juncture as "a period of significant change, which typically occurs in distinct ways in different countries and which is hypothesized to produce distinct legacies" (Collier and Collier, 1991: 29). A critical juncture brings about a chain of reactions and counter reactions that do not necessarily coincide with the direction of change expected by the forces that triggered the original changes. Collier and Collier point out that the "legacies of some critical junctures are stable, institutionalised regimes, whereas others produce a political dynamic that prevents or mitigates against stable patterns" (Collier and Collier, 1991: 34).

Similarly, according to Mahoney, the ways in which these chains of events evolve constitutes the "aftermath" of a critical juncture and eventually give way to more stable final outcomes (Mahoney, 2001: 10). These final outcomes "typically entail the formation of new institutional or structural patterns, such as national regimes, party systems, types of industrial economies, national value systems, class structures, or electoral realignments" (Mahoney, 2001: 11).

This thesis argues that the distinctive relationships between authoritarian leaders and their backers, which explain differences in decisions on tax policy across countries, were set in the aftermath of that critical juncture. These arrangements shaped politics in the years to come, and thus shaped tax policies during the rest of the authoritarian period. As democratisation during the 1980s brought new actors to the political arena, changing the composition of coalitions and the way in which of political leadership was elected, this study ends at the years these countries began transiting to democracy.

By studying the critical juncture and its aftermath in each country I will put the logic of political survival to a test. A further test of the theory will be carried by studying how these original arrangements were expressed in later periods. Significant changes in the internal dynamics of authoritarian regimes (i.e., leader-coalition configurations) should have observable consequences over tax policies.

The black-box of authoritarianism

In order to account for tax policy variation in authoritarian Central America, this research will proceed deductively. That is, it will attempt to account for variations in specific outcomes relying on an existing theoretical model. As Héritier explains, when choosing to proceed deductively, "the objective is not to describe minutely a situation given in reality in all its details, but to focus on what one deems the most important aspects of the situation" (Héritier, 2008: 63). Theoretical analysis builds on a specific conceptualization of the empirical situation to be explained, and its purpose is to "shed light on the real-world situation the model is intended to explain" (Héritier, 2008: 63).

This thesis does not assume that the way in which theories of political survival conceive the political economy of authoritarianism is a perfect reflection of reality. As seen in the previous section, theories of political survival link policy outcomes to the relationships between autocrats and their core supporters--i.e., groups and individuals whose backing is necessary for the survival of governments (Bueno de Mesquita *et al.*, 2005; Haber, 2006).

Authors working on theories of political survival see the relationship between rulers and coalitions as an iterative game where rational, self-interested actors interact strategically. For our purposes here, we can depict this game in its most basic form as implying the participation of two key actors, the “leader” and the “winning” or “launching coalition”.[4] In this section I discuss the nature of each of these actors as described in the literature.

a. The leader

There are differences in the way leaders are conceptualized by authors working on theories political survival. Bueno de Mesquita *et al*., write that the leader can be “one or more central individuals” endowed with the capacity to raise revenues through taxes and to take decisions on the allocation of public revenue. Leaders need not to be an individual, or a single corporate entity. Where decision powers are divided among different actors who collectively have the authority to set taxing and spending (e.g.: the president but also the legislative chambers), all participants can be considered the leadership (Bueno de Mesquita *et al.,* 2005: 38).

By contrast, Stephen Haber, does not provide a definition of leadership. In his theoretical definition of authoritarian government, however, he refers to dictators as "individuals" who have the capacity to “run the country”. Through the text he attributes dictators a set of specific capacities which include providing public and private goods; allocating economic rents; repressing and practising graft, corruption and nepotism (Haber 2006, 693-705). Haber acknowledges the possibility of the existence of the “formal organizations of the government”, adding that pre-existing organizations and institutions “not least of which are constitutions, legislatures, political parties, opposition political movements, trade unions, police forces and militaries” constrain the game dictators and coalitions play (Haber 2006, 696).

Portraying non-democratic leadership in this way implies accepting a number of assumptions. First of all, we have to assume that the decisions of rulers prevail. These theories argue that leaders have the capacity to decide, and once a choice is made, to enforce their decisions. As Bueno de Mesquita *et al.* recognize, their theory has to assume that taking and implementing decisions is never problematic (Bueno de Mesquita *et al.*, 2005: 74). Moreover, the model does not account for group dynamics when decisions are taken by more than one person, when members of the leading group have diverging preferences or when represent competing interests (Bueno de Mesquita *et al.,* 2005: 74).

Equally important, theories of political survival assume that rulers are self-interested individuals who decide rationally about the course to follow. Other possible driving motivations, including values, ideology, identity politics or exogenous shocks, are

[4] Like in Haber’s conceptualization, here the focus is put on the interaction between leaders and their core backers. Thus, no attention will be put to the “selectorate”, a passive, non-organized group which Bueno de Mesquita *et al.* include in their general models but which they argue to be irrelevant in decision-making. They are but beneficiaries of decisions related to the mix of public and private goods in a given polity (Bueno de Mesquita *et al.* 2005: 37).

subordinated to the logic of political survival. As noted above, the theory requires assuming that leaders take and enforce decisions always thinking above all in their own political survival.

b. The supporting coalition

The other key player in accounts of the logic of authoritarianism is the "*winning coalition*" (Bueno de Mesquita *et al.*, 2005). Members of this coalition control "the resources vital to the political survival of the incumbent" (Bueno de Mesquita *et al.*, 2005: 38). If the leader loses the support of the members of this coalition, her rule is over. The groups and individuals that compose a winning coalition do not necessarily belong to specific groups (i.e., the economic elite) or have a particular, fixed identity. They do not, by necessity, represent a class-cleavage or advance equivalent interests across countries. Indeed, as noted above, both the size of the coalition and the characteristics required for membership in each political system can be very idiosyncratic (Bueno de Mesquita *et al.*, 2005: 51-57).

Haber adds that the organized group that launches a dictator is usually the same that keeps her in power (Haber, 2006). Like Bueno de Mesquita *et al.*, Haber assumes that the size and composition of the launching coalition will vary from case to case. There may also be important differences in the degree to which this coalition is institutionalized:

> "Some of these groups, such as the military, a political party, or a royal family, are formally constituted, have rules governing their internal workings, and may already be part of a pre-existing government. Others, such as a revolutionary movement, a military splinter group, or a federation of warlords, are less institutionalised" (Haber, 2006: 696).

Coalition-members support the leader with the expectation of receiving public or private goods, or a combination of both. Like in the case of dictators, the theory assumes that coalition members act moved by of self-interest. Coalition leaders are rational individuals who might want to launch their own bids for power. These political entrepreneurs are capable of coordinating with each other, although they may well co-exist with minimum contact. They must also be capable of mobilizing the rank and file for or against the dictator (Haber, 2006: 695-696). Finally, rank and file coalition members are also self-interested individuals, who act together to obtain personal benefits.

Coalition members remain loyal to the extent that the dictator can provide them with benefits more attractive than those offered by challengers (Bueno de Mesquita *et al.*, 2005). In order to retain the support of the core allies, leaders must make bids greater than those of challengers. Coalition members will risk defecting in favour of a challenger only if their inclusion in the challenger's coalition is guaranteed (Bueno de Mesquita *et al.*, 2005). The new leader can in turn opt to maintain the original supporting coalition in place, reconfigure it or build a new coalition from scratch (Haber 2006).

As mentioned above, assuming that coalitions have the power to install or depose leaders is essential for the theory. Since members of the coalition were able to solve collective-action problems to launch a dictator, they can also solve them if willing to depose the leader (Haber, 2006: 696). In turn, leaders' actions may have an effect on the composition and effectiveness of the winning coalition. As Haber argues, the strategy chosen by the dictator to deal with the coalition could have an impact on the capacity of the coalition to solve collective-action problems: dictators can terrify, co-opt factions or create competing organizations (Haber 2006: 702)

Finally, the stakes of leaders and coalitions are also constrained by the specific "set up" of economic and political factors that characterize each country when the game is played. As Haber puts it, "neither side of this game plays from a state of nature. They inherit an economy, a system of property rights, a class of wealth holders, and a range of pre-existing organizations and institutions" (Haber 2006: 697).

Operationalization of variables

a. The dependent variable

When trying to examine the relevance of the logic of authoritarianism in the context of Central America, I will be looking for "observable implications" of the theory in the real world (King *et al.,* 1994). The outcome to be explained in this thesis are decisions on tax policies under authoritarianism. That is, decisions about the distribution of tax burdens and privileges. In testing the theory I will focus on differences in the way authoritarian governments determined tax bases, rates, and exemptions affecting.

The emphasis will be put on instances of progressive tax reform. The focus will be put on taxes whose incidence was assumed to be progressive at the time of implementation. Although the actual incidence of specific taxes is still subject to debate in the specialized literature and can only be established with rigorous empirical testing (see for example Prasad & Deng 2009), this dissertation will build on typical "incidence assumptions" as these were held during the period under study (Best 1976).

Hence, the thesis focuses on income, property and exports taxes. Taxes on income, profits and capital gains are paid directly to the state by individuals and firms and are broadly perceived as the most progressive types of taxes because of their usually graduated rates for different levels of income (Lieberman 2001). The incidence of property taxes is also generally perceived as progressive, as property owners are taxed directly, usually with a proportional rate, and cannot easily shift the burden to others. Like personal and corporate income taxes, the enforcement of property taxes require substantial administrative capacities on the part of governments, as well as a degree of voluntary compliance on the part of taxpayers. Finally, the taxing of agricultural exports stands as a crucial arena in the countries studied here, for it represented the most dynamic economic sector and the origin of the wealth of traditional upper-income groups.

I expect that the implications of the theory in relation to leaders' decisions should be observable in the national laws and rules that codify taxation. However, this thesis is not interested in tracking minute changes in tax laws and codes. Instead, the focus is put on general tax developments and major reforms—both failed and successful. The decision to focus on major tax reforms also makes sense for these are more amenable for empirical research than minor, less contentious changes in tax legislation. In seeking for observable implications of the theory, I conducted archival research in Central America focusing on instances of progressive tax reform.

b. The independent variable: leaders and their core supporters

As mentioned above, leaders are conceived as those who had the power to decide on taxing and spending. Identifying the "leader" in the context of the Central America is relatively straightforward, especially when these countries were ruled by military caudillos acting as presidents or *de facto* chiefs of state.

The operationalization of the concept of winning coalition also has to be done in relation to the specifics of each case. As we have seen, the size of the winning coalition and the requisites for membership varies across cases. It is not possible to know who composes the winning coalition in any given country *ex ante*. What we know from theory is that core supporters are organized in groups and that coalitions may, but need not, last for long periods of time. They need not be united in a single entity, nor be institutionalized, but some degree of coordination among their leaders is necessary. Finally, we know that they need the leader as much as she needs the support of the coalition: much the welfare of coalition members depends on their inclusion in the leader's core coalition. Exclusion from this coalition may represent the loss of protection and privilege.

In the context of Central America, where conservative military dictatorships ruled for almost the entire period covered by this study, I expect that core regime supporters included, at least, members of the military and domestic business elites. There are substantive reasons for expecting this. On the one hand, the survival of military leaders depended on the continuing support of their comrades-in-arms. Indeed, the frequent coups and counter-coups launched by the military in these countries seem to prove that their support was essential for the survival of any individual in the exercise of power.

There are also substantive reasons to posit the support of owners of key economic assets as essential for the survival of non-democratic leaders. Authors theorizing on the political economy of non-democratic governments provide some clues in this regard. At a general level, as in the Olsonian model of “stationary banditry” (Olson, 2000), it may be argued that autocrats have incentives to enforce property rights and investing in public goods instead of expropriating wealth holders. The logic is that maintaining the economy at work may be for the best interest of autocrats in capitalist societies. A working economy would guarantee a steady stream of tax revenues and loans. These, in turn allow leaders to have enough resources to provide private goods to core supporters and accumulating substantial surpluses for themselves. Hence, dictators will take care not to alienate those economic sectors whose support is necessary for the working of the economy.

A variation of this theory argues that autocrats can enforce property rights selectively. That is, in contexts of political instability, rulers may opt to establish property right systems only for particular economic sectors (Haber, Razo, Mauro, 2003). In these accounts, autocrats’ driving motivation is again to have access to credit in moments of crisis and to rely on a constant flow of tax revenues on the part of dynamic economic sectors. Besides guarantees of non-expropriation, asset holders obtain special privileges and quasi-monopolistic rights, if not the opportunity to directly decide themselves the regulations affecting their businesses (Haber, Razo, Mauro, 2003).

Regardless of whether dictators choose to protect rights universally or only in a handful of economic sectors, what is clear is that “benign despots” need to cultivate the support of at least one faction among wealth holders in capitalist societies. Hence, there are reasons to expect that members of the business elites were included in the winning coalitions of Central American dictators. In fact, as mentioned in the literature review, most previous analyses of the political economy of taxes in the region identify business elites as a key actor in the fiscal arena (Best, 1975; Schneider, 2006; ICEFI, 2007; Valdez and Palencia 1998).

What is held constant? “Control variables”

As noted above, the analytical strategy chosen in this research design builds on "controlling" similar variables across countries to rule out their explanatory relevance. These “control variables” are succinctly described in this section. Detailed accounts are provided in the country chapters.

a. Historical legacies

Studying neighbouring countries allows controlling for historical legacies. The three cases compared in this dissertation were colonies of the Spanish Crown until the 1820s, when they gained full independence. After a brief interlude of political unity under a Central American Federation (1824-1839) attached to Mexico, the new independent republics began to live as sovereign nation-states building on relatively similar institutional legacies.

The early institutional configuration of these states resembled each other in a number of important ways. They established similar administrative divisions in their territories, and built centralized state institutions concentrating political power in the capital cities. All countries built presidential regimes and, except for Nicaragua, where a dysfunctional Senate existed, all established unicameral parliaments largely submissive to the power of strong Executives. Like elsewhere in Latin America, the franchise was only extended to the illiterate men and women well into the 20th century.

Importantly, the countries of Central America also share a rather limited democratic experience before the 1980s. With the exception of post 1944 Costa Rica, all countries spent most of their national history under authoritarian rule. Aside from brief democratic interludes at the mid-20th century, non-democratic, military leaders ruled these countries until the late 1980s, when all began transiting to democracy. Although elections were celebrated in all countries during the 20th century, these were uncompetitive and systematically rigged by authoritarian incumbents. Finally, two of the three countries studied here faced revolutionary wars confronting Marxist guerrilla organizations with military autocrats between the 1960s and the 1980. While the Nicaraguan revolution ended in 1979 with a victorious guerrilla marching over the streets of Managua, the civil war in Guatemala only ended after the signature of Peace Accords in 1996. Although armed opposition was residual in Honduras, the National Army became a key political player in the context of Cold War anticommunism.

b. Economic structure

During the period studied here, the economies of the countries of Central America evolved in roughly similar ways. By the 1950 they all began transiting from an economic model built on the export of a few crops to one based on agricultural diversification and the substitution of imports by domestic manufactures.

Guatemala, Honduras and Nicaragua built export economics based on the production of coffee and bananas since the second half of the 19th century. The political economy of both crops were very different. While bananas were first cultivated by small local producers, these were gradually absorbed by American fruit companies. By the 1920s bananas were directly produced and exported from American-owned companies in economic enclaves. The cultivation of coffee, by contrast, was monopolized by a small local network of powerful landowners. The indigenous population was generally deprived of land and provided the workforce necessary for cultivating coffee in private large states. Coffee processing and exporting was monopolized by individual producers with strong family links with landowners.

Bananas were the single most important export crop in Honduras well into the 20th century. Coffee, and to a lesser extent bananas, were prominent in the export profile of Guatemala and Nicaragua. The cultivation of cotton was incorporated in the export profile of the three countries during the late 1940s and by 1955 it had already surpassed coffee as the main export crop in Nicaragua. By the 1950s, agriculture accounted for 40% of the Gross Domestic Product (GDP) in Guatemala and 30% in Nicaragua (1958). Manufacturing, by contrast, accounted for less than 14% of GDP in all countries.

The occupational profile of these countries was modelled accordingly. By 1958 agriculture employed up to 68% of the labour force in Guatemala and 70% in Nicaragua. The agricultural profile of these countries also implied a large rural population, with urban settlers representing between a third of the total population in Nicaragua and a fourth in Guatemala. The vast majority of the labour force was involved in subsistence agriculture or worked in the informal sector.

c. The fiscal profile of states

Having a fundamentally agricultural, rural economy and large agrarian workforce had important implications for taxation. A great part of daily economic transactions operated in the shadow economy. The predominance of a rural, mostly illiterate population suggests that monetary practices and quantifiable norms, essential for the working of modern taxation, were not extended among economic actors. Indeed, according to the 1951 IBRD report on Guatemala, smaller communities lacked enough educated residents to staff even local administrative bodies (IBRD 1951: 263).

Importantly, distinctive choices on tax policies were not caused by differences in budgetary constraints. All dictators ruled poorly-financed states. Indeed, during the period studied here, most infrastructural investment was financed with foreign credits. None of the countries studied counted with natural resources under government control capable of providing significant economic rents. Government current revenues were financed by custom revenues, stamp taxes, excises and the profits of a number of public enterprises. As noted above, these sources fell short of the budgetary requirements associated to modernization.

d. Policy framework

This thesis compares processes that took place in similar countries at roughly the same time and under the influence of similar external factors. As it will be detailed in country chapters, fiscal innovation in Central America was not independent of contemporary ideas about fiscal reform. Policy-makers modelled the tax system imbued by the ideas and values that marked the “progressive era” of taxation (Steinmo 2003; Bird 2003; Bird 2012). Technical missions of foreign experts recommended tax policy-makers making similar reforms at roughly the same years. The orientation of these recommendations was progressive and targeted upper-income groups. The existence of such a common influence makes variation on tax policies more striking and supports the claim that the decisions of rulers were conditioned by variables endogenous to the political system.

***

4. Case studies

a. Guatemala

Guatemala collects the lowest tax revenues in Central America. Except for a few exceptional years, tax collections remained below 10% of GDP through the past century. This chapter explains low tax collections as a result of the interaction between political leaders and their supporting coalitions under authoritarian regimes (1954-1982). The case of Guatemala seems to follow the basic intuitions of the logic of political survival. While a broad coalition allowed governments to temporarily establish direct taxes targeting the property and profits of the upper classes, the shift from a democratic to an authoritarian regime sustained by a narrow, exclusionary coalition limited the capacity of governments to enforce progressive taxation.

Antecedent conditions

The countries of Central America emerged from the 1929 Great Depression under the rule of authoritarian caudillos. The collapse of international markets for Central American exports preceded the ascent of strong military figures to secure the agrarian order. Like General Anastasio Somoza in Nicaragua (1936-1956), General Tiburcio Carías in Honduras (1932-1949) and General Maximiliano Hernández in El Salvador (1931-1944) Guatemala's General Jorge Ubico (1931-1944) ruled the country for more than a decade. Like his autocratic peers, the rule of Ubico was based on the support of agrarian elites and the Army.

The Guatemalan economy was largely dependent on the exports of a monoculture. Coffee had become the backbone of the Guatemalan economy since the late 19th century. It accounted for the lion's share of export earnings until the 1910s, when the country began producing bananas. While the latter was a business largely dominated by vertically-integrated American companies, coffee exports were controlled by a small, cohesive agrarian oligarchy.

The legendary cohesion of the Guatemalan landed elites was based on three factors. Firstly, landlords shared a common identity based on their European descent and racial differentiation with respect to the large indigenous population (Casaús Arzú 2010; Dosal 2005). Secondly, these family networks controlled all stages of the coffee business, including the cultivation, processing and marketing of the crop. Closed, long-established family networks also allowed these groups to secure prominent positions in emerging economic sectors including trade, finance and manufacturing, thus effectively maintaining its dominion over the domestic economy. Finally, Guatemalan elites benefited from the absence of significant regional cleavages like those dividing economic elites in Honduras and Nicaragua. These factors allowed the Guatemalan oligarchy to solve collective-action problems and reduced the capacity of governments to build support among competing factions (Marti 1994; Dosal 2005).

General Jorge Ubico was both a coffee baron and an Army General. The son of a former Ministry of War, Ubico had a meteoric military career. Once at the presidential office, he gained ascendancy over the extensive police and intelligence bodies built by previous authoritarian rulers, as well as over a network of local military commissioners. This apparatus allowed the regime to silence opposition, secure order in the countryside and enforce compulsory indigenous labour in coffee states and public works.

Ubico was a fiscal conservative. His government managed to obtain permanent budgetary surpluses even in the context of declining public revenues caused by the Great Depression and the beginning of the Second World War. Massive dismissals of public workers and drastic budget cuts were the typical response of Ubico when confronting major exogenous shocks, producing regular budget surpluses (Torres-Rivas, 2006: 34, 35; Arévalo 2006). Ubico even attempted to extinguish Guatemala’s public debt in the midst of major fiscal crises. If by 1937 public debt amounted to about 14% of GNP, by 1944 Ubico had managed to reduce it to 1.66% (Adler, Schlesinger and Olson, 1951: 27, 87-88). By the fiscal year of 1944, the share of taxes in the economy represented a mere 6.5% of GNP.

Despite the fiscal hardships of the 1930s, Ubico was reluctant to tax the income and property of the Guatemalan upper classes. The tax reforms attempted by the dictator consisted mainly in rising excises and stamp taxes. A tax on business profits was enacted in 1938, but the dictator was careful to exempt agricultural firms, thus reducing the profitability of the tax. By the early 1940s direct taxation contributed just about 8.4% of total taxes (IBRD 1951: 9-10; ICEFI 2008). Coffee exporters paid an anecdotal sum to the Treasury (Adler, Schlesinger and Olson, 1951).

By the end of the dictatorship of Ubico, the structure of taxes was highly regressive. Custom taxes accounted for about one fourth of total tax revenues. Taxes on alcoholic beverages and tobacco accounted for another fourth, and stamp duties and a collection of sales taxes and levies accounted for a further 25%. Export taxes represented about 15% of total taxes. Finally, the existing tax on business profits rendered less than 10%, and, despite the high concentration of wealth, land and property taxes contributed to a mere 3% of total (Adler, Schlesinger and Olson, 1951: 48-51).

The powerful American companies operating in the country also went largely tax-exempted. Banana, rail-road and power companies of American ownership benefited from generous land concessions and exemptions on land taxes, custom duties and import taxes, thus depriving the government of a profitable source of public revenues (Adler, Schlesinger and Olson, 1951: 70).

Building a broad coalition: 10 years of progressive reform

Ubico resigned from the Presidency in June 1944 in a context of widespread social unrest in the capital city. Public servants, students and teachers marched demanding the restoration of constitutional rights. A group of 311 prominent citizens, including members of powerful oligarchic families, signed a letter demanding the resignation of the dictator and signalled the emergence of an inter-class democratic coalition. The existence of this coalition emboldened military factions who attacked loyal fortifications in October 1944. Losing the support of the core groups of his coalition (i.e. the oligarchy and the army) precipitated the fall of the *caudillo* and allowed for a regime transition.

A “revolutionary junta" replaced Ubico and called a Constitutional Assembly to draft a new Constitution in late 1944. Presidential elections were called for 1945. Meanwhile, the Junta took a number of policy decisions including a throughout reform of the existing tax on business profits and a progressive tax on capital gains (ICEFI: 146-147).

Juan José Arevalo, a prominent exile, was elected and proclaimed President for a six-year term beginning in 1945. A proponent of "spiritual socialism"—which he presented as an alternative to historical materialism—, Arévalo committed his government to a reformist programme aimed at transforming the country into a modern capitalist nation.

The government of Arévalo enacted the first Labour Code (1947) and founded a Ministry of Labour and a Guatemalan Social Security Institute (1948)--providing coverage to up to 60,000 urban workers. Projects for the government-led construction of public infrastructures were also launched. These measures gained Arévalo the support of the nascent labour movement, as well as ranks among public servers and the urban middle-class.

Arevalo also introduced significant innovations in economic institutions. These included reforming the existing Mortgage Bank and the National Bank of Guatemala (1945); enacting a new Monetary Law (1946), and creating a new Development Institute to provide credit to agricultural and industrial enterprises (1948). A Law of Industrial Promotion was enacted in 1947, derogating import taxes on machinery and raw materials and granting tax breaks for new industries (ICEFI 2008: 147, 152).

The government of Arévalo was also notable for introducing a number of reforms in the Guatemalan tax code which targeted the assets and profits of upper classes. These included a re-evaluation of land and housing, assessed at the time at about 20% of its real market value (Adler, Schlesinger and Olson, 1951: 48; IBRD 1951: 268); a tax on luxury imports; new taxes on cars, public shows and plane tickets (ICEFI 2008); and, most significantly, a new tax on coffee exports on top of the existing general exports tax.

The new coffee tax increased the rate paid by exporters *per pound* of coffee from 0.16 cents of Quetzal (Q) to Q0.60 cents. Although this reform still left coffee exports below the level of taxes paid by other Central American producers, the landlords bitterly rejected the new burden (IBRD 1951: 269; ICEFI 2008: 146-47). The coffee tax was the most profitable measure for the government, for it occurred during a period of high international prices for coffee exports. Coupled with the gradual recovery of coffee and banana exports in the post-war, these measures allowed the doubling of tax revenues in absolute terms from Q 17.6 million in 1945 to Q43.7 million in 1951.

The success of progressive tax reforms was constrained by the limited capacity of government to administer taxes (IBRD 1951: 267). A IBRD mission sent to the country in 1949, for example, found that only 46 accountants were responsible to audit the books of some 1900 firms, and that the team had a four-year delay (Adler, Schlessinger and Olson, 1951: 161, 162). Tax evasion was widespread, especially among medium-sized and small enterprises which usually under-reported inventories and retail sales (Adler, Schlessinger and Olson, 1951: 162).

Similar difficulties were found in the collection of property taxes. The reassessment of properties advanced at a slow pace. By 1950, only about 25,000 urban properties had been reassessed, the rest still being valued at 1921 prices (Adler, Schlessinger and Olson, 1951: 162). Moreover, because of lack of personnel, the state delegated in some regions the collection of property taxes on private agents in exchange of a fixed commission. Tax farming made the system inefficient and prone to corruption (Adler, Schlessinger and Olson, 1951: 163).

Continuing reformism

Elections were called in 1950 and Arévalo was succeeded at the Presidency by Colonel Jacobo Árbenz Guzmán (1951-1954). The new president built on the coalition supporting Arevalo to deepen the reformist agenda of the revolutionary regime. The signature policies of the government of Árbenz were a bold attempt to redistribute land a decision to break American monopolies in strategic sectors. These policies cemented a strong base of social support for Árbenz, but put the government in a path of confrontation with agrarian elites and the US government.

Following his inauguration, Árbenz announced the construction of a new road linking the capital city with the Atlantic coast, as well as a new port in the Caribbean, using funds from international loans. These investments affected the interests of American rail companies which had long monopolized the access to trade in the Atlantic coast. Similarly, Árbenz began the works for a major hydroelectric plant, thus threatening the monopoly of the US Company providing energy to the capital city.

Another major challenge to US interests took place after Árbenz passed an Agrarian Reform Bill in 1952. The law forced owners of large states to sell their idle land to the government at the value reported for taxation purposes. The expropriated land was to be distributed among landless peasants. This reform affected land possessions of the United Fruit Company as well as the patrimony of high-up oligarchic families. The expropriation of estates was followed by the distribution of lands to landless peasants and the foundation of an Agrarian Institute as well as an Agrarian Bank to provide credit to small producers—granting up to 45,000 loans in a three-year period (IBRD 1955: 15).

These policies provided Árbenz with a broad base of supporters among peasants, workers and city-dwellers. Like Arévalo before him, Árbenz strived to mobilize the disenfranchised urban and rural masses. The government of Árbenz promoted the organization of labour unions and cultivated positive relations with the leaders of labour organizations. The Agrarian Reform contributed to turn the peasantry into an active political actor. Popular organizations provided Árbenz the social support necessary to advance progressive tax reforms even against the will of economic elites.

By contrast, Árbenz failed to build a solid base of support among emerging business groups. Economic elites disliked the "pro-worker bias" of the “democratic spring” government and bitterly opposed the enactment of the Labour Code, minimum salaries and wage increases (IBRD 1951: 98; Dosal 2005: 170). The government also introduced price controls on basic necessities, as well as a number of protectionist measures affecting the imports of foreign-manufactured goods (IBRD 1955). While the latter were well received by emerging industrialists, merchants rejected government intervention in the market and joined the ranks of opposition along with their agrarian peers (Dosal 2005).

In the end, despite the efforts invested by both Arévalo and Árbenz to promote import substitution industrialization, industrialists aligned themselves with landlords in opposing the government. As Paul Dosal explains, at the time there was no distinction between the landed oligarchs and the modern industrial bourgeoisie, for they belonged to the same families (Dosal 2005). The most prominent manufacturers had investments in coffee, sugar, cotton and cattle production and many were affected by the Agrarian Reform of Árbenz (Dosal 2005 : 159-168). Contrary to the case of Honduras, in Guatemala there was no hegemonic dispute between landlords and groups involved in manufacturing, banking and trade (Dosal 2005: 145).

The progressive tax reforms promoted by Árbenz contributed to tense the relations of the government with economic elites. Some of these reforms affected the interests of emerging manufacturers, like a tax on the production of bottled drinks (ICEFI 2008: 147). However, the real show of strength occurred when Árbenz increased the burden held by coffee-exporters. Árbenz transformed the 1950 additional tax on coffee exports into an *ad-valorem* tax with a sliding scale increasing at par with sale prices. Against the will of coffee exporters, which wanted local prices to be taken as reference, the new tax was based on current prices at the New York stock market (IBRD 1955). The tax was set at US$ 4 for prices between US$ 30 and US$ 40 per quintal (46 kg), but it doubled for a price above US$ 55 per quintal, with a further 25% increase for prices in excess of US$ 60 per quintal (IBRD 1955: 5). Because of high coffee prices, the new tax temporarily raised the share of export taxes from 8% to 20% of total taxes.

Significantly, Árbenz also introduced an Income Tax bill to replace the tax on business profits established by Ubico in 1938. The bill was under discussion in Congress, and presumably about to be approved, when Árbenz was overthrown in June 1954 by a *coup d'état*. The fall of the government postponed the introduction of the income tax until 1962. Guatemala was the last country to adopt the tax in Latin America.

Overall, the governments of the "democratic spring" enacted about one hundred fiscal changes, making the 1944-1954 decade the most active reform period in the history of the country (ICEFI 2008 : 146). As Adams puts it, popular support allowed Arévalo and Árbenz to displace the Guatemalan oligarchy from the core to the margins of political decision-making (Adams 1970: 330). A broad supporting coalition allowed reformist leaders to implement progressive taxation affecting the interests of the mighty agrarian elites, whose contribution in the form of export taxes was raised from 0.45% to 1.43% of GDP. Between 1950 and 1954, the share of direct taxes (including export taxes) went from 19.8% to 25.6% of total taxes. This political equilibrium, however, would not last long.

Conservative restoration

The government of Árbenz was overthrown by a US-led coup backed by a coalition of agrarian elites, conservative politicians and the Church. President Árbenz announced his resignation on June 27th, 1954, following heavy US bombing of the capital city and after learning that top Army officials rejected fighting a small group of US-waged mercenaries entering the country from neighbouring Honduras. Meeting no armed resistance, the victorious "Liberation Army" walked into Guatemala City and proclaimed its leader, Colonel Carlos Castillo Armas, Head of State with absolute powers. The caudillo abolished the 1945 Constitution, disbanded the Congress and ruled by decree until a new Constituent Assembly was called in 1956.

The dictatorship of Castillo was the first in a succession of military governments which ruled the country until 1985. The counter-revolutionary coalition closed the political arena to the supporters of Árbenz, including peasants, workers organizations and members of political parties. Labour unions were outlawed and their members systematically persecuted by Castillo and his successors in the office, bringing the rate of unionisation down from 10.33% of the active population in 1953 to about 1.6 % in 1975 (Dosal 2005: 193). Harsh reprisals were also taken against peasant organizations, which as a result remained mostly demobilized until the 1970s (Marti 1994: 72, 73). The political arena was closed to the left and the ideology of anticommunism blurred the political centre (Villagrán-Kramer 1993: 294, 295-296).

Castillo did not abolish the institutions created during the "Democratic spring”, but he revoked the most controversial policies taken by his predecessors in the agrarian, labour and fiscal realms (IBRD 1955: 15).

Castillo was eager to revise fiscal decisions affecting economic elites. He named Jorge Echeverria, a representative of agrarian business organizations, and a former Ubico loyalist, to the Ministry of Finance in 1954. During his first months in office, Castillo enacted up to twelve fiscal laws reducing the burden held by upper income groups (ICEFI, 2008: 156). These early decisions only worsened the fiscal crisis caused by political instability and Castillo was forced to cut public expenses and restore some of the abolished taxes a few weeks later (IBRD 1955: 13; IBRD 1957: 10). When the new government found itself at risk of being unable to meet the payroll of public workers in 1954, Castillo turned to the leaders of the private sector demanding contributions to sustain the new government, to wage and disband the members of the Liberation Army and to pay for reconstruction of the capital city (IBRD 1955: 14).

In approaching the economic elites, Castillo argued that business owners were the main beneficiaries of the liberation of the country. After some initial resistance, business leaders agreed to a set of emergency, temporary “liberation taxes”. One-time surcharges were added to existing taxes on coffee, cotton, sugar and cattle exports, as well as to the sale of new cars (IBRD 1955a; ICEFI 2008; Streeter 2001: 147). The property tax rate was temporarily doubled, passing from US$ 3 to US$ 6 per thousand; a temporary 1% tax was introduced on the gross capital of corporations; a tax equivalent to one-day salary was established over high-income employees; finally, a 10% tax on the income of self-employed professionals was enacted for one year (IBRD 1955: 18, 19).

Notably, Castillo agrarian elites agreed on keeping the existing tax on coffee-exports and even introduced a US$ 3 surcharge in October 1954 (IBRD 1955: 18). Raising coffee prices during 1954-1955 increased the tax paid by exporters from US$ 8.65 per quintal in 1954 to US$ 18.3 in 1955 (IBRD 1955: 5). As a result, export taxes reached a record share of 25% of total tax collections in 1955. The collapse of international prices after 1955, however, drastically reduced the yield of taxes on coffee exports.

Castillo was also able to renegotiate contracts with American companies after returning the lands Árbenz had expropriated along the Pacific Coast. For the first time in history, banana companies agreed to pay the Guatemalan government a 30% tax on profits (IBRD 1955: 17; Villagrán-Kramer 1993: 264-265). This deal, however, coincided with the begging of a steady decline in the banana trade, so revenue gains resulted small in the long run.

The ability of Castillo to obtain temporary fiscal concessions from economic elites, coupled with good prices in international coffee markets, translated into a remarkable one-year increase in public revenues in relative terms. The country tax burden went up from 7.1% of GDP in 1954 to 9.1% in 1955. The figure went back to 8.4% of GDP in 1956 due to a fell in coffee prices and the expiration of temporary taxes.

The domestic fiscal effort of 1954-1956 was surpassed by US loans and direct budgetary support to the Guatemalan government. The US State Department put Guatemala at the top of its hemispheric priorities after 1954. Taking Guatemala's anti-communist experiment to a good end was of great concern for President Dwight Eisenhower, who famously argued for the urgency of transforming Guatemala into a "showcase" of capitalist development (Handy 1984: 187). Between 1954 and 1957, official US aid to Guatemala reached about US$100 million—US aid to Latin America as a whole represented about US$60 million per year (Handy, 1984: 188).

The influence of the US went well beyond the mere provision of financial resources. According to Dosal, it was the US who contributed to maintain the equilibrium of forces among members of the counter-revolutionary coalition (Dosal 2005: 179). During the Castillo administration, American aid agencies took part in major decisions on policy-making, becoming a sort of parallel government (Dosal 2005: 181). A permanent representative of the IBRD was called to the country between 1954 and 1956 to assist a recently-created National Economic Council (IBRD 1957: 1). American tutelage was extended to policy areas including agriculture, finance, public security and public works (Handy 1984: 189).

Although reforming the tax system ranked high in the policy recommendations made by American experts, the US government did little to enforce Castillo Armas' compliance (Streeter 2001: 147). As a result, progressive tax reform was effectively halted in Guatemala after 1954. The introduction of an income tax, for example, was avoided overall until President John F. Kennedy made of progressive tax reform a condition for Latin American governments willing to receive a part of the multi-million funds of the US Alliance for Progress.

A coalition without a leader

Castillo was murdered in July 1957 in an isolated attack. The counter-revolutionary coalition assembled after 1954 survived the *magnicide*. However, the military leader which succeeded Castillo at the Presidential office did not enjoy the support of the conservative groups backing the "Liberation Government". Elections were called three months after the murdering of Castillo. Although the members of the coalition were united in their determination to prevent the return of the heads of the "democratic spring", they were unable to find an able leader to replace Castillo (Villagrán-Kramer 1993: 304).

The result of the 1957 elections favoured Miguel Ortiz Pasarelli, the candidate of the incumbent party (*Movimiento Democratico Nacionalista*, MDN), but the candidate who won the second place denounced the occurrence of an electoral fraud. Strikes and demonstrations followed in the capital city, and the army decided to stage a coup and call for new elections as a means to preclude the resurgence of the left (Ebel 1998; Villagrán-Kramer 1993). A retired army General, Manuel Ydígoras, won the ballots. Unlike the MDN candidate, however, Ydígoras did not count with the support of the counterrevolutionary coalition, and lacked a basis of political support of his own. Unable to gain the confidence of the army, the landlords and the US government, the regime of Miguel Ydígoras was chronically unstable.

As a mean to obtain political support among regime hard-liners, Ydígoras signed a power-sharing pact offering the MDN a number of posts in the Cabinet, as well as guarantees of immunity over illegal actions committed during the counterrevolution (Villagrán-Kramer 1993: 322). The creation of an "anti-Communist alliance" was thus announced in the National Congress and Ydígoras was sworn President for a six-year term in March 1958.

Ydígoras found the government in the midst of fiscal emergency. High coffee prices and massive (foreign-financed) public investment had allowed the economy grow a spectacular 27% between 1954 and 1957. But coffee prices plunged in 1958, as did American willingness to provide further grants to the government (IBRD 1957; 1962). When Ydígoras paid a short visit to Washington a few weeks after his proclamation, he learned that neither the US government nor the World Bank were willing to borrow to the country until it honoured the existing debt (Ebel 1998: 122).

Coffee prices lost 40% of its value between 1957 and 1962. Tax revenues declined accordingly, passing from 8.5% to 6.5% of GDP between 1957 and 1963. Economic stagnation reduced consumption, which was the main source of government revenues. By 1958 Guatemalan tax revenues depended heavily on custom duties (32%) and excises and stamp taxes (45%). By contrast, taxes on coffee exports contributed to a 13% of total taxes and the business profit tax to about 8%. Despite the reforms introduced by the revolutionary governments, taxes on capital (property, inheritances) still contributed a mere 2% of total tax revenues.

The options available to Ydígoras were limited. Sinking coffee prices and a struggling economy advised against raising trade taxes. Enforcing property taxation was likely to generate opposition from landlords and required major improvements in tax administration. And increasing taxes on consumption would likely induce popular protests. Introducing an income tax appeared as a more sound choice. Ydígoras had become a proponent of income taxation after serving a term as the Guatemalan Ambassador to the UK in the 1940s. Moreover, the tax seemed politically viable because it was likely to target a relatively small number of industrial and commercial businesses.

Contrary to his expectations, the Income Tax Bill was opposed by the business community in block. Business elites had created an umbrella organization (CACIF) in 1957 and part of its initial activities included opposing the income tax (Ebel 1998). Despite the pact signed with Ydígoras, the landlords-dominated MDN blocked the tax in Parliament and forced Ydígoras to retire the bill. Business opposition to the tax also defeated a second bill introduced by Ydígoras in 1961, even after Ydígoras named Ministry of Finance a prominent member of the Agrarian Chamber and reduced the progressive tax rates of the tax.

With his income tax initiatives stalled in Congress, Ydígoras presented a parallel initiative aimed at doubling the rate of property taxes from 3% to 6% per thousand of the assessed value of estates. But Congress also aborted the law, suggesting instead making a full re-appraisal of property assessments through a national survey—similar to the one president Arévalo had launched unsuccessfully a decade before (IBRD 1962: 17).

Ydígoras failed to build any social support for his tax initiatives. A small government-organized demonstration supporting the Income tax only evidenced the precarious base of support of the regime (Ebel 1998). The economic downturn associated to the collapse of coffee further eroded the popular support to the president, who soon became the victim of plotting (Villagrán-Kramer 1993). Extreme-right groups ostensibly liked to the MDN began a series of terrorist attacks in the capital city, and by 1961 Ydígoras had already survived several coups (Ebel 1998).

When, in April 1962, a general strike violently repressed by the police threatened bringing the regime down, the Army intervened. Ydígoras was only allowed to finish his term by subordinating his government to the military. Army officials were designated to all but one Ministry. The post of Ministry of Finance was reserved to Raúl Reyna Rosal, a colonel which had occupied the same post in the months following the 1954 coup.

It was under this new political equilibrium that the government sent a third income tax bill to the Congress in October 1962. This time, the government argued the compromises assumed by the country when signing up to be eligible to receive funds from the US Alliance for Progress. The law was approved within one month, retaining the progressive character of the existing profits tax, with the top bracket set at 37% (ICEFI 2008). However, firms involved in activities of export agriculture obtained significant exemptions and a unique rate of 10% (Guerra Borges 2006: 231). Similar exemptions were obtained by industries, as long as they could demonstrate that up to 50% of total raw materials used in production originated in Guatemala (Marti 1994: 125). As a result of these exemptions, income taxation only occasionally contributed to more than 15% of total taxes between 1964 and 1980.

The Income Tax Law was accompanied by a crucial concession to coffee-exporters, who in

October 1962 obtained one of their long-standing demands. The sliding scale linked to tax quotations in New York was replaced by a tax based on local market prices. The change was introduced despite the fact that international prices were low at the time. This was probably the most relevant fiscal measure agreed during the term of Ydígoras, if only for its negative long-term consequences. When coffee prices began rising again after 1963, the government failed to reap any substantial tax revenue from coffee exports (IBRD 1965: 10).

In preparation for the 1963 elections, Ydígoras announced he would allow former president Juan José Arévalo (1945-1951) to return from exile. Although Ydígoras presented the decision as a proof of his commitment to pluralism, contemporary observers interpreted it as a manoeuvre to divide the left and consolidate the conservative votes on the candidate of his own party (Villagrán-Kramer 1993). The army voiced its veto for the return of Arévalo, who a few days later appeared by surprise at a press conference in the capital city. In the afternoon of that day, Ydígoras was overthrown by his Ministry of Defence, Colonel Enrique Peralta Azurdia. Both Arévalo and Ydígoras were forced into exile and the military acquired direct command over the government after April, 1963.

By the time of the coup Ydígoras had managed to alienate all the groups in Castillo's counter-revolutionary coalition (i.e.: business groups, conservative political parties, and the anti-Communist factions among the military). Demobilized labour organizations were as distrustful of Ydígoras as was the population at large, which saw the government as corrupt and ineffective. And the US perceived Ydígoras as a risk to stability in a region directly influenced by the developments in Fidel Castro's Cuba. According to some versions, President John F. Kennedy personally gave green light to the 1963 military coup (Black 1984: 21; Dunkerley 1989: 443).

Cementing a stable coalition

The military coup of 1963 established the political prevalence of the army. As Schirmer notes, then the Guatemalan military went from "having a determinant presence in the civilian structure of the state to assume the control of the State itself" (Schirmer 1999: 44). In contrast to the 1957 intervention, this time the military kept the control of government until they decided the country was ready to concur to elections again (Adams 1970: 276).

The de facto government of Peralta annulled the 1956 Constitution, dissolved the Parliament and the Judiciary, suspended the incoming 1963 elections and prohibited all political activities (Villagrán-Kramer 1993: 380). The existing state of siege was declared permanent. Henceforth repression increased notably, especially as a group of disenchanted army officials founded the first guerrilla group in the country (*Fuerzas Armadas Rebeldes*, FAR) and began its military activities in an eastern region of the country. Counter-insurgent violence would produce victims by the hundreds during the next years.

The military takeover represented an opportunity to build a coalition similar to the one established after the 1954 counterrevolution. Representatives of all business sectors voiced their approval of the coup and their support to the *de facto* government of Peralta (Villagrán Kramer, 1993: 381, 382). Peralta promised that no land expropriation would happen aduring his term nd labour unions would be kept in check. He also voiced the commitment of his government to promote the "principles of free enterprise as fundamental for the democratic development of the national economy" (SIG 1964: 74, 88-90). The IBRD noted the success of the de facto government in "restoring an atmosphere of business confidence" (IBRD 1965: 1).

The new political equilibrium translated into concrete actions on the part of the government. As Dosal notes, the government of Peralta was something of a "golden age" for business elites, for the military "essentially delegated policy-making to economic interest groups representing the private sector" (Dosal 2005: 178). Like Ydígoras, Peralta reserved the Ministries of Economy and Agriculture to figures linked to the private sector. Business representatives were included in government Planning commission, which helped direct public investment to infrastructure projects benefiting the private sector (Dosal 2005: 196).

Peralta committed to increase the share of manufacturing over the national product and promote agricultural diversification. Businesses involved in the cultivation and processing of cotton, beef and rubber benefited from increased credit support by public development banks and the Central Bank (IBRD 1965: 3). Between 1952 and 1963, the area devoted to cotton cultivation increased tenfold, and by 1963 cotton exports already accounted for a 20% of foreign exchange earnings.

Meanwhile, industrialists benefited from public subsidies and credit, protectionist restrictions and established tax exemptions. Peralta also authorized the creation of an Industrial Bank to promote investments in manufacturing. The capital of the Bank was to be provided by industrialists with the equivalent to 10% of the tax exemptions granted by Ydígoras in a 1959 Law of Industrial Development (Dosal 2005: 197).

However, he relations between the military and business elites were not free from occasional friction. Under Peralta, the military tried to keep a certain degree of autonomy on fiscal matters. He reserved the Ministry of Finance for an army official, Major Jorge Lucas Caballeros, and repeatedly called business groups to contribute to the development of the country by paying taxes (Villagrán Kramer, 1993: 388).

Ydígoras had left the government in the depths of a major fiscal crisis. Between 1960 and 1962, tax revenues declined from 8.6% to 6.5% of GDP. In 1962 the government already owed several months of salaries to public workers–including the army ranks (SIG 1964: 26, 27). Like Ydígoras and Castillo before him, fiscal hardship forced Peralta to introduce a number of tax measures during his first months in government. Peralta ruled *de facto* and had the capacity to legislate on his own without seeking parliamentary approval (Villagrán-Kramer 1993: 380). Between June and September 1963, the government passed a package of tax reforms aimed at increasing public revenues in the short term. Except for a 10% tax on cotton exports and essential oils, which targeted the profits of emerging economic groups, the most significant reforms affected taxpayers of all capacities. These measures included an across-the-board 300% increase in valuations of properties of all sizes; doubling the value of stamp taxes and stamped paper from 0.5% to 1%, and the transformation of the existing import tax on gasoline into an excise. The last measure was the most significant in terms of revenue gains, for the new excise augmented the yields produced by gasoline imports from US$ 1.5 million to US$ 6.8 million by 1966–or about eight percent of total taxes (ICEFI 2008).

Notably, Peralta also introduced a reformed, sweetened version of the Income Tax Law approved under Ydígoras. The reformed tax included a reduction in maximum rates and excluded medium and small agricultural producers. Significantly, agro-exporters were allowed to deduce export taxes from their income tax liability (IBRD 1965: 8-9; Villagrán Kramer 1993: 388-389; SIG, 1964: 49-52; ICEFI 2008). Finally, Peralta refused to link again coffee export taxes to variations in international prices. As a result, high coffee prices after 1963 did not translate into substantial gains for the Treasury.

CACIF voiced in block their opposition to some of the reforms, but direct confrontation was limited (McCleary 1999: 12; Marti 1994). Peralta did confront strong, isolated opposition by cotton exporters because of the new 10% tax. Although cotton growers and exporters protested the new tax, they failed to mobilize the private sector as a whole. In general cotton producers did not belong to traditional oligarchic families, for cotton was a relatively new enterprise in the country. After the introduction of the tax, prominent cotton growers formed the National Cotton Council in 1964, an interest group independent from CACIF. Fighting government taxes was set as one of its foundational aims (Adams 1970: 364).

Peralta called to elect members for a Constituent Assembly in 1964. A new Constitution was drafted in 1965 and elections were called for 1966. The new Constitution increased the costs of registering new parties and banned all political organizations with “communistic ideologies”, as well as parties inspired by “exotic ideologies”–including Social and Christian democratic programs (Black 1984: 22). The Army created a party (*Partido Institutional Democrático*, PID) to participate in the elections in coalition with hard-core MDN anti-communists, now grouped into the *Movimiento de Liberación Nacional* (MLN) (Villagrán Kramer, 1993: chapter IX).

Méndez: a coalition captive

The PID-MLN designate lost the 1966 elections to the only civilian candidate participating in the polls, Julio César Méndez Montenegro. The unexpected victory of Méndez raised concerns for both business elites and the Army. Méndez was forced to sign a secret pact with the Army before taking the presidential oath. The pact granted absolute autonomy to the military in deciding upon issues of domestic security (Villagrán Kramer, 1993: Chapter X). As a result of the pact, the government of Méndez did little to reduce state violence against civilians. A massive counter-insurgent campaign led by Colonel Francisco Arana virtually wiped out the FAR guerrillas operating in rural regions.

At the beginning, military 'tutelage' over Méndez was restricted to issues of domestic security. The president was allowed to name civilians to all Cabinet posts except the Ministry of Defence. Customarily, the President reserved the Ministries of Economy and Agriculture to individuals linked to the private sector. However, he reserved the rest of cabinet posts to professionals with no direct links to business or the military (Dosal 2005: 199). The Ministry of Finance was headed by Juan Alberto Fuentes Mohr, a social-democratic leader and a strong advocate of progressive tax reform.

Peralta had left the government in a relatively strong financial position, but the new administration needed to increase public investment, which had remained depressed for most of the decade as a result of revenue shortages (IBRD 1968: 8). A first tax initiative was presented to the Congress in October 1966, a few weeks after Méndez was named President. The bill essentially aimed at boosting the share of direct taxes, which at the time accounted for 18% of total tax revenues. The core change was establishing a progressive scale to taxes on capital (property and land) in order to raise collections from US$3.3 million to US$8 million (ICEFI 2008: 174). The bill also proposed taxing inheritances, donations and plane tickets, as well as eliminating income tax exemptions benefiting exporters (Marti 1994: 127).

The private sector immediately expressed its disagreement (Dosal 2005: 200-201). The industrialists, for example, rejected the proposal arguing that the government should rather spend more efficiently and combat corruption (Dosal 2005: 201). Unable to build support for the tax package, Méndez hit a deal with business representatives in Congress in November 1966. The government obtained a temporary set of tax changes including small increases to property and income taxation, as well as on stamp taxes. New taxes were established on the purchase of air tickets and car sales (IBRD 1968: 8). In exchange, business groups benefited from an even more liberal regime of tariff exemptions for emerging industries, which in turn stimulated the widespread practice of fraudulently registering existing industries to take advantage of fiscal incentives (IBRD 1968: 7).

A second tax reform initiative about a year later, this time focused on indirect taxes, also faced strong business opposition. In November 1967, the Executive proposed establishing a 5% sales tax to all non-subsistence goods, a 20% sales tax to luxury products and increasing stamp taxes from 1.5% to 2% of sales value (Dosal 2005: 202; ICEFI 2008: 175). The reform also proposed maintaining the 1966 emergency taxes for a further year.

Afraid of being deposed by the military because of what business representatives called "communistic reforms", President Méndez vetoed his own bill after the Congress had approved most of it (Dosal 2005: 202). He also ceded to business pressure to remove from Fuentes Mohr, the independent ministry of Finance (Fuentes 1971). The government managed to keep in force the 1966 emergency package for a further year, but severe expenditure cuts were included in the 1968 budget (IBRD 1968: 9). Finally, when in 1968 a new initiative to reform the income tax met renewed opposition in block by the private sector, Méndez declared he would not attempt to reform taxes for the rest of his presidential term.

Although the military were ostensibly interested in strengthening state finances, they feared that business opposition could threaten regime stability and benefit the resurgence of the left. Army tutelage over the government became more intense at the end of the Presidential term of Mendez. An army colonel, Emilio Peralta, was named Minister of Finance in 1969.

As a consequence of these failed reforms, tax revenues remained stagnant at about 7.8% of GDP between 1966 and 1970. At the end of the government of Méndez, the tax structure was basically the same left by the *de facto* government of Peralta, with indirect taxation accounting for 83% of total tax revenues and direct taxes for the rest. About one fourth of tax revenues originated from excises, another 25% from specific sales and stamp taxes, and a further 25% from custom duties. Export taxes accounted for 6% of total taxes. Finally, income taxes contributed to just 10% of total tax collections, and property taxation 4%.

The militarized state, 1970-1978

Méndez was succeeded at the Presidency by General Carlos Arana Osorio, the first of the five military leaders ruling the country between 1970 and 1985. As Black notes, Arana (1970-1984) can be considered the “founding father” of the militarized state in Guatemala, for the army consolidated its political prevalence during his term (Black 1984: 53). Indeed, all presidents between 1970 and 1985 were active army Generals. While Arana and his two immediate successors at the Presidency (both incumbent Ministries of Defence running on PID tickets) were elected in restricted or fraudulent elections, the last two were imposed as a result of coups precipitated by internal factionalism in the army.

The relations between the military and business elites became more problematic as military encroachment over institutions increased. With the precedent of Peralta in mind, business elites assumed economic policy-making would be left in their hands again, while indirectly benefiting from the repression of organized workers, peasants and progressive political parties (Marti 1994; Dosal 2005). While the military did scale repression into full-fledged state terrorism, leading to one of the worst human rights records in the hemisphere, they also grew increasingly autonomous on economic policy-making (Black 1984; Dunkerley 1989; Dosal 2005).

The ascent of Arana marked a sharp departure in the role of the military as protectors of private property. As Arana put it, "if the army are to combat subversion, they don't have to be the employees of the rich, but their partners" (quoted in Dunkerley, 1989: 467). The gradual militarization of the state provided the Army High Command with numerous opportunities for graft and privilege, which transformed the military "from custodians of the wealth of others to an economic power in their own right" (Black 1984: 25).

Corruption, which was not unknown to Guatemalans, reached new heights under the military regime (Black 1984: 32; Dosal 2005: 209-211). Members of the military were included in government posts of all ranks, which opened ample room for graft and corruption. Arana founded a bank (*Banco del Ejército*) whose board was composed by members of the high command. And Arana cultivated the support of rank-and-file troops by increasing salaries and founding a military pension and investment fund (Dosal 2005: 233). The army high command even appropriated a large part of the territory while developing a "*Franja transversal*" which crossed the country from west to east (Black 1984).

Although the control of the army over other the state was gradual, the definitive breakdown of the post-1954 alliance took place at the end of the 1970 decade, when military officials ventured in economic parcels long monopolized by oligarchic families. Using their privileged political access, military leaders hoarded emerging business opportunities with foreign investors, blocked domestic competitors and invested in agrarian, industrial, commercial and financial parcels once reserved to oligarchic families (Black 1984). Military businessmen benefited from controlling customs and tax administration, and enjoyed a privileged access to public funds and loans (Black 1984; McCleary 1999). General Arana alone, for example, embarked in "meat processing, fisheries, timber, construction, vehicle importing, cement works, publishing, broadcasting and breweries" (Black 1984: 38).

Tax reform under military regimes

The governments of General Carlos Arana (1970-74), General Kjell Laugerud (1974-78) and General Romeo Lucas (1978-81) attempted to increase state activism in the economy. As Dosal explains, the policies implemented by the military were closer to Keynesianism than to the laissez-faire ideology dominant among business elites and conservative political groups (Dosal 2005: 226). Hence, the military increased public investment and engaged in deficit spending. While much of this effort was financed through foreign borrowing, the military also attempted to reform taxes.

Arana was the mildest tax reformer among the three generals ruling the country during the 1970s and enjoyed a positive relationship with the agrarian, commercial and industrial elites (McCleary 1999; Black 1984). This was evident when he named Jorge Lamport Rodil, an economist linked to agrarian elites, to the Ministry of Finance. Lamport remained in the charge for 89 months—the longest term in the history of the country.

Arana endorsed an ambitious five-year Development Plan elaborated largely without consultation to business groups, but it ignored all recommendations on tax reform. The plan recommended increasing income and property taxes, and substituting stamp taxes for a general sales tax (Dosal 2005; Black 1984). Arana, however, announced he would not to raise existing tax rates or establish new taxes during his term. Instead, his government opted to finance the workings of the plan by enforcing existing taxes and combating tax evasion and avoidance (IBRD 1970: 45). The government also ignored a comprehensive package of tax reforms designed by the Planning Office in 1973, which included a substantial increase in export taxation.

A powerful exogenous shock at the end of the Presidential term of Arana, however, changed government's disposition towards tax reform. The Organization of Petroleum Exporting Countries (OPEC) declared an oil embargo in October 1973, precipitating increases in the prices of gasoline and imported products. These, in turn, translated in a sharp inflationary spiral, with the price index raising from 0.57% in 1972 to 30% in 1974. After much internal deliberation, the government advanced a broad anti-inflationary programme on May 1974 which included an "excess profits" tax in exports of coffee, cotton, sugar, meat and shrimp (1974GUATEM03071_b).

The government bill was processed by the tax committee in Congress within 24 hours arguing it was necessary to combating inflation and paying for popular subsidies in bus fares, basic grains and electric power rates. The Congress also demanded business tax compliance to finance development investment and to combat the subversives (ICEFI 2008). Besides, they argued, there was enough room to expand the contribution of exporters, which had decreased from 10.7% of total taxes in 1960 to 5.8% in 1971 despite high prices in international markets.

Surprised by the imminent approval of the initiative, business organizations organized a broad opposition campaign against the bill. Headed by coffee-growers, agricultural exporters threatened paralysing all agricultural activities in the event of the bill passing through the Congress or the president failing to veto it (ICEFI 2008). As in previous rounds of tax reforms, landlords' opposition was backed by representatives of economic sectors not directly affected by the proposal, including the Chamber of Industry. Business groups launched a large public relations campaign, which the US Embassy qualified as the "strongest in embassy memory", and manoeuvred behind the scenes to divide Congress (1974GUATEM03071_b).

The pressure of business organizations forced the Congress to open a negotiation table in early June, 1974. The talks, which according to Finance Minister Lamport basically allowed business representatives to write down the law details, resulted in a substantially weakened bill (Marti 1994: 131). At the end of the day, the parliament approved the new taxes, but the defeat of government was total: the new law actually reduced the rates paid by coffee exporters, left cotton and meat exports temporarily untaxed and established insignificant charges to sugar, shrimp and fish exports (Marti 1994: 132).

The tax reform outcome signalled both the strength of business organizations and the degree to which Arana was unprepared to breach the military alliance with economic elites. The opposition of business groups to progressive tax reform endangered the stability of the military regime because it targeted the interests of one of the core members of Arana's supporting coalition.

This new lost battle had unexpected consequences, however, for a frost in Brazilian coffee states increased the prices of Guatemalan coffee in international markets, thus eventually making the revised tax scales profitable. While in 1974-75 a quintal of coffee (46 kg) was sold at an average annual price of US$ 65, in 1976 the price increased to US$ 142, and boomed to US$ 242 the following year. When peak prices reached US$ 300, coffee exporters had to pay up to 50% in taxes on the overprice per quintal, an outcome they did not anticipate when designing the tax scales (Marti 1994: 132). High coffee-prices in 1977-1978 led to the highest tax revenues in the history of the country—10% of GDP.

Kjell Laugerud, 1974-1978

Arana hand-picked his Ministry of Defence, Kjell Laugerud, to lead the PID-MLN Presidential ticket for the March 1974 elections. Laugerud lost the election but Arana fraudulently announced the partial victory of the incumbent candidate, who then was confirmed as President by a Congress dominated by the official party (1975GUATEM00019_b).

The government of Laugerud had to deal with sharp price increases—inflation set at 30%. A few weeks after entering office, Laugerud presented an emergency economic programme. It included price controls, a cut in capital expenditures and a tax reform package. The tax bill included measures affecting consumers at large, such as a 33% rise in the stamp tax and increases in the rates of beer, liquor and cigarette taxes. But it also introduced a sliding scale for property taxation from 3% to 12%, a 10% surcharge on income taxes for yearly incomes above US$10,000, and additional charges to luxury goods, airport fees and motor vehicles.

CACIF protested the bill but it was approved by Congress in late 1974. An additional law was approved to combat tax evasion and avoidance (ICEFI 2008: 183). Except for a temporary 50% increase in income tax collections, however, the tax package failed to produce any noticeable effect over total tax revenues.

A further show of strength occurred when the country was hit by a destructive earthquake in February 1976. A few days after the catastrophe, the government of Laugerud issued a set of compulsory "Bonds for National Reconstruction" which doubled the contribution of direct taxes to total taxes. These resources, coupled with heavy lending abroad, contributed to a vigorous rate of economic growth (7%), which in turn buffered consumption and tax revenues (ICEFI 2008: 184). The record-high price levels for coffee substantially increased export tax collections in 1977-1978, providing windfall revenues to the government.

The ruling coalition falls apart

Laugerud was succeeded at the office by his Defence Minister, General Romeo Lucas García. The government of Lucas marked the beginning of the definitive disintegration of the post-1954 coalition, for the military grew increasingly isolated from its civilian counterparts (Dosal 2005: 37; Black 1984: 49). Indeed, economic elites bitterly complained about the "Somosization" of the Guatemalan political system (in reference to the regime of Anastasio Somoza in Nicaragua). Business leaders denounced military cronyism, corruption and the incursion of army figures in business formerly reserved for the oligarchy (McCleary 1999).

Lucas even threatened to nationalize key business sectors and attacked the monopolies built by prominent oligarchic families. He attempted, for example, to make the Novella family to sell the only cement factory in the country by establishing price controls, setting production quotas and allowing for cement imports (Dosal 2005: 235). Business investment confidence slumped and massive capital flight started, putting the government in severe balance of payments problems which would last until the mid-1980s (Black 1984: 56).

CACIF representatives gradually lost their influence over government decisions on economic policy and tax reform. Lucas reserved the head of the Ministry of Finance to a military official, Colonel Hugo Tulio Búcaro, who was unwilling to make concessions to economic elites. For example, although he agreed to exempt coffee exporters for sales below US$90 per quintal, Búcaro did not remove the tax ceiling, forcing exporters to pay a 45% tax for prices over US$105 per quintal (ICEFI 2008: 185).

Political violence against the opposition reached new heights, as state forces engaged in a systematic campaign of kidnapping and assassination affecting thousands of civilians in urban and rural areas. By the end of the 1970 decade the country had entered into a full-blown civil war. Between 1978 and 1982, the Guatemalan tax burden decreased from 10.2% to 7.2% of GPD. Unable to increase tax revenues in the context of a civil war, the government engaged in substantial lending abroad. If by 1976 public external debt matched tax revenues, by 1981 the ratio of debt to tax collections was 2:1. In 1985 it had increased to 5:1.

Lucas was overthrown in 1982 during a coup staged by factions among the Army officialdom discontent with corruption and ineffective government administration (Black 1984: 60). Henceforth, General Efraín Ríos Montt ruled as Head of State until a new coup brought his government down a year later encumbering his Ministry of Defence, General Óscar Mejía.

Both Ríos and Mejía ruled in a more complex context than former military leaders, for the civil war had extended to most of the territory. The display of regular troops and a one-million strong paramilitary corps in the countryside to carry scorched-earth missions notably increased the financial needs of the army. In addition, the Guatemalan economy was shocked by the 1980 Latin American debt crisis. By 1984, tax revenues had halved from a record high in 1978 (10.2% of GDP) to 5.3% of GDP.

Business representatives initially shown some support to the *de facto* government or Ríos, but their relations with the dictator cooled down when Ríos introduced price controls, import limitations and currency controls to avoid capital flight attempted, as well as a tax reform (McCleary 1999). In 1983, Ríos proposed reforming the income tax, transforming the existing sales tax into a Value Added Tax and establishing selective consumption taxes on industrial products (ICEFI 2007). Ríos also included in the bill a proposal to gradually substitute trade taxes for sales taxes (ICEFI 2007: 191).

While the dictators attempted to avoid direct confrontation with agrarian groups on tax matters, a USAID-designed programme to promote agricultural development through a redistributive land reform antagonized landlords' organizations. The initiative threatened to expropriate idle lands to large landowners in the fertile South Coast of the country. The agrarian reform was never implemented, for Ríos was ousted by the Army high-command in early 1983.

General Humberto Mejía (1983-1985) also had stormy relations with the organized private sector (McCleary 1999: 56). Despite the critical budgetary situation of the government, Mejía announced his decision to reduce the VAT rate from 10% to 7% and introducing exemptions on about three hundred basic products (ICEFI 2007: 192). He also proposed making reforms to the Income Tax Law. The fierce opposition of CACIF forced Mejía to scale down his income tax proposal and introducing new exemptions for exports and imports (ICEFI 2007: 192).

In early 1985, Mejía enacted four decrees introducing important changes in taxes affecting the business of prominent oligarchic families. These included suppressing the exemptions on poultry farming and increasing taxes over spirits and bottled water. A new, temporal export tax was also established on coffee exports made to countries which were not members of the International Coffee Organization. Finally, small changes were introduced in the Income Tax Law, stamp taxes and the VAT. All the government decrees, however, were abrogated a few weeks later out of the coordinated opposition of business organizations (ICEFI 2007: 193). The government opened a dialogue table with the private sector, resulting into a tax package that produced few revenue gains to the Treasury (ICEFI 2007: 194).

The latter were the last failed tax reforms of the authoritarian era in Guatemala. Henceforth a Constituent Assembly was called and general elections took place leading to the election of a new legislature and a civilian president in late 1985. The authoritarian decades ended with one of the lowest tax burdens in the continent and a notably regressive tax system. The Guatemalan tax structure had shifted from one where trade taxes provided the bulk of revenues to another where general consumption taxes prevailed. The share of direct taxes, however, did not increase substantially over time, and by 1984 it represented less than 1% of GDP (17% of total taxes). Perhaps more importantly given the political economy of the country, the contribution of export taxes had declined to 0.3% of GDP by the end of the period (5.7% of total taxes) and would never recover.

***

b. Honduras

As neighbouring Guatemala, Honduras went through a number of important transformations in the years following the end of the Second World War. An authoritarian caudillo ruling for 16 uninterrupted years was replaced in 1949 by a government with a clear mandate to modernize the country. Modernization implied to embark in a development agenda focused on substituting imports for local manufactures, agriculture diversification and increasing state functions. Modernization also required to reform the antiquated tax system inherited from the 1940s to finance increased expenditure.

During the period studied here, Honduran tax policies were different to the ones implemented in Guatemala. Although government initiatives to reform taxes did not go without opposition, Honduran leaders were more successful than their Guatemalan peers in carrying out their most important reform initiatives. This was the case even when the proposed tax changes faced the opposition of prominent economic groups. Crucially, as this chapter will describe,.

Between1949-1978, the share of taxes as percentage of Gross Domestic Product tripled in Honduras. This chapter argues that this outcome was only possible because intra-elite divisions allowed the Honduran government to build support among emerging capitalists, at the expense of the landed oligarchy. Authoritarian rules in Honduras built a broader coalition of supporters including industrialists and, in occasion, members of the labour and peasant movement.

Antecedent conditions

As in the case of Guatemala, the years leading up to the reform years of the mid-20th century were marked by the rule of a single authoritarian caudillo. General Tiburcio Carías Andino governed Honduras between 1932 and 1949. As Jorge Ubico in neighbouring Guatemala (1931-1944), Anastasio Somoza (father) in Nicaragua (1936-1956), and Maximiliano Hernández in El Salvador (1931-1944), Carías ascent into power occurred during the severe political crisis precipitated by the Great Depression of 1929.

The presidency of Carías brought the longest period of stability to the republican history of the country (Booth and Walker, 1999: 52). A ruthless dictator in most accounts, Carías pacified Honduras after several decades of internecine violence, recurrent coups and frequent armed challenges to the weak authority of the Central government. Until the arrival of Carías, Honduran politics were ridden by conflicts, as different factions continuously competed to control the state and the meagre benefits associated with it. Between 1900 and 1933 (the year Carías arrived into power), there were 14 government changes and 159 episodes of civil war (Posas and Del Cid, 1983: 80-81)

Carías is also credited with extending the territorial reach of the state to the most remote regions in the country (Arancibia, 2001: 50; See also D'Ans, 2002). National integration was constrained by a rugged, mountainous geography, which hindered internal communications, distorted agricultural development and marked its politics with strong localisms (Bulmer-Thomas, 1990: 283; Funes, 2000: 44).

Unlike neighbouring Guatemala, El Salvador and Nicaragua, government initiatives to promote coffee production in Honduras in the late 19th century proved unsuccessful. Low population density, bad communications and large distances between producers and ports prevented the establishment of the monoculture. This, in turn, was detrimental to the formation of a strong national oligarchy comparable to those of Guatemala and El Salvador (Booth and Walker, 1999: 51; Funes, 2000: 44). Wealthy landholders lacked the cohesion of their peers in other coffee republics.

A state existing more on paper than in reality, Honduras lacked a formal Treasury during the years that went from its independence of Spain (1821) until the 1880s. President Marco Aurelio Soto (1876-1883) introduced regular taxes on cattle trade, tobacco, and alcoholic beverages and ordered a throughout reform in the national customs, rising collections from 270,000 to 700,000 pesos between 1875 and 1878 (D'Ans, 2002: 168). Importantly, these government revenues were used to pay the service of three large foreign loans acquired in 1866, 1968 and 1870 to build a failed railroad (Posas and Del Cid, 1983: 92). As successive governments were unable to pay, outstanding debt was consolidated and bought by the US only in 1926. By that time Honduras owed nearly £30 million, having one of the highest external debts in the world on a *per capita* basis (Bulmer-Thomas, 1990: 284). The Honduran state only managed to complete payments in 1953 (MHCPC, 1953: 182).

Highly indebted and lacking a stable financial base to play any role in promoting development, Honduran governments at the turn of the 20th century had little options but to grant generous tax exemptions to foreign investors interested in metal mining and exporting fruits. In this context, and thanks to recent technological advances in the development of steam-motors which shortened the time ships needed to transport fruit from distant places, a number of American companies began exporting bananas from the Honduran North Coast in the late 19th century (D'Ans, 2002). Contracts were signed between the Honduran state and American banana companies for periods up to 99 years.

In the following decades, Honduras went from having a marginal position in the banana trade at the dawn of the 20th century, to becoming the first producer in the world by 1928. However, the Honduran state did not profit from the banana boom (Euraque 2001:41-42). The Honduran state did not charge taxes on the production of bananas until 1919. Indeed, according to Bulmer-Thomas, tax exemptions to banana companies reached a point after 1919 where the amount exempted exceeded total government revenues from all sources (Bulmer-Thomas, 1990: 285).

The arrival of foreign investment displaced local entrepreneurs and further inhibited the formation of a national oligarchy (Isaula 1990: 58-59; D’Ans, 2002). Indeed, prominent members of the traditional landholding elites were enlisted in the payrolls of foreign companies (Morris, 1984: 7Posas and Del Cid, 1983: 70-71).

The fortunes of the banana trade and of Honduras would dramatically change after 1929. As in Guatemala, the 1929 Great Depression had devastating consequences in the Honduran context. Coupled with the decline in banana production because of a pest, the crisis put banana exports on the brink of collapse, and with it the Honduran economy – banana exports represented 85% of total exports in 1929. A major side effect was a sharp decline in the precarious state revenues, mainly as a consequence of a declining custom duties (Posas and Del Cid, 1983: 96-98). While in the fiscal year 1929-1930 the government had collected 14 million *Lempiras* (from all sources), in the year 1930-31 tax revenues decreased to L 11.8 million (a 20% decline), remaining below L 14 million until 1945 (SHCPC, 1947: 108). The government incurred in deficits and enacted dramatic budget cuts, which only contributed to worsen the effects of the economic depression (D’Ans, 2002: 208).

As a result of the global economic crisis, fruit companies closed plantations in Honduras, fired workers by the thousands and threatened with total foreclosure if they were not freed from contractual obligations with the Honduran government (D’Ans, 2002). Social unrest was widespread among the 22,000 workers the companies employed in the North Coast, thousands of which were seeing their salaries reduced unilaterally. As political protest mounted, so did repressive public responses to mobilization. It was against that backdrop that General Tiburcio Carías scaled into power as an alternative to political chaos (Morris, 1984: 8).

The social peace came at a high cost. Carías suppressed civil rights, restricted political activities, closed newspapers, blurred elections and smashed domestic political opposition. Honduras liked to say that Carías political opponents had only three options: “*entierro, destierro, o encierro*” (Burial, exile or jail) (Posas and Del Cid, 1983: 108-109; Funes, 2000). Building on his direct command over the military, Carias appointed loyalists to the National Congress and the Supreme Court of Justice, managing to stay in power for sixteen years.

The endurance of Carías regime was further tested by an exogenous shock when World War Two broke out. Because the economies of Central America were so dependent on agricultural exports, the disruption of international trade associated with war (especially with the American war efforts) had important impacts in the region. Public revenues were also affected, as custom duties declined from L 5.4 million in 1939 to L 4.2 million in 1943. Export tax collections went from L 300,000 to L 96,000 in the same period (SEH, 1955: 477; see also Posas and Del Cid, 1983: 110).

Carías did little in the way of reforming taxes to increase government revenues, opting instead to reduce public expenditures (from L 12.3 million in 1939 to L 11.1 million in 1943) (SHCPC, 1948: 16-17). As Ubico in Guatemala, Carias also managed to reduce public debt, from L 28.6 million in 1933 to L 12,4 million in 1948 (SHCPC, 1948: 19).

A modernizing regime

The fall of Jorge Ubico in Guatemala and Maximiliano Hernandez in El Salvador (1944), coupled with a notorious change in US attitudes towards authoritarian caudillos after the Second World War, moved Carías to call for restricted elections in 1949 (Morris, 1984: 9; Barahona, 2005: 135-137). Elections were won by Juan Manuel Gálvez, the Ministry of War of Carías and a former employee of the Banana companies. Despite the tutelage of the caudillo, the new president allowed political exiles back, opposition parties to organize again, and unofficial newspapers to surge. Much as the "revolutionary" presidents in Guatemala (1944-1954), Gálvez adopted a modernizing program aimed at developing the country.

Gálvez established a Central Bank (which first enforced the use of a single, national currency), a Development Bank (to provide credit to agricultural and industrial producers), and an Economic Planning Council (all under the close supervision of IMF's advisors) (Barahona, 2005: 140). Between 1949 and 1953 the government of Gálvez founded the Ministry of Agriculture and a National Institute of Tourism; elaborated a Code of Commerce, founded the National Enterprise for Electric Energy (1957) and promoted a throughout educational reform (Barahona, 2005: 141; Arancibia, 2001: 55). The government also invested a large share of the new revenues on infrastructures, especially national roads and electricity, as both were seen as necessary conditions to industrialize the country (Posas and Del Cid, 1983: 131-132, 158). However, unlike Arévalo and Árbenz in Guatemala, Gálvez shied away from granting rights to workers, redistributing land or expanding social protection.

When Gálvez took power state revenues depended mainly on customs taxes, which accounted for about 75% of total tax collections, stamp taxes (20%) and export taxes (3%) (SEH, 1955: 477). Other important sources of (non-tax) public revenues were public monopolies (Alcohol, spirits and powder).

Taxing the upper-income groups

Once in power Gálvez proceeded to reform the fiscal system, an area long neglected by Carías. The Government invited an IMF mission which proposed three major changes in the tax laws. These included increasing tariffs, changing the existing law on inheritance taxes (in effect since 1938, but with null fiscal impact: L 10,934 over L 4 million total tax revenues), and introducing income taxation. The executive was unable to pass the first two measures through Congress, but an Income Tax Law was approved in November 1949 (SHCPC, 1949: 6- 7).

The income tax represented a major incorporation to Honduras' tax system, as it alone accounted for an increase in total tax collections from 15% of total taxes in 1950 to 25% in 1954 (Calculated from SEH, 1955: 477). Part of that success was due to the compliance of the banana companies. The major banana company (UFCO) agreed to pay the corporate income tax (with a 15% rate, half the top rate for business) only after Gálvez gave it a new concession to diversify its portfolio to cacao, abaca and African-palm production--with the usual tax exemptions (Posas and Del Cid, 1983: 129). All in all, according to Bulmer-Thomas, the income tax was the "single most effective way of increasing the return value from banana exports" for the Honduran government (Bulmer-Thomas, 1990: 296).

It is important to note, however, that the share of taxes paid by banana companies only decreased in the following years, falling to 2.5% of total tax revenues by 1954. The change was due to declining production, a hurricane, a major labour strike and increasing participation of national income-tax payers (Posas and Del Cid, 1983: 130-131). In the eight fiscal years between 1947 and 1955, the taxes paid by banana exports decreased in absolute terms in six occasions. Gálvez attempted to rise export taxes to banana companies, but declining banana production made the measure redundant (D'Ans, 2002: 247).

In sharp contrast with the case Guatemala, Honduran governments encountered fewer problems to tax coffee exports, a crop that was booming since the 1947. These were taxed the first time in 1948, and by 1955 coffee exporters already paid about 75% of export taxes. To a great extent the government's success to tax coffee exports was due to the fact that coffee was produced and exported by small and medium-size businesses (Posas and Del Cid, 1983: 134). As noted above, Honduran coffee growers lacked the power and influence of their peers in Guatemala and El Salvador (Bulmer-Thomas, 1990: 295).

During the government of Gálvez (1949-1955) tax revenues increased from L 22.3 million to L 38.8 million. The tax structure had changed slightly thanks to the incorporation of the income tax. Taxes on imports still accounted for almost 58% of total taxes, but now the income tax represented 25%, excises and stamp taxes about 15% and export taxes much of the rest. Public monopolies still were an important source of tax revenues, as these contributed to the Treasury about the same amount of Lempiras than stamp taxes (SHCPC, 1955: 477).

The reformism of Gálvez was possible because, in sharp contrast with Arévalo and Árbenz in Guatemala, he did not face the overwhelming opposition of conservative political parties (he was indeed a designate of a Conservative Party, *Partido Nacional*--PN), banana companies (he had long been a UFCO Lawyer) or powerful, cohesive business groups (private-sector organizations would only emerge in the mid-1960s). Gálvez was also noted for restricting access to the political arena to labour unions and peasants.

Changing political conditions

The term of Galvez coincided with the emergence of political forces that would become determinant in the following years. First, like in most of Central America, the army began its gradual transformation into a formidable repressive machine to counter social unrest from the left. As Funes argue, before 1949, Honduras experienced "militarism without a professional army" (Funes, 2000: 16). The US had been providing training and equipment to the Army since 1942, as well as a whole new doctrinaire body, but the transition between caudillo-ridden, rural militias towards a professional army was only completed after Carías left power (Argueta, 2009: 78-79; Funes, 2000).With Galvez, US military cooperation allowed for the professionalization of the army ranks (D'Ans, 2002: 227; Barahona, 2005: 187-188).

Secondly, new economic elites were emerging. Public credit channelled through the National Development Bank for agricultural diversification allowed large-scale plantations to begin producing cotton, sugar and coffee (Arancibia, 2001: 52; Posas and Del Cid, 1983: 133-134; Bulmer-Thomas, 1990: 296). These policies propitiated the broadening of the landed class, as well as the emergency of a new, small national bourgeoisie not directly linked to traditional landlords (Bulmer-Thomas, 1990: 297). Equally important, major commercial and industrial interests were emerging in the North Coast among immigrant populations, which had even weaker links to traditional landed elites (Euraque 2001).

The end of the term of Galvez also coincided with the emergence of labour unions as a political actor (Barahona, 2005: 166-170; D'Ans, 2002: 253-259). Workers of banana plantations launched major strike in 1954 in demand of better wages and working conditions. The strike was effective in paralyzing the export economy and forced the government to negotiate the enactment of a Labour Chart legalizing unionism and the foundation of a Ministry of Labour (Arancibia, 2001: 56-57; Posas and Del Cid, 1983: 143-144). In February 1955, the government legalized 50 labour unions (Euraque 2001: 186).

The nascent labour movement coincided in time with the progressive "debananization" of the Honduran economy (D'Ans, 2002). Honduran banana exports were dragged by a tropical hurricane that devastated plantations in the North Coast in 1954, the massive workers strike, and the emergence of Ecuador as a major player in the banana trade. The influence of the American banana companies in politics would be felt at least until the late 1970s, but as Isaula argues, by the 1960s the centre of political power definitely moved from the Banana offices "to the US embassy in Tegucigalpa and to the barracks" (Isaula 1990: 67).

Unlike Carías, Gálvez did not attempt to get re-elected, and general elections took place in October 1954. The vote was won by Ramon Villeda Morales, but his Liberal Party failed to obtain the simple majority necessary to be named president. The National Congress then proceeded to elect Julio Lozano, a National Party leader and Galvez' Vice President, for a four-year term.

Lozano did not challenge the modernizing, *developmentalist* orientation that Galvez gave to public policy. He called a Council of State comprising 59 representatives of all political parties to advice on major issues, (Bulmer-Thomas, 1990: 299; Posas and Del Cid, 1983: 147). Following a recommendation of the UN Economic Commission for Latin America and the Caribbean, a National Economic Council was founded to direct economic policy and planning, including relevant Ministers, the presidents of the public banks and representatives of different factions among the private sector (Euraque 2001: 134, 135; Posas and Del Cid, 1983: 148; SEH, 1955: 6, 7).

The council recommended Lozano reforming the Income Tax Law (1955) to increase the rates applied to the American Banana companies from 15% to 30% (the top rate), harmonizing the rates of the individual and corporate income taxes, introducing a pay-as-you-earn system for individual taxpayers, and broadening the tax base (SEH, 1955: 5-6; Posas and Del Cid, 1983: 130). These measures failed to mobilize additional revenues, however, in large part owing to the decline in the banana trade. Income tax collections decreased from L 9.2 million in 1954 to L 4.6 million in 1955. The government of Lozano also raised custom duties and the existing tax on inheritances in 1956, but changes failed to increase tax revenues (Posas and Del Cid, 1983: 149-150; SEH, 1955: 6).

The military enter the scene

The government of Lozano faced growing social unrest linked to economic hardship. The government responded with police repression, the exiling of Liberal Party leaders and outlawing the Honduran Communist Party. Elections were called to nominate members of a Constitutional Assembly where 90% of the seats were assigned to Lozano's National Party (Barahona, 2005: 181-182; D'Ans, 2002: 261).

The Constitutional Assembly, was blocked after the Army staged a coup in December 1956. That intervention marked a historical turning point. The refurbished, recently professionalized army demonstrated its capacity to intervene in domestic politics to secure order. As Morris argues, after that day "the military was no longer the private army of a strong political leader, but rather was an organic part of the State" (Morris, 1984: 35). Besides, the coup was supported by many Hondurans because of the unpopularity of Lozano, (Euraque 2001: 130; Funes, 2000: 186). The military junta declared a general amnesty for all political prisoners.

The junta did not introduce a significant shift in the orientation of economic and social policies. They granted ministerial rank to Lozano's Economic Council and founded the first national agency to audit state expenditures (Posas and Del Cid, 1983: 159-160). They also continued with the ongoing efforts to build national roads and established a national electric enterprise. Finally, the junta also founded a Housing Institute to provide workers with subsidized houses (Funes, 2000: 190; Barahona, 2005: 194).

The junta called for elections to form a Constitutional Assembly in September 1957. After drafting a new constitution, the Assembly turned itself into the National Congress and confirmed the leader of the Liberal Party, Ramon Villeda Morales, President of the republic (Morris, 1984: 37). Importantly, the 1957 constitution included provisions that, albeit formally recognizing the president of the Republic as the Army Commander-in-Chief, in practice placed decision making on Army issues in the hands of senior military officers. Indeed, according to Funes, a secret pact was signed between the military leadership and the Liberal Party: in exchange for accepting the designation of Villeda, the military gained formal autonomy from the Executive (Funes, 2000: 194). The evolution of Honduran politics in the following decades can be traced back to that agreement (Barahona, 2005: 189).

A new reformist impulse

The Liberal Party won the presidency after 24 years of political persecution, a fact that may explain Villeda's enthusiastic proclamation of a "Second Republic". Although Villeda did not challenge the development program launched after 1949, he attempted to deepen the social profile of the state, thus entering into confrontation with some of the conservative sectors that had backed Carías and Galvez. These included landlords and the National Party leadership, which soon pictured Villeda as a communist in disguise because of his social reformism, as well as many members of the Army officialdom, who were loyal to the National Party (D'Ans, 2002: 267).

The 1957 Constitution gave the state additional powers to intervene in economic matters, and Villeda used them widely (Barahona, 2005: 190). His government founded the Honduran Institute for Social Security (1959), and drafted a new Labour Code enhancing the Chart enacted by Lozano in 1955. Equally important, Villeda addressed the problem of land concentration by enacting an Agrarian Reform Law (1962). Villeda relied on the expertise of the National Economic Council more than any of his predecessors (Euraque 2001: 134-135).

An Industrial Development Law (1962) reinforced an incipient process of industrialization begun in the late 1940s (Argueta, 2009: 141; Barahona, 2005: 194). With that law, the government attempted to promote development by enacting tax exemptions and fiscal privileges to entrepreneurs. Between 1958 and 1970, the state fiscal sacrifice increased from L 320,792 to L 11.2 million (about 25% of import tax collections) (SEH 1962: 18; Murga 1977: 598). Partly as a result of these measures, the share of manufacturing over the GDP doubled from 7% to 14% between 1948 and 1963 (the last year of Villeda) (Bulmer-Thomas, 1990: 301).

The enactment of the Development Law was part of the process of regional economic integration promoted by the ECLAC since the early 1950s. In 1958 Villeda signed a treaty with Guatemala and El Salvador granting tariff reductions for intra-regional trade (Bulmer-Thomas, 1990: 301). Two years later the Honduran Congress ratified a regional treaty that led to the creation of a Central American Common Market (CACM) in 1962 (D'Ans, 2002: 269: SEH, 1966: 96).

Many of the new industries were established in San Pedro Sula, a city that benefited from its closeness to the banana enclave in the Northern departments of the country. Between 1964 and 1975, the industrial area of San Pedro Sula increased by 417%, and by 1968 it alone accounted for 49% of the manufactures of Honduras (Euraque 2001: 146). Those developments would strengthen a modern, vigorous business elite in San Pedro Sula, which would play a prominent role in Honduran politics in the years to come (D'Ans, 2002: 249; Euraque 2001:109).

Despite his active stance in many areas, Villeda's policies were not accompanied by major tax reforms. Besides tariffs, the government introduced changes on import taxes on gasoline, as well as new levies on "sumptuary" objects of consumption (SEH, 1961: 12). In December 1960 the government presented an initiative to introduce a "complementary" tax for higher incomes (a 20% over the current income tax), but it was rejected by the Congress (SEH, 1962: 14). Unable to increase tax revenues, the government opted to lend money abroad (SEH 1961: 12-13).

To finance its reformist policies, Villeda also counted with some late US government's cooperation. When President John F. Kennedy launched his Alliance for Progress, the Honduran government agreed to reform its tax system in order to have access to the American funds. However, it was the successor of Villeda who introduced the changes demanded by the Alliance. The Honduran tax system during the term of Villeda changed little in relation to previous governments. In 1963 the Honduran tax structure remained biased towards indirect taxation, as import taxes was still the single most important tax (about 50 % of total tax revenues), followed by excises and taxes on production (25%); income and property taxes (16%), and export taxes (6%) (SEH, 1968: Anexo H-12).

Forging a winning coalition

Failing to gain the support of the military and traditional economic elites, Villeda approached emerging business groups from the North Coast, which were mostly aligned with the Liberal Party. In a process parallel to the development of the enclave economy in the Northern departments, a number of immigrant families had built fortunes on the small-scale, import-export business. While major importers operated under the privileges of banana companies, and sold their products in plantation stores, immigrants of various origins (especially Arabs and Europeans) dominated small retail sales and, as the time passed, began investing on light industries for the domestic market (Euraque 2001: 80-88). By the time Villeda gained power, these actors constituted a powerful, distinctive group in the Honduran political arena, resentful of the privileges of banana companies and in many occasions at odds with the demands of the distant central government in Tegucigalpa.

Villeda also cultivated the support of peasant organizations thanks to the Agrarian Reform of 1962 and the foundation of a National Agrarian Institute (Posas and Del Cid, 1983: 174). The demand of lands had increased following massive dismissals of banana workers after 1954, as well as the appropriation of peasant-occupied lands on the part of landlords (Barahona, 2005: 200; Booth and Walker 1952: 52). Moreover, both Kennedy's Alliance for Progress and the UN ECLAC advanced the cause of agrarian reforms to incorporate peasants into productive employment and enhance the market for local manufactures (D'Ans, 2002: 274-276; Hernández, 2007: 34).

The Agrarian reform would be a prominent issue in the Honduran political agenda at least until the late 1970s, despite the commitment of Villeda to restrict land distribution to unoccupied public lands (Arancibia 2001: 62; Argueta, 2009: 184). The political weight of peasant organizations grew accordingly. The agrarian reform fostered the emergence of a National Federation of peasants (FNCH, 1962), set up by former banana workers (Barahona, 2005: 212; Funes, 2000: 209). The government also supported the creation of other organizations and supported "free and democratic" labour-unions (as opposed to class-based organizations).

Government support to unionism gradually alienated conservative sectors, despite the efforts of Villeda to proclaim its anti-Marxist stance (Posas and Del Cid, 1983: 181). As an way to appease these fears, the government persecuted alleged communist militants, pursued non-aligned labour unions, and launched a broad censorship campaign of any printed material containing traces of dangerous "foreign ideologies" (Funes, 2000). Villeda also cut diplomatic relations with Havana after Cuban revolutionaries deposed Batista in 1959. However, as Bulmer-Thomas explains, even though Villeda feared the consequences of the Cuban revolution, "the real threat to his regime came from the traditional right" (Bulmer-Thomas, 1990: 302).

A coup was staged in 1959 by radical members of the National Party and dissident military. The failure of the army to repel the attack moved Villeda to form a two-thousand men militia under his command (Funes, 2000: 228). There he apparently made a definitive, fatal mistake. The new body, roughly composed of two thousand men, soon began clashing with army units in bloody clashes. As the relations between the military and the Liberal Party became more stringent, Villeda unarmed his guard. But it was too late, as he was overthrown by a military coup in October 1963, ten days before general elections in which a new Liberal victory was expected (D'Ans, 2002: 281).

The military take command

Colonel Oswaldo López Arellano seized all powers after successfully commanding the coup, and immediately proceeded to dismantle Villeda's National Guard, with dozens of its members massacred while defending the government. The coup was received with sympathy by hard-minded landlords, conservative business groups and the American fruit companies, which resented the closeness of Villeda with workers and the industrial elites from the North Coast—his supporting coalition (Euraque 2001: 136; Posas and Fontaine, 1980: 50; Posas and Del Cid, 1983: 189).

The coup meant the temporarily displacement of Villeda's coalition and the return of the landlords-dominated National Party to the centre of the political stage. The leadership of Villeda's Liberal Party was jailed or forced into exile, thus leaving the political ground clear for the National Party, the natural partners of the Army in a tactical alliance (Bulmer-Thomas 1990: 304). The very day of the coup the army assaulted the offices of the peasant's FNCH, and jailed the leaders of a number of labour unions (Posas and Del Cid, 1983: 192, 193). Preceding the style of Pinochet in Chile, López converted the national stadium into a temporary concentration camp for political opponents (Funes, 2000: 235). The takeover of López Arellano prevented any form of organized opposition and marked the beginning of military hegemony in Honduras (Funes, 2000: 17).

López anticommunism was more based on American influence than any real domestic threat. Honduras lacked a strong Marxist movement, although by 1963 there were growing levels of organization among labour unions, peasants, teachers, students and public workers (Funes, 2000: 239). US military cooperation greatly enhanced the anti-Communist character of the Honduran military. Despite the absence of any form of armed opposition, the US emphasized national security and counterinsurgency in training and funding the Honduran military (Booth and Walker, 1999: 53).

Despite the restoration of conservative rule, the institutions set in place by Villeda and his predecessors remained in place. In Contrast to what Castillo Armas did in Guatemala (1954), López went ahead with the projected Agrarian reform and redistributed national lands to peasants. He did not, however, attempted to expropriate land from traditional landlords or the banana companies (Bulmer-Thomas, 1990: 305).

López governed de facto for about a year and a half. In 1965, new elections were called for a new Constitutional Assembly to draft yet another Constitutional text. The National Party won the rigged elections and the new Assembly meekly confirmed López as the Constitutional President for the period 1965-1971.

The tax reforms of the military regime

The fiscal policies of the regime of López Arellano were remarkably independent. On December 1963, within weeks after deposing Villeda, the government of López introduced various major changes in the tax laws. First, the Income Tax was reformed to make it applicable to all foreign business domiciled in Honduras. The top income tax rates paid by banana companies were also increased (Decree-Law 25) (Posas and Del Cid, 1983: 130). Secondly, the government changed the 1938 tax law on inheritances and donations, augmenting the rates with the aim of increasing its share of tax revenues (Decree-Law 26). Third, the government tried out a new tax on "unused lands", but because of the minimal amount of money collected it was abandoned after 1964. Finally, the government introduced a new tax on retail sales, the fist in Central America. The tax was imposed with a rate of 3% and included many exemptions (mainly on food and basic consumption items) to reduce the regressive nature of the tax. It also excluded smaller retailers from the obligation to register and pay the tax. Because the tax only reached a small number of big retailers (about 1808 by the early 1970s), tax revenues from the sales tax were relatively minor (Due, 1972: 269).

The "progressive" orientation of these tax reforms may seem counterintuitive in view of the composition of the supporting coalition of López. However, these measures were enacted as a consequence of the need of López to please the US government, which has rejected granting official recognition to the de facto government of López. Moreover, Honduras had subscribed the 1961 of the "Punta del Este Bill", where Latin American countries accepted to reform their tax systems to qualify for multi-million "Alliance for Progress" funding (SEH, 1963: 8). However, after those initial reforms, the government of López declared its intention not to introduce new taxes or increasing the rates of the existing ones, opting instead to improving tax administration (SEH, 1966: 95).

The only significant tax change after 1963 was a 1967 decree transforming the existing tax on gasoline imports into a sales tax (SEH, 1972: 168). In addition, in 1968, López signed the "Protocol of San José", thus deepening the links of Honduras with the Central American Common Market. As part of the compromises assumed in that document, the Central American countries agreed to further increase tariffs to extra-regional imports, and establishing higher consumption taxes for "sanctuary" goods and products imported from countries outside the CACM (Posas and Del Cid, 1983: 213; Morris, 1984: 40).

The new tariffs to imported goods increased the prices of consumables and provoked the opposition of labour unions, which called a general strike on September 1968. The strike was supported by the business groups of the North Coast, which had a difficult relation with the government of López and opposed the deepening of Central American integration. (Barahona, 2005: 208; Funes, 2000: 252). By 1968 it was already evident that the common market was a bad deal for Honduras manufacturers, ill-prepared to compete with the industries of Guatemala and El Salvador.

When the strike broke, the government of López declared a state of siege for 30 days, sent extra army units to the Northern departments, and jailed union leaders and a few business representatives (D'Ans, 2002: 287-288). Fines were set for business supporting the strike and the government threatened with expelling from the country business leaders of foreign origin (Euraque 2001: 235-236).

The reaction of López only contributed to incense business and labour opposition and to cement an unprecedented collaboration between "free and democratic" labour unions and corporate business chambers from the North Coast (Bulmer-Thomas 1990). Although opposition to tax changes were the key factor sparking protests, according to Posas and del Cid the tactical alliance is best understood as a broad reaction against the neglect of the military of the previous *developmentalist* role of the state (Posas and Del Cid, 1983: 204-207; See also Barahona, 2005: 207). The protest movement grew during the months following the declaration of state of siege, and a new general strike was called for June 1969.

An exogenous shock

Providentially, at least for López, a war exploded with neighbouring El Salvador in July 1969, leading to a fundamental reconfiguration of the coalition that supported the regime. The Honduran military had decided to exclude peasants from El Salvador living in Honduras from the benefits of the Agrarian Reform, expelling them back to their country. The government of El Salvador, however, lacked the capacity to reintegrate its nationals, many of which had left the country as political refugees. The crisis reached its peak when the military from El Salvador decided to invade the frontier zones and bombed the capital city of Honduras, Tegucigalpa. The "football war" lasted for about one hundred hours and claimed three thousand lives before the Organization of American States was able to break a ceasefire.

Despite the notorious ineptitude of Honduran senior military officers to resist the Salvadorian invasion, the war propitiated an unprecedented sense of national unity behind the Army (Barahona, 2005: 208-209). In the aftermath of the war, the military emerged as the "people's defenders" against the Salvadorian enemy. The war propitiated an atmosphere of relative unity between classes, class factions and social groups, many of whom supported the war effort by buying National Bonds for National Defence for up to L 15 million, equivalent to about 10% of total tax revenues in 1969 (SEH, 1970 : 97; Posas and Del Cid 1993: 222). The business groups of the North Coast assumed a leading role in promoting the sales of the emergency bonds, while the labour unions declared workers to be “civilian troops” at the orders of General Arellano (Euraque 2001: 270-271). A relaxation of political repression followed, as well as a rapprochement between emerging social groups and younger military factions influenced by the Peruvian model of military-led social reform (Morris, 1984: 41; Posas and Del Cid, 1983: 222, 223).

The new consensus culminated in the joint drafting of a Plan for National Unity by the Honduran Confederation of Workers (CTH, founded in 1964) and business groups from the Northern elites organized in a new National Council of Private Enterprise (COHEP), founded in 1967 (D’Ans, 2002: 299). The two platforms presented the plan to López, who subscribed it and sent it to the representatives of the National and Liberal Parties in December 1970. Essentially, that *pact* committed the winner of the projected 1971 elections to form a “government of unity” by appointing cabinet members on the basis of their professional merits instead of their party affiliations (Posas and Fontaine, 1980: 50; Funes, 2000: 262-265).

This configuration of a political coalition under authoritarian regime has no parallel with the cases of Guatemala and Nicaragua (Bulmer-Thomas, 1990: 304; Posas and Fontaine, 1980: 49).The military realized that the backing of the National Party was not enough to secure stability, and saw in the Liberal Party and its ties with labour organizations an opportunity to form a more comprehensive coalition (Bulmer-Thomas 1990: 305). General López Arellano sensed the potential of building on the support of these actors at the end of his term (Euraque 2001: 287).

The tax policies of a broader coalition

Ramón Cruz, a leader of the National Party, was elected President in June 1971. The two main parties subscribed a pact to decide the distribution of public offices and their respective budget allocations (Barahona, 2005: 221). The resulting government was far from stable, though, the budget of the ministries controlled by the Nationals tripled those controlled by the Liberals (Posas and Del Cid, 1983: 236).

Cruz attempted to make a tax reform, but it was boycotted by the Parliament and opposed by both business and labour groups. The reform included the restitution of property taxes to the National government (in detriment to the local governments). Perhaps more symptomatically, during the discussions of that reform, the National Party presented a proposal to establish a 50% cut on tax exemptions granted under the Law of Industrial Development (and subsequent laws related to the CACM).

The later move reflected the divide that existed between the National Party and economic sectors supporting modernization (Posas and Del Cid, 1983: 261 –footnote 80-). Indeed, according to Barahona, both the *pacto* and the government of Cruz are best understood as temporary equilibriums in the latent conflict between reformist and conservative political factions in Honduran politics. In the end, however, the election of Cruz allowed conservatives to regain the upper hand in politics (Barahona, 2005: 210).

On the other hand, Cruz counted with little popular support. New protests were staged by organized social groups, and teachers called for a national strike. The peasant movement increased the occupation of lands after the evidence of a languishing agrarian reform, triggering repressive responses on the part of the Army (Funes, 2000: 266). The discontent of both the CTH and the COHEP for the failure of Cruz to introduce reforms only increased regime instability (Barahona, 2005: 221; D'Ans, 2002 300). Cruz was rapidly overthrown by a military coup in December 1972, on the basis of accusations of government paralysis and ineffectiveness. The military would remain in power for the next decade.

General López reassume power

López Arellano was installed again as Chief of State following the 1972 coup. López disbanded the Congress and displaced traditional political parties from government institutions, conforming a Cabinet which included some reformist-minded technocrats eager to implement progressive social and economic policies (Morris, 1984: 45; Euraque 2001: 301-304). In the first year of his government, López drastically changed the orientation of the government, adopting a reformist stance in line with the progressive agenda of both the CTH and COHEP, his new partners in government (Bulmer-Thomas 1990: 309).

Under the new circumstances, López attempted to build himself a support coalition which could accommodate progressive factions among the Army officialdom, the CTH and its peasant affiliate, as well progressive factions among the Honduran private-sector, especially industrialists and merchants from the North Coast (Morris, 1984: 85; D'Ans, 2002: 306-307). Ironically, these were the same groups that López had targeted for repression after the 1963 coup (Barahona, 2005: 226; Euraque 2001: 301; Posas and Del Cid, 1983: 271-272).

As a way to further gain the support of the peasantry, López gave a new boost to the languishing agrarian reform, issuing a Presidential Decree which forced landowners to rent or transfer idle or "inadequately utilized" land. It was during López second term that the Honduran Agrarian Reform received its greater impulse, distributing up to 79,000 ha. of land to 18,000 landless families (D'Ans, 2002: 307).

The government of López extended credits and tax exemptions granted to business under the 1958 development law (Morris, 1984: 46). Despite the opposition of American banana companies, the government of López increased income tax rates from 30% to 40% and in 1974 enacted an export tax of US 0.50 per bunch of bananas. The latter changes were agreed by the Union of Banana Exporter Countries (UPEB), of which Honduras was part, but it was reduced to US 0.25 after Banana companies launched a boycott (D'Ans, 2002:

314-315). Finally, in 1974 López also established a new “Treasury Police” (P*olicía de Hacienda*) to combat smuggling and customs fraud, and created a National Tax register to give each taxpayer a sole identification number as a means to reduce tax evasion (SEH, 1974: 24).

As the administration of López advanced, some of the sectors that initially supported him began feeling increasingly uneasy with his government. In 1975 a new Agrarian Reform Law was introduced, with a mixed reception. Peasants considered it insufficient and partial, while landlords demanded its annulment and threatened with a national strike (Funes, 2000: 273). Business elites, bitterly divided in the late 1960s, had managed to solve some of its internal disputes, and began airing their worries for the “leftward” rift of the military (Morris, 1983: 46-48). Behind that shift in postures was the gradual displacement of the original COHEP leadership by the conservative landlords’ association (FENAGH) (D’Ans, 2002: 310; Morris, 1984: 78).

Conservative factions among the military, as well as conservative civilians close to the National Party, began plotting against the government of López (Morris, 1984: 85). By 1975 the coalition assembled by López was already crumbling, “fraught with collisions between impatient reformists and angry, fearful conservatives” (Morris, 1984: 47; Posas and Del Cid, 1983; D’Ans, 2002).Widespread criticisms about the way in which the government had dealt with the devastation that followed a Hurricane (Fifí, 1974), as well as growing concerns about the integrity of the armed forces affected the institutional cohesion of the military. In March 1975, a movement of young officers forced the retirement of forty senior officers and reorganized the command structure of the military into the Superior Council of the Armed Forces (CONSUFFAA), a body composed of mid-rank officials. The CONSUFFAA formally displaced López from the head of the Army, while he was on an official trip, in favour of Col. Juan Alberto Melgar (Barahona, 2005: 226; see also Posas and Del Cid, 1983: 274).

The *coup de grace* for Lopez arrived when an article in the Wall Street Journal revealed that high-ranking government officials (including General López), had accepted a US$1.25 million bribe from a banana company in exchange of reducing the banana exports tax (saving the foreign companies up to US$ 75 million per year in taxes) (Morris, 1984: 47). López and his government were widely regarded as corrupt, but it was the “*bananagate*”, as the episode was locally known, what costed López the Presidency. He resigned in April 1975 and was replaced as head of state by Colonel Melgar (Morris, 1984: 49).

Conservative restoration

Given that the CONSUFAA had much influence over Melgar, the personalist style of Lopez was gradually replaced by a collegial type of authority. The rise of Melgar was received sympathetically by the Honduran conservatives, especially among business elites and the National Party, with whom he had strong links. However, with Melgar the military tried to maintain some degree of autonomy from economic elites. According to Morris, Melgar hesitated between continuing the momentum of the reforms of López and "appeasing the conservative biases of the Honduran civilian and military political elites" (Morris, 1984: 48-50).

At the end he clearly conceded in favour of conservative groups, consolidating a highly repressive regime in line with the interests of landlords and reactionary factions among the Army (Morris, 1984: 50; Funes, 2000: 283; D'Ans, 2002: 319). Melgar directed the repressive policies of the army against the social basis that had backed the reformist program of the military between 1972 and 1975, especially labour unions and peasant organizations, as well as civil society organizations. Almost all strikes called in between 1976 and 1979 were declared illegal by the military government and repressed accordingly (Barahona, 2005: 229).

The situation became explosive on the agrarian issue. Civil unrest mounted as landless peasants launched a wave of occupations of (uncultivated) private lands. In 1975, some ten thousand peasants from the National Peasant Union (UNC) invaded about one hundred haciendas. Melgar ordered to stop invasions but restrained of a full-fledge repression campaign. Relations between his government and the landlords' FENAGH became more stringent as the months passed. According to Morris, "active resistance from large landowners, the important multinationals, and sympathetic army officers kept Melgar and CONSUFFAA off balance" on the agrarian issue (Morris, 1984: 49). Melgar abandoned the agrarian reform project in the latter part of his period as Head of State.

Under the leadership of Melgar, the military demonstrated autonomy from the once all-powerful banana companies (Bulmer-Thomas 1990: 310). The Honduran government established new controls on the North Coast docks by a new National Port Enterprise (ENP); expropriated rail lines from the fruit companies; set up an Advisory Commission for Banana Policies and founded a Honduran Banana Corporation (COHBANA). Moreover, in 1976 the military threatened to expropriate some 35 thousand ha from the UFCO, but it backed out at the end (Barahona, 2005: 222)

In December 1975 Melgar introduced various reforms on existing taxes (Decree 287). These included changes to the Income Tax Law, and an increase in the royalties and taxes paid by mining industries, as well as the rates applied to the export of minerals—a sector that had remained untaxed since the 1950s (Euraque 2001: 38). Similarly, the government tied coffee export taxes to variations in international coffee prices. Taxes on the production and sale of beers and cigarettes were also raised. Finally, the government reformed the existing sales tax, broadening its base by transforming it into a Value Added Tax. The rate of the tax was kept at 3% (as in the original law of 1963) as well as the exemptions to basic food products.

The Honduran tax structure did not change substantially during the term of Melgar, although tax revenues increased thanks to the gains of export taxes as well as strong rates of economic growth (8.8% between 1976 and 1979). In order to finance public investments on infrastructure, the government acquired substantial external debt, which increased from L 335 million in 1973 to L 1079 in 1978.

Elections were called in mid-1979, but later postponed until 1980. The conservative national press began airing claims about military complicity in the massacres of peasants, collusion with the banana companies, and involvement in illicit drug trafficking (Morris, 1984: 50; D'Ans, 2002: 325). Disputes within the military officialdom led to another coup in August 1978, as the CONSUFFAA announced the resignation of Melgar and the installation of a triumvirate led by General Policarpo Paz García. The new military junta ruled for two years.

The 1978-1980 military *junta*

The military reformism of the early 1970s was finally buried with the arrival of the new military junta (Hernández, 2007: 18). The support bases of the junta were the already hegemonic conservative factions in the army (which had taken control of the CONSUFFAA, displacing all remnants of reformism), business associations of landowners and stock raisers, and the National Party (D'Ans, 2002: 327-328). According to Morris, "the period was characterized by more conservative economic and social policies, a concern for social peace and political order, and consolidation of [military] control over the state apparatus" (Morris, 1984: 51). Regional Development Councils were created under the authority of the regional military commanders, thus consolidating the civilian subordination to the Army (Funes, 2000: 288).

The authoritarian drive of the Honduran military regime was deepened by the political developments in the region, as Honduras became a major ground for the US "low intensity war". After the *Sandinistas* overthrew Somoza in neighbouring Nicaragua in 1979, President Jimmy Carter decided to transform Honduras into the main anti-Communist US partner in Central America. Official bilateral economic aid skyrocketed: of the US$ 450 million received by Honduras between 1944 and 1982, US$ 284 were disbursed after 1980 (D'Ans, 2002: 341). The eastern regions of Honduras became a safe haven for the counterrevolutionary army financed by Reagan (the *contras*) (Barahona, 2005, Funes, 2000).

The mobilization of the counterinsurgency policies contrasted with inaction in economic policy-making. Reformist legislation was not derogated, but its enforcement was halted. The Junta governed Honduras in what would be the latter stage of the *developentalist* state, as neoliberalism would soon dramatically change the orientation of state action.

Elections were called to elect a Constitutional Assembly in 1980, with Paz declaring to have no intentions to run for the presidency. With an alleged turnover of 80%, the assembly was set to draw a new Constitution, the fourteenth since 1838. The Assembly named Paz provisional president of the Republic and, for the first time in twenty-five years, called for general elections in November, 1981, which were won by Roberto Suazo, a civilian leader of the Liberal Party.

Overall, between 1956, the date of the first Army intervention, and 1982, when civilian Roberto Suazo was elected, the military exercised direct political control for 19 years (Funes, 2000: 159). The context the new civilian government encountered was one of a stagnant economy, a public deficit of about US$ 100 million, and an external debt estimated in US$ 1 billion (Norris 1984: 58). Indeed, the 1980s are considered a lost decade: Honduran GDP growth began contracting in 1979, and after 1982 growth became negative. Inflation grew to three digits and *per capita* GDP was reduced by 20% between 1980 and 1984. (D'Ans 2002: 347-348). The weight of the VAT in general tax revenues only continued increasing as taxes on international trade declined.

***

c. Nicaragua

Like other countries in Central America, Nicaragua emerged from the 1930s under the rule of a personalist dictator. But unlike his fellow autocrats, Nicaragua's Anastasio Somoza García managed to set the foundations of a political dynasty which would rule the country for forty years. It took a revolution to finish-off the saga.

This chapter analyze on the politics of taxation under the rule of the Somozas. It explains changes in the orientation of tax policies as a result of changes in the composition of the coalition supporting the regime. The rule of the first Somoza was long enough to allow for significant shifts in the relations between the government and economic elites. Luis Somoza succeeded his father and tried to accommodate rival business factions. The last dictator of the dynasty, Anastasio Somoza Debayle, broke with economic elites and was deposed by a revolutionary coalition including prominent members of traditional oligarchic families.

The long-term evolution of the Nicaraguan tax system was similar to that of other Central American countries. A tax structure strongly biased towards trade and sales taxes was gradually replaced by one where taxes on consumption prevailed. Direct taxation in the form of income or wealth taxes was not significant during the period studied here.

Antecedent conditions

Anastasio Somoza García ruled Nicaragua with an iron fist between 1937 and 1956. Unlike other Central American dictators of the 1930s, Somoza emerged strengthened from the post war and effectively demobilized political opposition to his regime. After 1950, it was Somoza himself who introduced dramatic policy changes aimed at modernizing the country, diversifying agriculture, substituting imports and building public infrastructures. He was also the reformer introducing the first Income Tax Law in the country following the advice of foreign experts.

A coffee-grower of modest family background, Somoza used political power to build an economic empire. His political career began in 1933, when the US representative named him to head the *Guardia Nacional*--a professional army created by the US after the dissolution of the national army and police forces (Walter 1993: 29, 30). Until 1933, Nicaragua was a *de facto* American protectorate with a permanent deployment of US Marines (Torres-Rivas 1983: 118; Velázquez 1983: 190). Strong US oversight over domestic politics was strategic in order to prevent the construction of an alternative route to the Panama Canal through Nicaragua.

Somoza built strong loyalties among the National Guard rank-and-file and gradually displaced potential rivals among the officialdom. He also plotted to displace political adversaries among the Liberal Party and murdered Augusto César Sandino, the mythical guerrilla leader who had successfully resisted the US Marines in the Nicaraguan countryside. Acting as the Head of the National Guard, Somoza orchestrated a coup in May 1936 to depose President Juan Sacasa (1933-1936). He was proclaimed president on January 1st, 1937, after winning elections that took place without a rival presidential candidate (Fitzgibbon 1940: 215).

Once at the office, Somoza manoeuvred to secure the survival of his regime by putting allies at the top of the Judiciary and concentrating decision-making on the Executive. As Solaún argue, under the Somoza regime the elected Congress became mere "club of sorts of loyal 'friends' of *El Jefe*" (Solaún 2005: 34; Chamorro 1957: 57).

Somoza was proclaimed the President of a country where tax revenues represented less than 4% of GDP and tax policies were defined by American administrators. In 1910 the US government had established an American Collector in Nicaraguan customs to supervise the timely servicing of US-owned debt. As a result, Nicaraguan governments could only dispose of a fraction of custom duties, the most profitable source of public revenues (Millet 1977: 74). A High Commission with heavy representation of US delegates was created in 1917 to decide on monetary policy, import tariffs, government budgets and public works (Bulmer-Thomas 1990: 319; Velázquez 1983). Later, the High Commission was decisive in prioritizing Guardia outlays over other expenditures despite the fiscal crisis associated to the impacts of the 1929 Great Depression, and a devastating earthquake which hit the country in 1931.

By the time Somoza ascended to power, the Nicaraguan tax structure was similar to that of other Central American countries. Up to 60 percent of total taxes depended on custom duties and import taxes, while export taxes accounted for a mere 7% of total taxes. Taken together, taxes on liquors, lights, tobacco, cattle and stamp taxes contributed a further 20%. Specific excises represented about 9%. Finally, property taxes, the only direct taxes in place at the time, accounted for about 2% of total taxes.

Somoza was noted by using political power to accumulate a great fortune. Within three years after 1937, Somoza became the wealthiest man in Nicaragua (Millet 1977: 315). As Walter explains, "from his first years in power it is evident that Somoza made no distinction between public service and private gain" (Walter 1993: 110). Somoza began by accumulating public lands which then benefited from government investments in infrastructure. He also harassed private owners to sell their lands at a discount by enforcing abusive taxes or through physical intimidation (Chamorro 1957: 207; Millet 1977: 315-316; Rouquié 1987: 262-263; Wheelock 1980: 168).

The dictator benefited from his control over state institutions to accumulate substantial rents. He took personal control over the Nicaraguan railroads and monopolized trade at the main commercial port in the country, manipulating cargo rates to block competitors and to advance his investments (Walter 1993: 85). Members of the Somoza family were put on the boards of public enterprises providing water, electricity, hospitals and railroad services. Moreover, public revenues were used by Somoza to pay workers at his own plantations (Chamorro 1955: 125-126, 208; Wheelock 1980: 166; Rouquié 1987: 263).

An additional source of rents was the personal control Somoza exercised over the allocation of credit by public banks. Somoza benefited from the Nationalization of the National Bank of Nicaragua 1940 and vetoed the creation of new private banks (IBRD, 1953; Walter 1993: 76). As a result, private lenders had to negotiate directly with the dictator in order to obtain credit, while public banks provided much of the liquidity Somoza needed to advance his own investments. The results of a1940 law allowing the National Bank to provide credit to new industries are a telling example of the reach of Somoza: by 1950 the Bank had provided just one grant under the new law; the beneficiary was a cement factory owned by Somoza (IBRD 1953: 105).

The regime of Somoza was based on patrimonial practices. Loyal leaders of the official party (Liberal Party) received Congressional seats while rank-and-file members obtained jobs, privileged relations with local authorities and protection from *Guardia* (Walter 1993: 89, 90). Party membership became a means of personal advancement. As Solaún explains, the Liberal Party became a political machine of Somoza, well lubricated with "bossism, clientelism, patronage, jobs, and contracts" (Solaún 2005: 41). As a result, the bureaucracy grew increasingly loyal to the regime, becoming a political block able to be mobilized to further the political objectives of the dictator (Walter 1993: 90).

Military leaders also obtained important personal gains after Somoza put the Guardia in charge of health, post, radio and telephone services, the National Railroads, the immigration office and the newly founded Navy and Air forces (Millet 1977: 303; 316-317; Walter 1993: 81). National guards also benefited from "dirty taxes" applied to gambling, prostitution and smuggling (Wheelock 1980: 165; Rouquié 1987: 263; Gonzalez 1998: 70). The businesses of rank and file *Guardias* included systematic bribery, cattle smuggling and plain extortion and burglary, especially in rural areas (Millet 1977: 317).

Tax reforms during the early "Somocismo"

During the first part of his regime, Anastasio Somoza built on the deep fractures which divided Nicaraguan economic elites. A regional rivalry had historically confronted the elites of the cities of Granada and Leon, whose interests were represented respectively by the Conservative and Liberal parties. The absence of a significant indigenous population had prevented the formation of a unique ethnic identity among economic elites (Crawley 1979: 138-139). While the introduction of coffee in the late 19th century had empowered prominent families among the Liberal Party, US intervention displaced Liberals from power in favour of Conservative leaders traditionally involved in trade and cattle rising

(Wheelock 1980: 142-146; Velázquez 1983: 188-189).

Somoza was a member of the Liberal Party, so during the first years at the office he supported Liberal coffee growers, the key group in his supporting coalition. In 1937, Somoza introduced a series of currency devaluations, taking the Córdoba from par to five per US Dollars. This provided substantial gains to exporters at the cost of importers and merchants (Bulmer-Thomas 1990: 335; Walter 1993: 67-72). He also reduced the existing tax on coffee exports after 1937, thus letting the country main export crop basically untaxed.

By contrast, Somoza used state powers to intervene in economic sectors traditionally dominated by families linked to the Conservative Party, such as cattle rising, sugar production and trade (Wheelock 1980: 156-157; Barahona 1983: 226; Walter 1993: 106-107). In 1937 the dictator introduced a five-year ban on cattle exports and forced ranchers to sell excess cattle to his own companies, which later smuggled this same cattle into Costa Rica and Panamá (Wheelock 1980: 168; Walter 1993: 73). Somoza soon become the country major rancher and the largest producer of pasteurized milk. He also invested in the production of sugar, a stronghold of Conservative families since the 1890s.

Somoza also regulated trade establishing price and foreign exchange controls. In 1939 the government introduced import restrictions and an emergency law to limit foreign exchange operations. Although the dictator justified restrictions as a necessary to prevent inflation and balance of payments imbalances, controls were applied selectively (Walter 1993: 201). Moreover, Somoza was often accused of smuggling imports into Nicaragua to provision his own commercial houses (Wheelock 1980: 165).

Not surprisingly, Somoza also used fiscal policy to advance his interests. He merged various tax offices into a single department that then was put under the control of a National Guard officer. During his first years at the office, Somoza increased taxes on the sales of matches, alcohol, tobacco and sugar, products on which Somoza had investments. The yields of his companies were sell to public monopolies that then offered the products in domestic markets (Wheelock 1980: 169). The only progressive tax measure taken by Somoza was creating a tax on capital in 1939, although it was largely ineffective (Comisión 1961: 45).

Somoza manoeuvred in 1938 to dissolve Congress and called a Constitutional Assembly to draft a new Constitutional text. The new Constitution was enacted in 1939, forbidding re-election and establishing direct Presidential control over the Guardia. The Constitutional Assembly turned itself into the national Congress and proclaimed Somoza president for a further eight-year term (Fitzgibbon 1940: 216).

In consolidating his regime, Somoza also benefited from the unrestricted support of the US government, who saw in the dictator an ally capable of maintaining order at its backyard.

As Millet explains, the survival of the regime was long based on the "capacity of the family to maintain the control over the Guardia and to convince Washington that their "law and order" was better for the US than the possibility of a nationalist regime less favourable to US interests" (Millet 1977: 387; Crawley 2007). After his 1939 re-election, Somoza was received in Washington by President Franklin D. Roosevelt with full honours (Bulmer-Thomas 1990: 336).

US Military cooperation was further increased when Nicaragua declared war to Japan, Germany and Italy in 1941. An American air base was set up and Nicaraguan ports fitted out for US military ships. Losing access to the German market affected Nicaraguan exports, especially of coffee, but soon the government began exporting fruits and rubber to the US. Somoza took advantage of the war situation to arrogate the numerous properties expropriated to German nationals in Nicaragua (Rouquié 1987: 263).

By the end of the war the properties of the Somoza family had increased from a few coffee estates to "51 cattle ranches, 46 coffee plantations, two sugar plantations, an airline, a gold mine, a milk plant and factories producing textiles, cement and matches" (Bulmer-Thomas 1990: 337). It was rumoured that Somoza controlled ten percent of the arable land in the country (Rouquié 1984: 261). By 1944, estimates of the fortune of Somoza made by some of his former ministers had climbed to US$ 10 million—the equivalent of one and a half times the 1994 tax revenues of the Nicaraguan Central government. (Walter 1993: 135; Wheelock 1980: 169).

The critical juncture: a crumbling winning coalition

The success of Somoza in building a stable coalition of supporters was called into question after the beginning of the Second World War. Soaring foreign reserves and disrupted imports contributed to increase inflation by 325% between 1939 and 1948 (Bulmer-Thomas 1990: 335). Deteriorating economic conditions induced popular discontent and political opposition began airing open criticisms to the regime in 1940, albeit in a rather disorganized fashion. Somoza took advantage of the war situation to declare a state of siege and repress prominent opponents (Millet 1977: 321).

The tenor of protests increased after 1943, when Somoza began manoeuvring to change the constitution to allow for his re-election after 1947. Members of the leadership of both the Liberal and Conservative parties opposed the move, but Somoza overcame their opposition by threatening expropriation and definitive license cancelations to their businesses (Millet 1977: 323). Massive demonstrations followed in various cities, leading to a political crisis that forced Somoza to announce that he would not seek re-election (Walter 1993: Chapter 4).

Somoza kept the unrestricted support of the Guardia, but a fundamental change occurred in the US allegiance towards the regime after the election of President Harry Truman in 1947.

The US opposed the 1947 presidential campaign of Somoza, who then imposed a puppet candidate of his own party (Díaz 2002: 156). Seventy-two year old Leonardo Argüello assumed the presidency in May 1947, after another blatantly fraudulent electoral process (Millet 1977: 334). Somoza kept his ascendancy over the National Guard intact.

When the new president distanced himself from the figure of the caudillo and attempted to make him resign from the Guardia, Somoza attacked the presidential palace and imposed an interim government (Dunkerley 1988: 124; Walter 1993: 160). A new Constitutional Assembly was called and, despite the boycott of the Conservative Party, a new president was designated. The new president, Victor Román y Reyes, was an uncle of Somoza. Henceforth Román y Reyes took care of administrative tasks, while Somoza remained the power behind the throne (Díaz 2002: 171).

Securing a stable coalition

The turbulent 1940s had shown Somoza that the support of the military and loyal factions among the Liberal Party was not enough to secure the survival of his regime. In 1948 he began manoeuvring to reconfigure the coalition that supported his government. Following a failed armed uprising in September, 1947, Somoza looked for a rapprochement with the Conservative oligarchs of Granada (Walter 1993: 238). In February 1948, he reached an accommodating, power-sharing deal with the moderate wing of the Conservative Party, who gained governmental participation in the government of Román y Reyes, in the Congress and in the Judiciary, as well as in the boards of some public enterprises. In addition, Somoza decreed a general political amnesty (Walter 1993: 172, 173).

The agreement served Somoza to accommodate a part of the political opposition, but a large number of Conservatives still opposed the dictator. Somoza then convinced General Emiliano Chamorro, the main figure behind conservative opposition to the regime, to agree on a power-sharing deal (Díaz 2002: 168). After years of opposing the dictator, Chamorro signed a pact with Somoza during the electoral campaign of 1950. The agreed on celebrating presidential elections and calling yet another Constitutional Assembly (the third since 1939)--granting the Conservatives a third of the seats. Somoza also offered the Conservatives a third of the posts in the new administration, as well as fixed representation in the other government branches (Solaún 2005: 50).

In what later would be known as the “Pact of the Generals”, Somoza finally managed to neutralize the Conservative leadership in April 1950, “thereby binding the oligarchy within a dominant bloc controlled by the dictator” (Dunkerley 1988: 124). Significantly, the pact was preceded by a business deal: a few days before signing it the dictator and Chamorro had become respectively President and Vice-president of the biggest milk-processing facility in Nicaragua (Walter 1993: 275 footnote 37). A new Constitution was enacted and general elections took place on May 21st 1950. Somoza, who was acting as interim president because of the sudden death of Román y Reyes on May 7th, officially received the Presidential shahs in May 1951 (Millet 1977: 345).

Freedom of commerce

Chamorro only subscribed the pact after receiving a promise on the part of the dictator that the regime would secure "freedom of commerce and guarantees for particular interests" (Wheelock 1980: 157). In practice, that plight meant that henceforth Somoza would share the benefits of economic growth with rival economic elites (Torres-Rivas 1983: 131). Thus, according to Bulmer-Thomas, the basis of the survival of the Somoza dynasty was set, for "the 1950 pact finally resolved the division of labour between the Somoza family and the traditional elite and ensured the latter's support for the regime for the next twenty years" (Bulmer-Thomas 1990: 339).

Although Somoza continued intervening on imports and foreign exchange transactions, he did agree to end his monopoly on banking and credit. Coffee producers benefited from credit lines, a further devaluation of the Córdoba and increasing prices in international markets. After 1950 Somoza instructed the National Bank to implement an active credit policy to promote exports and agricultural diversification. Chief among these ventures was the cultivation of cotton.

Until 1949 cotton had been a marginal crop in the exports profile of Nicaragua. However, the Korean War distorted international prices for the crop, which doubled between 1950 and 1951. Nicaraguan cotton growers seized the opportunity to expand production, and cotton exports increased from about ten thousand quintals a year to one million quintal between 1950 and 1955 (IBRD 1960: 3). By 1955 cotton had already displaced coffee as the main Nicaraguan export.

The loans provided were plentiful. Outstanding debts to the National bank quadrupled in a four years period (IBRD 1973: 25). Together, cotton and coffee accounted for about 80% of the crop loans authorized by the National Bank between 1951 and 1955 (IBRD 1973a: Table 7.9). Remarkably, in the case of cotton the National Bank provided loans to cover up to 80% of total production costs, which were repayable upon the harvesting and sale of cotton (IBRD 1955: 3-4). In addition, the National Bank implemented import programmes for machinery and agro-chemicals necessary to increase the productivity of cotton yields.

Strong, diversified exports allowed economic groups other than traditional coffee exporters to thrive, providing financial surpluses that fuelled an expansion in industry and commerce (IBRD 1955: 2). Hence, the period 1949-1955 was one of great economic success after three decades of near economic stagnation.

Notably, the economic expansion also propitiated the growth of finance. As part of his new "freedom of commerce" approach, Somoza authorized prominent Conservative families to found a commercial bank, the *Banco de América* (BANAMER) in July 1952. According to Wheelock, the surnames of the "Conservative bank" founders included prominent families in the orbit of Granada's oligarchy traditionally involved in cattle-raising, commerce and import-exports activities, as well as sugar and alcohol production (Wheelock 1980: 156; Strachan 1976: 8-9).

About a year later, a group of notables involved in the cotton business founded another private bank in the city of Leon, the *Banco de Nicaragua* (BANIC). The "Liberal bank", as the BANIC would be informally known, initially concentrated in cotton activities (IBRD 1958: 5). But when Somoza lifted restrictions on bank activities a few years later, the new banks became the nuclei of extensive business conglomerates with investments in agro-exports, finance, commerce, construction and manufacturing.

The 1950 pact fundamentally changed the political economy of Nicaragua. By the 1960s it was possible to clearly identify three main economic groups in the country: the BANAMER, BANIC and Somoza groups (Strachan 1976; Wheelock 1980: 146-176). While the latter had privileged political access and continued to enjoy special treatment from public banks, private banking allowed traditional elites to benefit from economic growth, hence reducing political confrontation with the dictator.

The economic progress of Nicaragua also benefited from the dismantling and repression of workers organizations on the part or the Somoza regime. Producers were allowed to blatantly ignoring the enforcement of the 1945 Labour Code. Moreover, in contrast to the case of Guatemala, in Nicaragua there was no discussion of an Agrarian Reform nor minimum wages (Bulmer-Thomas 1990: 340; Solaún 2005: 56).

Taxing the bonanza

Nicaraguan state finances had suffered considerably since the early 1940s, mostly as a consequence of the distortions the Second World War brought to international markets. The fiscal balance of the government had been negative during the entire decade, with the National Bank financing most deficit spending (IBRD 1951: 9). Lending at home was hard for the government, mainly because of the distrust of Nicaraguan elites, of which the IBRD argued "it is impossible to sell them government bonds" (IBRD 1958: 6).

As a result of financial constraints, public investment was low and expenditures were limited to administration and defence. By 1950 the *Guardia's* budget, including the military, police and aviation forces, "the largest and best equipped in Central America", still exceeded 30% of total government disbursements (IBRD 1951: 10). Somoza had been reluctant to introduce any major tax reform through the 1940s. Minor changes included mild shifts in tax rates or adding surcharges top of existing taxes to finance specific expenses like a new National Stadium, a hospital, or "public improvements" of sorts. By 1950, tariffs were still parcel of the American General Collector of Customs, and Somoza rejected increasing taxes to exporters.

The disposition of Somoza to reforming tax laws changed following the 1950 pact. A positive economic cycle had begun for Nicaraguan exports after 1949 and the economy was showing signs of strength. In October 1950 the government introduced a US 3.00 tax on coffee exports, earmarking its yields for the construction of a road. Along with the new tax, Somoza introduced a head tax (*Impuesto proletario*), to be paid by each male Nicaraguan between 21 and 60 years. The personal tax was a total failure, but the tax on coffee actually made the share of export taxes increase from 3.3 % to 8.8% of total taxes between 1950 and 1951 (Garvy 1952: 23).

The tax on coffee exports was supplemented in late 1951 with a more ambitious tax on the net profits of coffee and cotton producers (IBRD 1953: 77-78). Coffee profits had increased from C11 million to C80 million between 1949 and 1951, but in the end the profits tax only reported the equivalent to 1% of government revenues (IBRD 1953: 78; IBRD 1955: Table 8).

Like neighbouring countries, at about 1950 Nicaragua began receiving the visit of experts sent by recently-created international organizations promoting institutional modernization and a more activist role of the state in the economy. As a result of an explicit request from the Nicaraguan Government, a permanent IBRD mission was installed in Nicaragua in June 1951 to produce a "Five-year General Program for Economic Development" (IBRD 1953). The plan devised a comprehensive set of policies including a through restructuring of the public sector and an overhauling of its planning and fiscal practices.

The IBRD mission provided Somoza with a detailed set of recommendations to fundamentally reform the tax system. The special fiscal advisor of the mission produced a study of the Nicaraguan tax system noting the "absence of any progressive features", as it relied disproportionally on excises and import duties whose burden was "undoubtedly" passed on to final consumers (Garvy 1952: 3). The study found "no evidence of a systematic effort to obtain revenue from individuals or businesses which, in spite of recent substantial rises in income, have remained almost entirely exempt from taxation" (Garvy 1952: 3-4). Large agricultural producers and cattlemen, who received the lion's share of the national income, were mostly subject only to the nominal, ineffective property tax. The existing tax on the gross sales of major merchants was also largely evaded, and the contribution of business taxes to total taxes was negligible. Even though agricultural land was the main source of the national income, property taxation was insignificant (Garvy 1952: 19, 20). For Garvy, the tax system had become an "obstacle to the economic development of the country" (Garvy 1952: 22).

The IBRD recommended a through reform of tax administration, enacting a Tax Code and bringing customs back to the control of the government. It also suggested a review of the tariff (unchanged since 1918) to include products and services not on the original list; simplifying the tax system by eliminating low-yielding excises; eliminating the "most oppressive consumption taxes" which hurt lower income families; reforming the property tax by increasing rates and changing assessment methods; and, last but not least, introducing a personal and corporate income tax, "the foundation stone of all modern tax systems" (Garvy 1952: 8-11).

As it happened, Somoza ignored most of the recommendations of Garvy except for updating the tariff and introducing an income tax in 1952 (IBDR 1955: 6). Significantly, the new tax allowed farmers to deduct profits invested in agricultural and industrial activities. The income tax provided new revenues to the Treasury in the following years, but these paled when compared with the gains of taxes on external trade (IBDR 1955: 6). If by its second year (1955), income taxes provided the Treasury about C16 million and import taxes contributed C108.6 million.

Booming agricultural exports provided the necessary resources to finance public expenditures, thus reducing the urgency of deeply reforming the tax system (IBDR 1955: 6; Comisión Fiscal 1962: 2). By 1956, the lion's share of taxes were paid by consumers, who were the final bearers of the burden of import taxes (58.6% of total taxes) and excises (16.6%). The regressive bias of the tax system had decreased thanks to the addition of the income tax and, after 1955, an additional tax on coffee exports taking advantage of good international prices. The share of direct taxes (property and income tax collections) increased from about 3.3% of total taxes before 1952 to about 10% by 1956. The coffee export tax contributed 7% of total tax revenues during 1956. Government revenues increased fourfold between 1950 and 1956.

Flourishing public revenues allowed Somoza to make important infrastructural works. Substantial resources were invested in building roads and electric power facilities, as well in doubling the capacity of the main port of the country. According to a 1960 IBRD report, during the 1950s the length of "all-weather" roads had increased from 330 to 1150 kilometres, while paved roads increased from 150 to 550 km. Similarly, the generating capacity of the public electricity companies jumped from 8MW 48MW over a ten-year period. Between 1951 and 1955, the government was even able to accumulate substantial savings at the National Bank (IBRD 1960: 9).

Somoza emerged from the crisis of the late 1940s as the undisputable national caudillo, with no rivals at sight and having incorporated the Conservative opposition to the ruling coalition. Confident about the strength of his regime, he announced that he was ready to concur to general elections in 1957. However, Somoza's re-election plans would be suddenly brought to an end on September 20th 1956. A young Nicaraguan student, Rigoberto López, shot the dictator during the official launch of his campaign at the city of Leon. The caudillo was immediately dispatched to Panama to be treated by American specialists sent expressly by US President Dwight Eisenhower. Somoza died nine days after the attack, but his regime outlived him.

An ordered succession

There was no power vacuum in the immediate aftermath of the attack. The heirs of Somoza, Luis and Anastasio, took their father place within days after the shooting. Thirty-four year old Luis Somoza was appointed by the National Congress to finish the Presidential term of the death patriarch, and the Liberal Party acclaimed him as its presidential candidate for the incoming elections. His younger brother, Anastasio Somoza Debayle, was confirmed as the Head of the Guardia.

According to Chamorro, after 1956 the regime became bi-cephalous (Chamorro 1957: 232-234). The division of labour seemed natural to Nicaraguan observers. Luis had long assumed a political profile, leading the Liberal Party and acting as the president of the National Congress between 1952 and 1956. The temperamental Anastasio, by contrast, was more of a Guardia man. While the first had studied engineering at a US university, the latter was a West Point graduate named General Army Inspector at age 21, chief of the National Military Academy at 23, and Chief Director of the National Guard at age 32 (Torres-Rivas 1983: 142).

From the very night of the attack, Anastasio launched a broad terror campaign targeting prominent political opponents. He also declared the Martial Law and kept it for the entire duration of the presidential term of his brother (Rouquié 1987: 266; Walter 1993: 235). He also proceeded to purge the Guardia officialdom of potential rivals (Chamorro 1957: 235; Millet 1977: 358). The two brothers framed their security policies as a part of the "continental struggle against communism" led by the US. They both became ardent anti-Cubans after Fidel Castro deposed Dictator Fulgencio Batista in 1959. Anticommunism also served to galvanize support to the regime from reactionary economic elites. Like in Guatemala, the targeting of prominent members of the progressive opposition precluded "any fundamental change in the social and economic structures of the nation" in the long term (Millet 1977: 393).

The Somoza brothers also manoeuvred to maintain the support of domestic economic elites. The death of the dictator coincided with the beginning a period of decline for Nicaraguan exports. Cotton and coffee exports slowed after 1956, and economic growth declined from an annual rate of 6% between 1950 and 1955, to just about 2% between 1956 and 1959 (IBDR 1960: 3). Luis Somoza increased the exchange rate for cotton growers, created a "cotton pool" to secure higher prices for Nicaraguan producers and, after 1957, granted direct subsidies to the sector (IBRD 1960: 3). Despite the fact that up to 50% of the Bank's agricultural portfolio was delinquent by 1959, Luis Somoza continued providing generous credit lines to cotton producers (IBRD 1960: 12-13). Crucially, Luis Somoza also reformed the export tax to reduce the burden paid by coffee exporters and raised the exchange rate applicable to the sector (IBDR 1960: 3, 8; IBRD 1973: 69).

Luis "*el Bueno*"

Luis Somoza took a more open approach to politics during his six-year presidential term. He released political prisoners and gradually relaxed the strict press censorship that had followed his father's death, enacting a "Law of freedom of expression" in 1960 (Crawley 1979: 125). In a sharp departure from the policies of his father, and against the opinion of his brother Anastasio, Luis Somoza also ordered a twenty percent reduction in the *Guardia's* budget. Remarkably, Luis also expressed his determination to end direct family rule over the country, delegating government affairs in the official party (Crawley 1979: 125). His regime, he declared, was deemed to be a transitional one towards democratic rule (Solaún 2005: 55). Notably, in what may be interpreted as an effort to curb his brother's political aspirations, Luis Somoza banned blood relatives of the President to run in presidential elections (Millet 1977: 352).

Luis Somoza also introduced important social reforms in areas long neglected by his father. These included founding a Social Security Institute in 1957 and, in the context of the launch of Kennedy's Alliance for Progress, a Law of Minimum Wages—the first in the history of the country. These measures were followed by a non-confiscatory law of Agrarian Reform and the founding of an Agrarian Institute. Although the real benefits these measures brought to the masses are debatable, the very fact that were introduced marked a departure from the policies followed by the founder of the dynasty and were interpreted as an attempt to reduce potential political unrest brought about by economic hardship (Chamorro 1983: 256-257).

The economic slowdown after 1955 had reduced public revenues, mostly because of a fall in the yields of both import and consumption taxes. The government used reserves accumulated during the expansive years to finance the large public deficits incurred during all fiscal years between 1955 and 1961. When reserves were exhausted, the government began borrowing from the National Bank, cutting expenses and increasing taxes.

The tax reforms introduced by Luis Somoza were less driven by political considerations and targeted taxpayers of all capacities. In 1959 the government introduced customs surcharges of five, ten and fifteen percent on semi-essential and non-essential imports, a tax on air tickets and a rise in consular fees. The income tax top rate was also raised from 18% to 30% and a new tax on coffee exports was introduced in 1960 (IBRD 1960: 10-11). In April 1961 the turn was for the tax on beer, which was increased from US$ 0.20 to US$ 0.60 per litter, followed by a rise to the tax on the retail sale of cigarettes from 36 to 42 percentage points (Comisión Fiscal 1962: 49).

In 1961 Luis Somoza commissioned an inter-ministerial group to produce a report with confidential recommendations to reform the tax system. With technical assistance of the International Monetary Fund, the 1962 report echoed the conclusions Garvy had presented a decade before, depicting the tax system as old-fashioned (it included taxes enacted during colonial times); unfair (most of the burden fell on consumers through consumption and import taxes); inefficient (it lacked adequate mechanisms to collecting taxes); and inelastic (it was highly dependent on exports) (Comisión Fiscal 1962).

The report went on to criticize the early decision to abolish taxes on exports of coffee and cotton, despite the weight of these crops in the gross national product, as well as the inadequate design of the income tax and the minimal contribution of property taxation. Key recommendations were increasing the burden on high income groups, simplifying the tax; coding the tax laws and modernizing the government's fiscal administration (Comisión Fiscal, 1962). Other recommendations were substituting the 1939 tax on capital for two different taxes, one for real estate and other for movable capital. Remarkably, the commission also recommended to introduce a five-year break in income tax payments for coffee, cotton, cattle and lumber producers, setting instead new ad-valorem export duties on each (i.e. taxes that rise and fall depending on the export price). Finally, the commission recommended to simplify the law on stamp taxes (Comisión Fiscal 1962: 67-70).

Luis Somoza complied with some of the most important recommendations of the Commission. He replaced the uniform tax on capital with two separate taxes, one for real estate and other for movable capital. He also enacted the first Tax Code in Nicaragua. But the most important measure came in January 1962 in the form of an executive decree introducing three-percent retentions on the proceeds of the main export crops, to be credited to the final income tax liabilities of the (IBRD 1962: 7). The measure turned out to be largely irrelevant in terms of revenue, but it increased the number of taxpayers and improved the administration of the tax (IBRD, 1968). Finally, additional consumption taxes were imposed on sugar and cement.

The tax reforms enacted by Luis Somoza were relatively successful. Between 1961 and 1963 the Nicaraguan tax burden increased from 8.9 to 10.6 as percentage of GDP. However, the Nicaraguan tax structure remained severely biased towards regressive taxes, with import and consumption taxes still accounting for 82% of total revenues (OAS-IADB 1967).

The trustworthy René Schick (1963-1967)

Luis Somoza called for elections in 1963 and was succeeded at the office by René Schick, a former personal secretary of his father and a prominent member of the Liberal Party. The Presidential candidacy of Anastasio Somoza Debayle was openly rejected by President John F. Kennedy, and thus Somoza offered the Liberal ticket to Schick, who won the elections by a landslide (Crawley 1979: 129; Rouquié 1987: 268). Schick gave continuity of the policies of Luis, cultivating harmonious relations with the main economic groups in the country.

Schick benefited from the renewed impulse cotton exports gave to the national economy. Between 1961 and 1965, the Nicaraguan economy grew at an annual rate of 8%--the highest in Latin America. Cotton-growers quadrupled their output between 1961 and 1965 and helped unleashing a new economic boom which lasted until 1966. Policies of industrial promotion strengthened national manufactures and fuelled an expansion in domestic consumption. Emerging industrialists benefited from preferential credit, tax breaks and special tariffs (Strachan 1976: 10-11). Needless to say, the Somoza Group also used industrial incentives and regional integration instruments to advance their own industrial ventures (Wheelock 1980: 171-172).

Government revenues reflected the buoyant economic situation. Between 1961 and 1966 tax revenues almost doubled, passing from C.234 million to C.421.7 million. The contribution of indirect taxes grew by a full percentage point of GDP, with consumption taxes increasing from C.47 million in 1961 to C.131.7 million in 1966. Although the yields of the taxes applied on imports also increased from C.136 million to C.169 million during the same period, their relevance in total taxes began a steady decline after 1965. Part of the lost duties was substituted by domestic consumption taxes.

Schick was less active than Luis Somoza in reforming the tax system. In March 1964 a presidential decree extended the validity of the 3 percent withholding tax to agricultural exports, (OAS-IADB 1967: 16). Despite the government's efforts, the problem of widespread evasion continued largely unresolved, and by 1966 agricultural producers and cattle raisers still contributed with a mere 4.9 percent of total income tax collections, as compared with commerce (39.2), manufacturing (16.7) and mining (33.6) (IBRD 1973: Table 5.15). Other than that, the only important measure taken by Schick was beginning a large-scale cadastral survey to increase the yields of property taxes. The cadastre, however, was never completed.

The government of Schick passed without major frights, but the months before the 1967 elections were marked by confrontation between the Guardia and opposition groups. For the first time in years, the opposition managed to assemble a credible coalition to run against Somoza. The *Unión Nacional Opositora* (UNO), included factions of the Conservative and Liberal parties, as well as other small political groups. The UNO launched its campaign in an increasingly charged political atmosphere (Crawley 1979: 133). Violence peaked in January, 1966, when the Guardia massacred hundreds of participants in a demonstration that gathered forty-thousand people in Managua (Millet 1977: 366). Despite the massacre, presidential elections took place in February 1967. Anastasio Somoza Debayle defeated the opposition candidate with 70% of the votes amid allegations of fraud.

Breaking a ruling coalition

Anastasio Somoza Debayle ruled Nicaragua between 1967 and 1979. The early death of Luis Somoza in April 1967 left the control of the Liberal Party in the hands of the incoming president, who also maintained his personal control over the Guardia for the entire duration of his rule (Medina 2009: 56-57). Anastasio also benefited from cosy relations with the US government, whose support to the Central American dictator increased after Richard Nixon was sworn as US President in January 1969.

The seams of the coalition supporting the regime were not as tight as before. Factions among the Liberal Party soon began airing their will to revive Luis Somoza's line about institutionalizing party control of government as an alternative to dynastic rule (Crawley 1979: 145). A large number of members of the Conservative Party became politically active and mobilized against Somoza during the electoral campaign.

Facing increasing opposition, Somoza attempted to build support among the opposition by offering the Conservative Party a power-sharing deal. Like in the *Pacto de los Generales*, the Conservatives were offered a third of the seats at the Supreme Court and at the boards of each Ministry and Autonomous Agency, as well as in other government bodies. A Constitutional Assembly was programmed to be called 1972, with a third of the seats already allocated to the Conservatives. Like his father twenty years before, Somoza pledged not to seek for re-election, ceding the stage to the main political parties (Crawley 1979: 145-147). The Conservatives signed the agreement in November 1970.

The main private sector groups were suspicious of the intentions of Somoza, who was active in improving the financial position of the family. During the 1970s the Somoza group further expanded its investments in agriculture, manufacturing, construction and finance. The group produced export commodities on their vast lands, which were said to occupy an area about equal in size to neighbouring El Salvador. They also dominated meat exports, enjoyed a monopoly in the production of alcohol and were major players in sugar production. By the end of the decade, the Somoza family owed the twenty-six largest industrial companies in the country and had shares in about 120 corporations. The Somoza group also owned the Nicaraguan shipping line and airline, and were the local concessionaries of Mercedes Benz, the main government provider of motor vehicles.

Estimates of the Somozas' wealth varied between US$ 400 million and US$600 million (Crawley 1979: 141-142; Wheelock 1980: 163-176: Rouquie 1984: 261-262). As Wheelock put it, at the time there was "not a single branch of economic activity where the group does not hold important interests, and even in fields previously exclusive for BANIC and BANAMER, the group has deeply penetrated, threatening the stability of its competitors" (Wheelock 1980: 174).

If Schick had benefited from good general economic conditions, the government of

Anastasio Somoza coincided with a new economic downturn. After 1966, the main agricultural exports were hit by weakening markets, unfavourable weather and disease. Cotton was particularly affected, as its share of total exports declined from 60% to 20% between 1966 and 1970. As it had happened before, weak exports initiated a downward spiral in the whole economy, and the government incurred in deficit spending after 1966.

At the beginning Somoza tried to resolve the fiscal hardship being careful not to hurt the interests of business groups. He borrowed abroad at short and medium terms and introduced a 5$ sales tax on specific products and substantial changes in consumption and import taxes. The tax changes failed to substantially increase the government revenues. Thus, in May 1970 Somoza ordered changing the 5% specific tax for a general sales tax. The tax exempted products of "first necessity" and services, and was to be paid by retailers with annual sales above C.420, 000. The new tax did not substitute the other existing sales and excises taxes and together contributed to increase tax revenues from C.487 million to C.631 million between 1969 and 1971.

"The world's greediest ruler"

The Congress dissolved itself in May 1972 and a Constituent Assembly was elected to draft a new constitution (with two thirds of the seats assigned *ex ante* to the Liberal Party). Meanwhile, Anastasio Somoza officially handed over the Executive to a bipartisan Triumvirate which included a Conservative Party leader and two Liberal Party representatives. Officially, Somoza only retained the direction of the *Guardia* (Crawley 1979: 147). In practice, thanks to the Liberal Party's majority in both the Executive and Legislative, the dictator managed to keep direct control over the political process. Somoza even continued representing Nicaragua in official meetings (Millet 1977: 371).

The triumvirate was supposed to rule between May 1972 and December 1974, when new elections would be called under the new constitutional order. But then an unexpected exogenous shock took place that shifted the prevailing political equilibrium. A devastating earthquake hit the city of Managua in December 1972. With a toll of 10,000 deaths, half a million people left homeless and widespread destruction at the city centre, Somoza found a good excuse to end the political masquerade. He sat himself at the front of a National Emergency Committee and acquired emergency Executive Powers. With Somoza personally commanding reconstruction, the bipartisan Triumvirate became irrelevant.

The earthquake was a historical turning point because it eroded the alliance of Somoza with the main economic groups of the country. The dictator took advantage of his position at the Emergency Committee to divest emergency funds to his own business. Instead of sharing reconstruction funds with the other groups in the private sector, Somoza channelled most of the international help to his enterprises involved in the production and distribution of raw materials, machinery, planning and construction of houses and public infrastructure

(Wheelock 1980: 174-175). Reconstruction also opened ample opportunities for graft and corruption on the part of Guardia members, alienating significant groups of the population which had generally been tolerant of the dynasty (Chamorro 1983; Solaún 2005).

The size of the business was massive. A World Bank report estimated the total flow of funds aimed to reconstruction in 1973 and 1974 in the neighbourhood of C2.5 billion, more than twice the annual tax revenues for 1974 (World Bank 1975: 4). About 90% of the money needed for reconstruction was obtained from foreign sources, including official aid and onerous credits from commercial banks in the US (World Bank 1975: 4). The remaining ten percent was acquired via emergency taxes.

Following the earthquake Somoza decreed an emergency exports tax of 10 percent and a tax on wages of public servants equivalent to a monthly salary. According to the IBRD, the choice of taxes was due to its easy enforceability. The workers tax was modified in 1974 to exclude lower wage earners. But the export tax directly affected the profits of agro-exporters. The contribution of export taxes rose from C4.5 million in 1972 to C131.4 million in 1974. The tax would be abolished after 1974, bringing the share of export taxes to total taxes back to pre-earthquake levels (C.6.9 million).

Targeting the mighty agro-exporters was consequential for the survival of the dictatorship, for it opened a major fissure among the members of the coalition that had sustained the regime since the 1950s (Crawley 1979: 148-150; Bulmer-Thomas 1990: 348; Millet 1977: 393; Wheelock 1980). According to Rouquié, "from then on the bourgeoisie joined the opposition; the dynasty no longer guaranteed the overall interests of the propertied classes. […] the family became isolated" (Rouquié 1987: 263).

The general economic outlook had improved after 1970, and the stimulus provided by reconstruction activities, coupled with a further expansion of export agriculture, led to a rate of economic growth above 6% between 1972 and 1977 (World Bank 1978: 3-4). However, in 1974 business representatives called a National convention in Managua to discuss the situation of the country. The convention gathered prominent members among the industrial and merchant elites, who, for the first time, "sat openly to talk about politics" (Chamorro 1983: 264). Both the BANIC and the BANAMER groups, along with the recently founded Council of Private Enterprises, began publicly accusing the Somoza family of unfair competition (Bulmer-Thomas 1990: 348; Crawley 1979: 150).

Political opposition became active again when Somoza made it apparent that he would run at the 1974 presidential elections. Prominent opposition leaders formed a new coalition, the Democratic Liberation Union (UDEL), which included a wide spectrum of political parties, as well as groups from the bourgeoisie, middle classes and popular sectors. Even the traditionally accommodating Catholic Church, which had long supported the regime, condemned the intentions of Somoza and backed UDEL (Millet 1977: 372; Chamorro

1983: 259-265).

Social unrest was also in the rise, especially as new organizations of workers emerged in urban areas and among rural workers linked to export agriculture (Bulmer-Thomas 1990: 348). Somoza's armed opposition, represented by a growing Marxist guerrilla (*Frente Sandinista de Liberación Nacional,* FSLN), recruited people from different social origins which included disaffected members of some prominent oligarchic families (Crawley 1979: 150).

None of this deterred Anastasio Somoza. A new Constituent Assembly was formed in early 1974 to enact a new Constitution and call for elections in September 1974. The new constitution banned direct re-election, but that provision left Anastasio unaffected as it was the Triumvirate which formally wielded power. In order to overcome the constitutional veto for active military, he temporarily quit from his headship of the *Guardia* a few weeks before elections, to resume full control as "Supreme Chief of the Armed Forces" after winning elections. Somoza was sworn as constitutional president of Nicaragua in December 1974, this time for the period 1975-1981.

Just a few weeks before the installation of Anastasio at the presidency, a new tax package was introduced to compensate for the revenue losses produced by the expiry of the emergency taxes. The reform involved both indirect and direct taxes. It eliminated consumption taxes on non-essential products and substituted it for a single-stage tax to be collected at the importer or manufacturer level. Besides, the rate of the general sales tax was increased from 5 to 6 percent, extending its application to luxury services and commodities which were previously excluded (World Bank 1975: 12).

The reformed taxes also included income and property taxes. Both the lower and top brackets of the income tax were increased (from 4 to 6 and from 20 to 30 percentage points respectively). The rates due to property taxes were augmented from 0.5 to 1 percentage point and the assessment methods changed. However, weak tax administration precluded substantial revenue gains from these new measures (World Bank 1978: 16).

A 1978 World Bank report argued that weak tax administration still was at the core of Nicaragua's fiscal problems. The tax authorities lacked any effective system for periodical revaluation of assets for levying property taxes, and overly-generous and arbitrary tax exemptions for industries seriously eroded income and import taxes. Besides, there were indications about extensive tax evasion, partly due to inadequate staffing of the revenue authorities and to the lack of effective mechanisms to enforce the collection of income taxes (World Bank 1978: 23).

Although it soon become evident that the 1974 package failed to compensate for the elimination of the 10% exports tax, henceforth Somoza would not attempt to seriously reforming the tax code. Increasingly isolated, he would instead choose to take the expedite way of contracting debt at foreign markets.

The coalition falls apart

The new presidential period of Anastasio began with a major blow by the Sandinistas, who managed to take captive a group of Nicaraguam notables during a dinner in Managua. After ceding to the Sandinista demands (hostages included the Nicaraguan ambassador to the US and other ministers, businessmen and Somoza relatives), the dictator decreed a state of siege which lasted for the rest of his term, introduced press censorship, set up military tribunals and began a widespread repression campaign (Crawley 1975: 151-152; Chamorro 1983: 266-267). Somoza also continued investing substantial resources into the Guardia, which saw its membership increase from 7000 to 13000 members between 1974 and 1978 (Chamorro 1983: 266).

Henceforth, the political situation would only worsen, as the *Guardia* began a scorched-earth campaign which lead to widespread human-rights violations across the country. As a side effect, political opposition to the regime was strengthened, especially through the growingly vocal UDEL (Crawley 1979: 155).

Increasing political repression was accompanied by failed attempts to broaden the support basis of the regime (Wheelock 1980: 138-139). In 1975 Somoza founded the Institute of National Rural Welfare (INBIERNO) to provide credit to small farmers. Although the financial effort required to implementing INBIERNO was not carried by the treasury but by external donors, its founding came as a genuine reorientation of agriculture policies: up until then all state efforts had been directed to aid big and medium landowners involved in export agriculture (World Bank 1978: i, ii). By 1978 it was estimated that about 7500 small farmers had received credit from the program.

The economic situation worsened in 1977. The share of taxes as percentage of GDP had been falling since 1974. Public deficits had increased from 3.5 to 6.5% of GDP between 1974 and 1977, but the government was reluctant to reform taxes. Instead, the government financed deficit spending by acquiring debt abroad at commercial private sources. By 1977 the size of public external debt was already higher than during the reconstruction years of 1973, 1974 (World Bank 1978: 16-17). The direct cost of servicing external debt increased from 9% to 18% of total public revenues between 1972 and 1977 (World Bank 1978: iii, iv).

Anastasio Somoza seemed increasingly unable to deter the insurgent operations of the Sandinistas, who launched a countrywide offensive on October 1977. Soon afterwards, the Sandinistas issued a call to the formation of a “broad Anti-Somoza front”. A group of notables from different social origins signed a manifesto (*the document of the 12*) calling for an interclass alliance and demanding the resignation of the dictator. The new group was galvanized by the murdering of a prominent anti-Somoza journalist, Pedro Joaquin

Chamorro, in January 1978. A broad opposition front (*Frente Amplio de Oposición*, FAO) was announced and a general strike called by business groups to boycott the Somoza regime.

Despite the economic hardship, Somoza was reluctant to introduce any changes on the tax on coffee exports to take a share of the windfall gains produced by a 1976-1977 boom in international coffee prices (World Bank 1978: 22). The value of Nicaraguan coffee exports rose from US 48.1 million in 1975 to US119.4 million in 1976 and US198.8 in 1977. While other countries in the region increased the tax burden by taxing the windfall gains of coffee exporters, the contribution of taxes to the Nicaraguan economy actually declined.

The private sector became vocal when Somoza proposed new tax reforms in May 1978. Notable among the proposals was a change in the assessment of agricultural property, so that the potential productivity of the land was to be taken into account during valuations (World Bank 1978: 7). The private sector boycotted the taxes and the government pulled out. Private capital began flying away from Nicaragua in massive amounts.

Facing an increasingly hostile society, Somoza pledged to leave power after ending his presidential term in 1981. Once more he attempted to strike a deal with the opposition, but this time both the Conservative Party and business organizations declined to take part in any negotiations and demanded his immediate resignation. An Organization of American States mission sent by the US to mediate failed to find a settlement.

Crawley summarizes the situation at the end of the Somoza regime as as follows:

> "Somoza, already perhaps the wealthiest man in Central America, had allowed his insatiable greed to alienate the support he once enjoyed among the Nicaraguan moneyed classes, and his lust for power had pushed even the most accommodating of his political adversaries into an alliance with a left-wing revolutionary organizations. Not even the Somozas' very own 'constituency', the 8,000-strong Guardia Nacional, remained an entirely trustworthy ally" (Crawley 1979: 166).

Indeed, in August 1978 Anastasio had crushed a *Guardia* mutiny that involved some twelve senior *Guardia* officers and about 200 men (Crawley 1979: 164). A further humiliating moment arrived in August 1978, after a Sandinista commando spectacularly assaulted Managua's National Palace capturing 1500 hostages. Captives included all Members of the Congress, some Ministers and a number of relatives of the Somoza. The dictator was forced to concede to the demands of the Sandinistas, whose membership increased by the thousands.

By late 1978, Somoza's control over the country was largely at doubt. Except for the Guard and hard-core loyalists among the Liberal Party, Anastasio was basically isolated. In May 1979 the Sandinistas famously launched their "final offensive", bringing about a general insurrection that culminated with their victorious march over Managua on the 19th of July. The total toll of the war was set around the thirty thousand casualties.

As theories of political survival predict, the fall of the leader only took place after key members of her winning coalition abandoned the regime in favour of a credible challenger. The price paid for getting rid of the Somoza regime was a ravaged economy in which GDP fell by 26.4 per cent in 1979 (on top of a decline of 7.8 per cent in 1978). International reserves were drained out of the country, and Somoza had left a $ 1.6 billion debt. Agricultural exports were relatively undamaged by the civil war, but industry was greatly affected (Bulmer-Thomas 1990: 353; World Bank 1981).

The flight of the dictator signalled a total military victory for the broad anti-Somoza coalition, which proceeded to form a “Government of National Reconstruction”. Led by the Sandinistas, the new government pledged to endorse a mixed economic model, with an increased participation of the state in the economy. Commercial banks were expropriated and nationalized (including both BANAMER and BANIC), as were the properties of Somoza and his allies--about one fifth of all farm land in Nicaragua. New public enterprises were created, and the machinery of government was extensively reorganized. Within two years after the revolution, estimates of the share of the public sector (including General government, autonomous agencies and public enterprises) as percentage of GDP had increased from 15% to 37% (World Bank 1981: 7).

Despite the strong distortions brought about by the war, the new government managed to substantially increase tax revenues in a short period of time. Indeed, when measured in constant terms, by 1980 these had increased by about 50% in relation to the 1978 levels. Part of the new revenue gains were driven by new taxes, especially by the introduction of a number of direct, progressive ad-valorem taxes on coffee, beef, sugar, bananas and sesame exports introduced between 1979 and 1980.

Existing taxes were also subject to major reforms: low corporate income tax rates were substituted by a flat 40% rate; the annual property tax rate was increased from 1% to 2%; sales taxes were changed from the previous 6% tax on selected transactions to a 8% general sales tax; finally, excises and other levies on most alcoholic beverages were also increased (World Bank 1981: 13-14). The immediate post-revolutionary tax reforms greatly increased the yields of most taxes, although the direct-indirect tax mix remained largely unchanged.

Notably, according to the report of a 1981 World Bank mission, the rise in tax collections was also buffered by a notable change in taxpayers’ compliance in the months following the revolution. The number of persons presenting income and property tax declarations grew substantially from one year to the following. Moreover, when the government introduced a partial tax amnesty allowing delinquent tax payers to declare formerly unreported liabilities and paying half of it, the measure proved profitable.

***

4. Conclusions

Central America entered a critical historical turning point after the end of the Second World War. The displacement of old dictators and the subsequent changes in the composition of the ruling coalition allowed for the enactment of a number of long-delayed reforms. Within a decade, the institutional landscape had fundamentally changed in Guatemala, Honduras and Nicaragua. Governments entered the age of planning and new institutions were founded to carry tasks associated with the functioning of modern states, including Central Banks, Development Banks, Social Security Institutions, and an array of Ministries and specialized government bodies.

Chief among the areas in need of reform were the old-fashioned tax systems. Until 1944, the national tax burden remained below 5% of GDP in all three countries, with excises and custom duties providing the lion's share of public revenues. In Honduras and Nicaragua the Treasuries were under direct American command, while in-kind, personal exaction was still used in Guatemala to carry out public works. Despite being present in public debates since the 1930s, income taxation was avoided, and existing taxes on property and wealth were not enforced on upper-income groups.

The missions of experts sent to the region at mid-century by the new International Financial Institutions invariably pointed at weak tax administration and an unfair distribution of tax burdens as major obstacles for economic and social development. The recommendations of these experts emphasized introducing income taxation, reforming and enforcing taxes to wealth and property and targeting the yields of agricultural exports, the backbone of Central American economies at the time.

The different ways in which Central American governments reformed taxes aimed at "soaking the rich" constituted the main focus of this thesis. While Guatemala, Honduras and Nicaragua introduced reforms at roughly the same point in time and following similar policy models, the resulting outcomes varied across cases. This variation, in turn, is explained as a consequence of differences in the nature of coalitions supporting political regimes.

In Guatemala, the ousting of Jorge Ubico and the democratic election of reformist leaders in 1944 and 1950 opened room for enacting progressive tax reforms. These included property taxes, luxury taxes, a tax on export crops and an Income Tax bill, the first in the history of the country. In Honduras, the displacement of dictator Tiburcio Carías allowed for the introduction of a number of policy reforms, although with a less progressive profile than in neighbouring Guatemala. An Income Tax Law was approved in 1949, and a new tax on coffee exports allowed the government of Juan Gálvez to almost double total tax collections between 1949 and 1955. In Nicaragua, by contrast, Dictator Anastasio Somoza ignored the recommendations of foreign tax experts and used the fiscal power of the state to harass competitors and advance his own economic interests. In 1950, the dictator reached a pact with opposition groups to incorporate rival elites into the governing coalition. Although Somoza introduced the first Income Tax Law in 1952, and additional taxes on coffee exports in 1955, he tried to accommodate the interests of economic elites for the rest of his term.

Although domestic contextual factors played an important role in the timing of changes in tax laws, general outcomes seem to confirm the intuitions of the logic of political survival. Available evidence shows that narrow coalitions prevented the introduction of progressive taxation, while broad coalitions opened room for taxes aimed at increasing the burden held by upper-income groups. Changes in the nature of coalitions over time were traceable in some decisions on tax policy.

While in Guatemala a broad coalition allowed reformist governments to carry out progressive tax reforms between 1944 and 1954, a narrower coalition limited the degree to which authoritarian leaders could raise the tax burden held by upper-income groups following the counterrevolution in 1954. Military dictators shied away of "soaking the rich" through progressive taxes fearing that business opposition could threaten regime survival. Guatemalan leaders faced the opposition of a remarkably cohesive economic elite, capable of coordinating at crucial times to oppose government tax reforms in block. As a result, business elites could pose a credible threat to military leaders who needed their support to secure their own survival. The coalition fell apart when the military grew autonomous from economic elites.

By contrast, business elites in Honduras lacked the cohesiveness and strength of their Guatemalan peers. The families involved in manufacturing and commerce were generally unrelated to those involved in agriculture. Moreover, the export of bananas and fruits, the most important economic sector during the first half of the 20th century, functioned as an US enclave in Honduran territory. Thus, authoritarian political leaders were able to build support on some groups among economic elites (i.e. industrialists and merchants, with higher prominence in the North Coast) to carry their reform initiatives, in occasions at the expense of landed elites and foreign investors. Similarly, building support among social and popular organizations prevented the radicalization of politics that feed the consolidation of "reactionary despotism" in Guatemala, allowing instead for the emergence of Honduran military reformism.

In Nicaragua, the Somoza regime took advantage of the historical division of Liberal and Conservative groups. While at the beginning the regime supported the former at the expense of merchants and cattle-raisers aligned with the Conservative Party, the dictator used the access to public office to build an economic empire of his own. "Unfair competence" by the Somoza group generated opposition that threatened regime survival, which moved the dictator to include rival elites into the governing coalition after 1950. The accommodation of economic interests of traditional groups and emerging capitalists linked to cotton and sugar production secured regime stability until 1967, when the younger son of Somoza took the office. The breakdown of the equilibrium established by his father is at the root of the final demise of the regime in 1979, as renewed "unfair competence" alienated economic elites and sent prominent oligarchic families to the ranks of the opposition.

Finally, there are also important differences in the ways in which Central American rulers attempted to obtain the support of the masses. While in Guatemala, the reactionary, repressive character of military regimes limited the capacity of authoritarian leaders to build support among popular groups and social organizations, military leaders in Honduras included them in tactical alliances at specific junctures and the heirs of Somoza attempted to include workers and peasants into their coalitions by providing benefits. As theories of political survival would predict, when coalitions broadened to include labour and peasant organizations, policy-makers had a greater room of manoeuvre to introduce progressive taxation. However, the incorporation of popular groups into the regime coalition did not last long in any of the three countries, which turned instead to repression to keep social organizations at bay.

This thesis relied on both primary and secondary sources to look for observable implications of theories of political survival in the real world. While available evidence on major tax reforms allowed establishing inferences on the relation between configurations of leader-coalition and decisions on tax policy for a relatively long time-span, additional research is necessary to further confirm theory implications. First, specific research should be devoted to understand the functioning of legislatures under authoritarian regimes. While some decision on tax policy were enacted as Executive decrees, others were discussed in the National Congress. The internal working of institutions under authoritarianism may challenge the fundamental intuitions of theories of political survival. Secondly, additional research could focus on social protection policies, which also allowed leaders to provide private and public goods to the members of their supporting coalitions. Finally, subsequent research may be conducted in countries with different political economies, including those where governments benefited from rents originated in the exploitation of natural resources and strategic assets.

****

5. Bibliography

Adams, Richard Newbold. 1970. Crucifixion by Power: Essays on Guatemala National Social Structure, 1944-1966. University of Texas Press, Austin.

Adler, John H. Eugene Schlesinger and Ernest Olson. 1951. Public Finance and Economic Development in Guatemala. Stanford University Press. California.

Arancibia, Juan. 2001. Honduras: ¿Un Estado Nacional? Tercera Edición. Editorial Guaymuras. Tegucigalpa, Honduras.

Árbenz, Jacobo. 1953. “Informe del Ciudadano Presidente Coronel Jacobo Árbenz Guzmán al Congreso Nacional”. Tipografía Nacional, Guatemala.

Arévalo, José Alejandro. 2006 “Secular deficiencia fiscal” en Revista Eco. Segunda época, Año 1, No. 1. Universidad Rafael Landívar, Guatemala. Pp. 45-49

Argueta, Mario R. 2009. Ramón Villeda Morales. Luces y sombras de una primavera política. Editorial Guaymuras. Tegucigalpa, Honduras.

Baldwin, Peter. 1992. La Política de Solidaridad Social. Bases Sociales del Estado de Bienestar Europeo 1875-1975. Ministerio de Trabajo y Seguridad Social, España.

Bataillon, Gilles. 2008. Génesis de las Guerras Intestinas en América Central. Fondo de Cultura Económica, México.

Barahona, Amaru. “Intervención extranjera y dictadura”. IN: Lanuza, Alberto, Juan Luis Velásquez, Amaru Barahona y Amalia Chamorro. 1983. Economía y Sociedad en la Construcción del Estado en Nicaragua. Instituto Centroamericano de Administración Pública. Costa Rica, pp. 209-239.

Barahona, Marvin. 2005. Honduras en el Siglo XX. Una Síntesis Histórica. Editorial Guaymuras, Tegucigalpa.

Best, M.H. 1976, "Political power and tax revenues in Central America", Journal of Development Economics, vol. 3, no. 1, pp. 49-82.

Bird, R.M. 2003, Taxation in Latin America: Reflections on Sustainability and the Balance between Equity and Efficiency. Background paper, Toronto.

Black, George. 1984. Garrison Guatemala. With Milton Jamail and Stoltz Chinchilla. Zed Books, New York.

Booth, John A. and Thomas Walker. 1999. Understanding Central America. Third Edition.

Westview Press.

Borge de la Rocha, Antonio. 1966 La Administración Pública como instrumento del Desarrollo. Unión Panamericana, Washington D.C.

Brooker, Paul. 2000. Non-Democratic Regimes. Theory, Government and Politics. Series "Comparative Government and Politics". MacMillan Press, London.

Bueno de Mesquita, Bruce, Alastair Smith, Randolph M. Siverson and James D. Morrow. 2005. The Logic of Political Survival. The MIT Press, London.

Bueno de Mesquita, Bruce, James D. Morrow, Randolph Siverson and Alastair Smith, 1999. "Policy Failure and Political Survival. The Contribution of Political Institutions". Journal of Conflict Resolution. Vol. 43, No. 2.

Bulmer-Thomas, Victor. "Honduras since 1930". IN, Bethel, Leslie. 1990. The Cambridge History of Latin America. Volume VII. Latin America since 1930. México, Central America and the Caribbean. Cambridge University Press.

Bulmer-Thomas, Victor. "Nicaragua since 1930". In Bethel, Leslie, Ed. 1990. The Cambridge History of Latin America. Volume VII. Latin America since 1930. México, Central America and the Caribbean. Cambridge University Press.

Campbell, John. 1993. "The State and Fiscal Sociology". Annual Review of Sociology, Vol. 19. (1993), pp. 163-185.

Castillo Armas, Carlos. 1956. Informe del Presidente Castillo Armas al Congreso de la República. Guatemala, Tipografía Nacional.

Chamorro Cardenal, Pedro Joaquín. 1957. Estirpe Sangrienta: Los Somoza. Reprint, Managua: Fundación Violeta B. de Chamorro, 2001.

Chamorro, Amalia. 1983. "Estado y hegemonía durante el somocismo". IN: Lanuza, Alberto, Juan Luis Velásquez, Amaru Barahona y Amalia Chamorro. 1983. Economía y Sociedad en la Construcción del Estado en Nicaragua. Instituto Centroamericano de Administración Pública. Costa Rica, pp. 243-276.

Chomsky, Noam. 1984. Turning the Tide. US Intervention in Central America and the Struggle for Peace. South End Press, USA.

Collier, Ruth Berins and David Collier. Shaping the Political Arena. Critical Junctures, the Labour Market and Regime Dynamics in Latin America. Princeton University Press. New Jersey.

Comisión Fiscal. 1962. Consideraciones Relativas a la Situación Fiscal de Nicaragua y la

Necesidad de su Reforma. Informe de la Comisión Fiscal integrada por representantes del Ministerio de Hacienda y Crédito Público, de Economía, y del Banco Central de Nicaragua con la Asistencia Técnica del Fondo Monetario Internacional. Managua.

Crawley, Andrew. 2007. Somoza and Roosevelt. Good Neighbour Diplomacy in Nicaragua, 1933-1945. Oxford University Press.

Crawley, Eduardo. 1979. Dictators Never Die. A Portrait of Nicaragua and the Somoza Dynasty. Palgrave, Macmillan

D'Ans, André-Marcel. 2002. Honduras, Difícil emergencia de una nación, de un Estado. 2ª. Edición. Trad. Albert Depienne (Editions Karthala, 1997. Paris). Tegucigalpa, Honduras.

Dahl, Robert. 1971. Poliarchy. Participation and Opposition. Yale University Press. New Heaven.

Díaz Lacayo, Aldo. 2002. Gobernantes de Nicaragua (1821-1979). Guía para el estudio de sus biografías políticas. Aldilá Editor, 2ª. Edición. Managua, Nicaragua.

Dosal, Paul. 2005. El ascenso de las élites industriales en Guatemala. 1871-1944. Traducción de Ronald Flores. Editorial Piedra Santa, Guatemala.

Dunkerley, James. 1989. Power in the Isthmus: A political history of Modern Central America. London, Verso.

Dunkerley, James. 1990. "El Salvador since 1930". IN, Bethel, Leslie. 1990. The Cambridge History of Latin America. Volume VII. Latin America since 1930. México, Central America and the Caribbean. Cambridge University Press.

Ebel, Roland H. 1998. Misunderstood caudillo: Miguel Ydígoras Fuentes and the failure of democracy in Guatemala. University Press of America. Maryland. United States.

Esping-Andersen, Gösta. 1985a. "Power and Distributional Regimes". Politics & Society, Vol. 14, No. 2, 223-256

Esping-Andersen, Gösta. 1985b. Politics Against Markets. The Social Democratic Road to Power. Princeton University Press.

Esping-Andersen, Gösta. 1990. The Three Worlds of Welfare Capitalism. Princeton University Press.

Euraque, Darío. 2001. El capitalismo de San Pedro Sula y la historia política hondureña. (1870-1972). 2ª Edición. Editorial Guaymuras, Tegucigalpa, Honduras.

Evans, Peter, Dietrich Rueschmeyer and Theda Skocpol, Eds. 1985. Bringing the State Back In. Cambridge University Press.

Fuentes Knight, Juan Alberto. 2006. “Retos de la Política Fiscal en América Central”. Economic Comission for Latin America, CEPAL / Instituto Centroamericano de Estudios Fiscales, ICEFI. México.

Fuentes Mohr, Juan Alberto. 1971. Secuestro y prisión: dos casos de la violencia en Guatemala. Editorial Universitaria, Guatemala.

Fuentes Quintana, E. 1990, Las Reformas Tributarias en España: Teoría, Historia y Propuestas, 1a. edición, Editorial Crítica, Barcelona, España.

Funes, Matías. 2000. Los Deliberantes. El poder militar en Honduras. 2ª. Ed. Editorial Guaymuras. Tegucigalpa, Honduras.

Garvy, George. 1952. The Fiscal System of Nicaragua: a Report of the Advisor on Public Finance. International Bank for Reconstruction and Development Mission to Nicaragua.

Gleijeses, Piero. 1992. Shattered Hope: The Guatemalan Revolution and the United States. 1944-1954. Princeton University Press

González, Victoria. 1998. “Del feminismo al somocismo. Mujeres, sexualidad y política antes de la revolución sandinista”. Revista de Historia No. 11-12. Managua, Instituto de Historia de Nicaragua y Centroamérica.

Guerra-Borges, Alfredo. 2006. Guatemala, 60 años de Historia Económica (1944-2004). Programa de Naciones Unidas para el Desarrollo. Guatemala.

Haber, Stephen, Armando Razo and Noel Maurer. The Politics of Property Rigths. Political Instability, Credible Commitments and Economic Growth in Mexico, 1876-1929. Cambridge University Press.

Haber, Stephen. 2007. “Authoritarian Government” In The Oxford Handbook of Political Economy, Weingast, B, D. Wittmans eds. Pp. 688-711. Oxford University Press, New York.

Hall, Peter A. and Rosemary C.R. Taylor. 1996. "Political Science and the Three New Institutionalisms." Political Studies. 44(5):936-957.

Handy, Jim. 1984. Gift of the Devil. A History of Guatemala. South End Press. United States of America.

Héritier, Adrienne. 2008. “Causal Explanation”. In Approaches and Methodologies in The Social Sciences. A Pluralist Perspective. Della Porta, Donatella and Michael Keating, Eds. Cambridge University Press.

Hernández, Alcides. 2007. Del Reformismo al Ajuste Estructural. 2ª. Ed. Editorial

Guaymuras. Tegucigalpa, Honduras.

Hill, Malcom, ed. 1997. The Policy Process, A reader. Second Edition. Prentice Hall, New York.

IBRD. 1951. Nicaragua's Economic Development problem and creditworthiness. Managua/ Washington.

IBRD. 1951. The Economic Development of Guatemala. Report of a Mission sponsored by the International Bank for Reconstruction and Development in collaboration with the Government of Guatemala. International Bank for Reconstruction and Development, Washington D.C.

IBRD. 1953. The Economic Development of Nicaragua. Report of a Mission organized by the International Bank for Reconstruction and Development at the request of the Government of Nicaragua. Johns Hopkins Press. Baltimore.

IBRD. 1953. The Economic Situation of Nicaragua. W.H.-8. Restricted. Department of Operations, Western Hemisphere. International Bank for Reconstruction and Development.

IBRD. 1955. Current Economic Position and Prospects of Nicaragua. Restricted. Report No. W.H. 35-a. Department of Operations, Western Hemisphere. International Bank for Reconstruction and Development.

IBRD. 1955. The Current Economic Position and Prospects of Guatemala. RESTRICTED. Report No. W.H. 34-b. Department of Operations, Western Hemisphere. International Bank for Reconstruction and Development.

IBRD. 1957. Current economic position and prospects of Guatemala. RESTRICTED. Report No. W.H. 52a. Department of Operations, Western Hemisphere. International Bank for Reconstruction and Development.

IBRD. 1958. The Current Economic Position and Prospects of Nicaragua. Restricted. Report No. WH-66a. Department of Operations, Western Hemisphere. International Bank for Reconstruction and Development.

IBRD. 1960. Current Economic Position and Prospects of Nicaragua. Restricted. Report No. WH-99a. Department of Operations, Western Hemisphere. International Bank for Reconstruction and Development.

IBRD. 1962. Current Economic Position and Prospects of Nicaragua. Restricted. Report No. WH-118a. Department of Operations, Western Hemisphere. International Bank for Reconstruction and Development.

IBRD. 1962. Current Economic Position and Prospects of Nicaragua. Restricted. Report

No. WH135. Department of Operations, Western Hemisphere. International Bank for Reconstruction and Development.

IBRD. 1962. The Economy of Guatemala. RESTRICTED. Report No. W. H. 123b. Department of Operations, Western Hemisphere. International Bank for Reconstruction and Development.

IBRD. 1965. Current Economic Position and Prospects of Guatemala. RESTRICTED. Report No. W. H. 148. Western Hemisphere. International Bank for Reconstruction and Development.

IBRD. 1968. Current Economic Position and Prospects of Guatemala. RESTRICTED. Report No. WH-178b. Western Hemisphere Department. International Bank for Reconstruction and Development.

IBRD. 1968. Current Economic Position and Prospects of Nicaragua. Report No. W.H. -179a. Western Hemisphere Department. International Bank for Reconstruction and Development.

IBRD. 1973. Long-Term Economic Growth and Prospects of Nicaragua (in two volumes). Report No. 197a-NI. Latin America and the Caribbean Regional Office, International Bank for Reconstruction and Development.

IBRD. 1973. The Effects of the December 23 Earthquake upon the Economic Position and Prospects of Nicaragua. Report No. 139-Ni. Latin America and the Caribbean Regional Office. International Bank for Reconstruction and Development and International Development Association.

IBRD. 1973a. Long-Term Economic Growth and Prospects of Nicaragua. Volume II. Statistical appendix. Report No. 197a-NI. Latin America and the Caribbean Regional Office, International Bank for Reconstruction and Development.

ICEFI. 2007. “La Economía Política de la Tributación en América Central”. Chapter III in La Política Fiscal en la Encrucijada. El Caso de América Central. Guatemala: Instituto Centroamericano de Estudios Fiscales.

ICEFI. 2008. Historia de la Tributación en Guatemala: desde los Mayas hasta la Actualidad. Instituto Centroamericano de Estudios Fiscales. Guatemala.

Immergut, Ellen M. 2008. “Institutional Constraints on Policy”. In Moran, Michael, Martin Rein and Robert E Goodin, Eds, The Oxford Handbook of Public Policy. Oxford University Press.

Isaula, Roger. 1990. Honduras: un golpe más. Impactos de la Ley de Ordenamiento Estructural de la Economía. Editorial Guaymuras. Tegucigalpa, Honduras.

King, Gary, Robert Keohane and Sidney Verba. 1994. Designing Social Inquiry. Scientific Inference in Qualitative Research. Princeton University Press. New Jersey.

Koeble, Thomas. 1995. "Review: The New Institutionalism in Political Science and Sociology". Comparative Politics. Vol. 27, No. 2. pp. 231-243

Lafeber, Walter. 1993. Inevitable Revolutions: The United States in Central America. W.W. Norton & Company.

Lanuza, Alberto, Juan Luis Velásquez, Amaru Barahona y Amalia Chamorro. 1983. Economía y Sociedad en la Construcción del Estado en Nicaragua. Instituto Centroamericano de Administración Pública. San José, Costa Rica.

Lieberman, Evan S. 2001. "Causal Inference in Historical Institutional Analysis: A Specification of Periodization Strategies". Comparative Political Studies, 2001; 34; 1011

Lieberman, Evan S. 2002. "Taxation Data as Indicators of State-Society Relations: Possibilities and Pitfalls in Cross-National Research". Studies in Comparative International Development, Winter 2002, Vol. 36, No. 4, pp. 89-115.

Linz, Juan. 2000. Totalitarian and Authoritarian Regimes. Lynne Rienner Publishers, Boulder, Colorado.

Mahoney, James. 2001. The Legacies of Liberalism. Path Dependence and Political Regimes in Central America. The Johns Hopkins University Press. Baltimore.

Mares, Isabela and Matthew E. Carnes. 2009 (forthcoming). "Social Policy in Developing Countries" Annual Review of Political Science. (Reviews in Advance) 12:93-113.

Marti i Puig, Salvador. 2004. Tiranías, Rebeliones y Democracia. Itinerarios políticos comparados en Centroamérica. Edicions Bellaterra, Barcelona.

Marti, Werner Johannes. 1994. The Private Sector, the State and Economic Development. The Guatemalan Experience. PhD Dissertation. The University of Texas at Austin.

Martin, Isaac. 2003. Rich People's movements: Grassroots Campaigns to Untax the One Percent. Oxford Studies in Postwar American Development. Oxford University Press.

May, Margaret. 2008. "The Role of Comparative Study in Social Policy". In Alcoc, Pete, Margaret May and Karen Rowlingson, The Student's Companion to Social Policy. Third Edition. Blackwell Publishing.

McCleary, Rachel. 1999. Dictating Democracy: Guatemala and the End of Violent Revolution. University Press of Florida.

McLennan, Gregor. 1997. "The Evolution of Pluralist Theory". In Hill, Malcom, ed. 1997.

The Policy Process, A reader. Prentice Hall, New York.

McMenamin, Iain. 2006. “Process and text: teaching students to review the literature”. PS: Political Science & Politics, 39 (1). pp. 133-135.

Medina Sánchez, Fabián. 2009. Los días de Somoza. Editorial La Prensa, Managua, Nicaragua.

Menjívar, Rafael. 1982. Formación y Lucha del Proletariado Industrial Salvadoreño. San José, Costa Rica.

MHCP. 1934. Memoria de Hacienda y Crédito Público. Ministerio de Hacienda y Crédito Público. Managua, Nicaragua.

MHCP. 1941. Memoria de Hacienda y Crédito Público. Ministerio de Hacienda y Crédito Público. Managua, Nicaragua.

Millet, Richard, 1977. Guardians of the Dynasty. A History of the US-Created Guardia Nacional de Nicaragua and the Somoza Family. Orbis Books, New York. Translated by Lea Editores, Managua. 1996.

Mitchell, B.R International Historical Statistics. The Americas 1750-2000. Fifth Edition. 2003. Palgrave Macmillan

Moore, Mick. 2008. “Between Coercion and Contract: Competing Narratives on Taxation and Governance”. In Moore, Mick, Deborah Brautigam and Odd-Helge Fjeldstad, Taxation and State-Building in Developing Countries. Cambridge University Press

Morris, James A. 1984. Honduras. Caudillo Politics and Military Rulers. Westview Profiles / Nations of Contemporary Latin America. Westview Press.

Murga F., Antonio. 1977. “Estado y Burguesía Industrial en Honduras”. Revista Mexicana de Sociología. Vol. 39. No. 2. P. 595-609.

Murga, F., Antonio. 1978. Enclave y Sociedad en Honduras. Universidad Nacional Autónoma de Honduras. Tegucigalpa, Honduras.

OAS-IDB. 1967. Tax Systems of Latin America. Nicaragua. Joint Tax Program, Organization of American States, Inter-American Development Bank. Pan American Union Secretariat, OAS. Washington DC.

Olsen, Gregg M., and Julia S. O’Connor. 1998. “Introduction: Understanding the Welfare State: Power Resources Theory and its Critics”. In O’Connor, Julia and Gregg M Olsen, Eds., Power Resource Theory and the Welfare State: A Critical Approach. University of Toronto Press.

Olson, Mancur. 2000. Power and Prosperity. Outgrowing Communist and Capitalist Dictatorships. Basic Books.

Pérez Bermúdez, Carlos and Onofre Guevara. 1985. El movimiento obrero en Nicaragua (Apuntes para el conocimiento de su historia). Primera y Segunda parte. Editorial El Amanecer, Managua, Nicaragua.

Pérez Brignoli, H. 2000, Breve historia de Centroamérica, Segunda edición, Alianza Editorial, Madrid.

Peters, Guy. “Las Instituciones Políticas, Lo Viejo y lo Nuevo”. In Goodin, Robert and Hans-Dieter Klingemann, eds. 2001. Nuevo Manual de Ciencia Política. Tomo I. Ediciones Istmo, España.

Pollack, Sheldon D. 1996. “The Development of the Federal Income Tax”. In Simon, James, Ed. 2002. Taxation. Critical Perspectives on the World Economy. Routledge.

Pollock, Phillip H. 2003. The Essentials of Political Analysis. CQ Press. Washington, DC.

Posas, Mario and Rafael Del Cid. 1983. La Construcción del Sector Público y del Estado Nacional en Honduras 1976-1979. Editorial Universitaria Centroamericana. San José, Costa Rica.

Posas, Mario and Remy Fontaine. 1980. “Honduras at the crossroads”. Latin American Perspectives. Vol 7. No. 2,3. P. 45-56.

Prasad, Monica, Ajay Mehrotra and Isaac Martin, Eds. 2009. The New Fiscal Sociology. Taxation in Comparative and Historical Perspective. Cambridge University Press.

Prasad, Monica and Kimberly Morgan. 2009. "The Origins of Tax Systems. A French-American comparison". American Journal of Sociology. Vol. 11, No. 5. 1350-94.

Prasad, Monica, Ajay Mehrotra and Isaac Martin. 2007. “Taxation in Perspective”. Paper delivered at the Conference “The Thunder of History, Taxation in Comparative and Historical Perspective”. Northwestern University, 2007

Przeworski, Adam and Henry Teune. 1970. The logic of comparative social inquiry. New York: John Wiley.

RGA. 1931. Memoria del Recaudador General de Aduanas y la Alta Comisión por el período de Enero 1,1931 a Diciembre 31 de 1931. Irving A. Lindberg. Managua, 1930. IN: Lanuza, Alberto, Juan Luis Velásquez, Amaru Barahona y Amalia Chamorro. 1983. Economía y Sociedad en la Construcción del Estado en Nicaragua. Instituto Centroamericano de Administración Pública. San José, Costa Rica, pp. 187.

Robledo, Gilberto. 2009. El Gasto Militar y su Impacto en el Presupuesto del Estado. F&G editores, Guatemala.

Rouquié, Alain. 1987. "Dynasty: Nicaraguan Style". In Hamill, Hugh, Ed. 1992. Caudillos: Dictators in Spanish America. University of Oklahoma Press. Norman and London.

Schirmer, Jennifer. 1999. Intimidades del Proyecto Político de los Militares en Guatemala. Facultad Latinoamericana de Ciencias Sociales, FLACSO Guatemala.

Schneider, Aaron. 2006. "Large Processes: Historical and Structural Processes of Change." Manuscript. Institute of Development Studies, University of Sussex.

Schneider, Aaron. 2012. State Building and Tax Regimes in Central America. Cambridge University Press. New York.

Skocpol, Theda and Edwin Amenta. 1986. "States and Social Policies". Annual Review of Sociology. Vol. 12, pp. 131-157

Secretaría de Información del Gobierno, SIG. 1964. Guatemala 1963. Historia de su resurgimiento económico. Guatemala.

SEH, 1955. "Informe de las Actividades de la Secretaría de Economía y Hacienda, 1954-1955" Secretaría de Economía y Hacienda. Tegucigalpa, Honduras.

SEH, 1961. "Informe de la Secretaría de Economía y Hacienda, 1959-1960". Secretaría de Economía y Hacienda. Tegucigalpa, Honduras.

SEH, 1962. "Informe de la Secretaría de Economía y Hacienda, 1960-1961". Secretaría de Economía y Hacienda. Tegucigalpa, Honduras.

SEH, 1963. "Boletín Informativo Extraordinario No. 10. (*) Legislación" Secretaría de Economía y Hacienda, Tegucigalpa.

SEH, 1966. "Informe de la Secretaría de Economía y Hacienda, 1964-1965". Secretaría de Economía y Hacienda. Tegucigalpa, Honduras.

SEH, 1968. "Informe de la Secretaría de Economía y Hacienda, 1966-1967". Secretaría de Economía y Hacienda. Tegucigalpa, Honduras.

SEH, 1970. "Informe de la Secretaría de Economía y Hacienda, 1968-1969". Secretaría de Economía y Hacienda. Tegucigalpa, Honduras.

SEH, 1972. "Informe de la Secretaría de Economía y Hacienda, 1970-1971". Secretaría de Economía y Hacienda. Tegucigalpa, Honduras.

SEH, 1974. "Informe de la Secretaría de Economía y Hacienda, 1972-1973". Secretaría de

Economía y Hacienda. Tegucigalpa, Honduras.

SHCPC, 1946. “Intervención del Gobierno en la casa Francisco Siercke”. In Informe de Hacienda, Crédito Público y Comercio. Secretaría de Hacienda, Crédito Público y Comercio. Tegucigalpa, Honduras.

SHCPC, 1949. “Informe de la Comisión Mixta”. In Informe de Hacienda, Crédito Público y Comercio. Secretaría de Hacienda, Crédito Público y Comercio. Tegucigalpa, Honduras.

SHCPC, 1952. “Producción Rentística habida en la República de Honduras durante el Año Económico de 1950 a 1951 comparada con la del año económico de 1949 a 1950”. In Informe de Hacienda, Crédito Público y Comercio. Secretaría de Hacienda, Crédito Público y Comercio. Tegucigalpa, Honduras.

SHCPC, 1953. “F. Crédito Público”. In Informe de Hacienda, Crédito Público y Comercio. Secretaría de Hacienda, Crédito Público y Comercio. Tegucigalpa, Honduras.

Solaún, Mauricio. 2005. US intervention and regime change in Nicaragua. University of Nebraska Press. Lincoln and London.

Steinmo, Sven. 1993. Taxation and Democracy. Swedish, British and American Approaches to Financing the Modern State. Yale University Press.

Steinmo, Sven. 2003. “The Evolution of Policy Ideas: Tax Policy in the 20th Century”. British Journal of Politics and International Relations, Vol. 5, No. 2, May 2003, pp.206-236

Strachan, Harry W. 1976. Family and other business groups in Economic Development. The case of Nicaragua. Praeger Publishers, New York.

Streeter, Stephen. 2001, Managing the Counterrevolution. The United States & Guatemala, 1954-1961. Ohio University Press.

Streeter, Stephen. 2006. “Nation Building in the Land of Eternal Counter-Insurgency: Guatemala and the Contradictions of the Alliance for Progress” Third World Quarterly, Vol. 27, No. 1, pp 57 – 68,

Tarschys, Daniel. 1988. “Tributes, Tariffs, Taxes and Trade: The Changing Sources of Government Revenue” British Journal of Political Science, Vol. 18, No. 1

Torres-Rivas, Edelberto. 1983. Crisis del Poder en Centroamérica. Editorial Universitaria Centroamericana, EDUCA. Centro América.

Torres-Rivas, Edelberto. 1990. “Central America since 1930: An Overview”. IN, Bethel, Leslie. 1990. The Cambridge History of Latin America. Volume VII. Latin America since 1930. México, Central America and the Caribbean. Cambridge University Press.

Torres-Rivas, Edelberto. 2006, La piel de Centroamérica (una visión epidérmica de setenta y cinco años de su historia). Facultad Latinoamericana de Ciencias Sociales, FLACSO. Guatemala.

Urrutia, Edmundo. 2000. “Ensayo sobre la viabilidad política del Pacto Fiscal.”. Cuadernos Fiscales. Facultad Latinoamericana de Ciencias Sociales, FLACSO. Guatemala.

Valdez, Fernando and Mayra Palencia. 1998. Los dominios del poder: la encrucijada tributaria. Facultad Latinoamericana de Ciencias Sociales, FLACSO. Guatemala.

Velázquez, Juan L. “Luchas políticas y Estado oligárquico”. IN: Lanuza, Alberto, Juan Luis Velásquez, Amaru Barahona y Amalia Chamorro. 1983. Economía y Sociedad en la Construcción del Estado en Nicaragua. Instituto Centroamericano de Administración Pública. Costa Rica, pp. 141-205.

Villagrán Kramer, Francisco. 1993. Biografía política de Guatemala: los pactos políticos de 1944 a 1970. Facultad Latinoamericana de Ciencias Sociales, FLACSO. Guatemala.

Walter, Knut. 1993. The Regime of Anastasio Somoza, 1936-1956. University of North Carolina Press, Chapel Hill.

Wheelock Román, Jaime. 1980. Nicaragua: Imperialismo y Dictadura. Editorial de las Ciencias Sociales. La Habana, Cuba.

Wildavsky, Aaron and Carolyn Webber. 1986. A History of Taxation and Expenditure in the Western World. Simon & Schuster.

Wilensky, Harold. 1975. The Welfare State and Equality: Structural and Ideological Roots of Public Expenditures. University of California Press.

Woodward, Ralph Lee. Jr. 1999. Central America: A Nation Divided. Third Edition. Oxford University Press, USA.

World Bank 1975. Economic Memorandum on Nicaragua. Report No. 914-NI. The World Bank Latin America and the Caribbean Regional Office, Washington DC.

World Bank 1978. Memorandum on Recent Economic Development and Prospects of Nicaragua. Report No. 2061-NI. The World Bank Latin America and the Caribbean Regional Office, Washington DC.

World Bank 1981. Nicaragua: The Challenge of Reconstruction. Report No. 3524-NI. The World Bank Latin America and the Caribbean Regional Office, Washington DC.

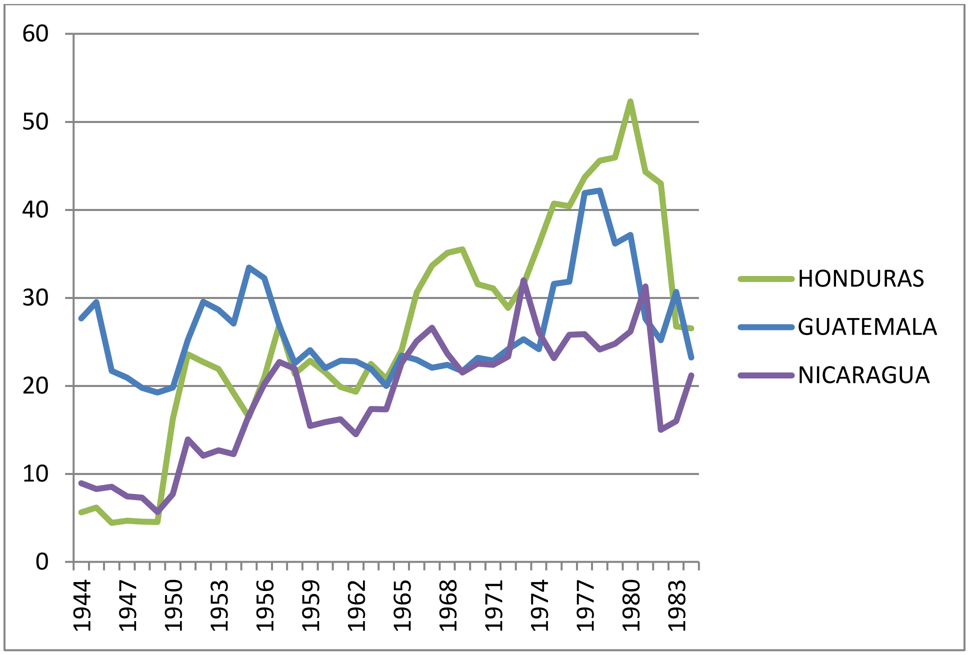
Yashar, Deborah. 1997. Demanding Democracy. Reform and Reaction in Costa Rica and Guatemala. 1870s – 1950. Stanford University Press.

Ydígoras Fuentes, Miguel. 1959. “Informe del Presidente Constitucional de la República de Guatemala, al Honorable Congreso de la República”. Guatemala, Tipografía Nacional.

7. Annexes

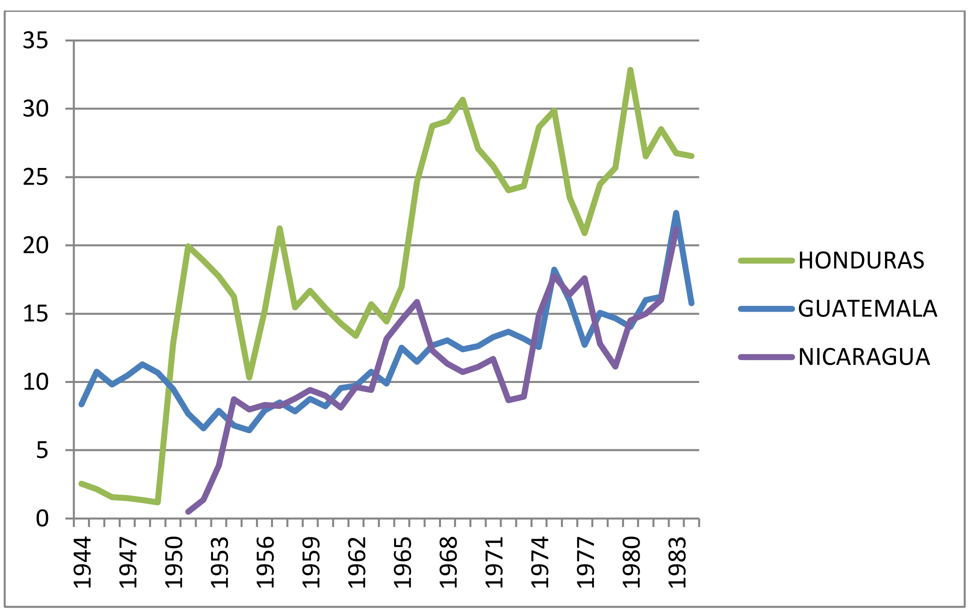
Annex 1. Tax structure

Guatemala, Honduras, Nicaragua: Income + property + export taxes as % of total taxes.



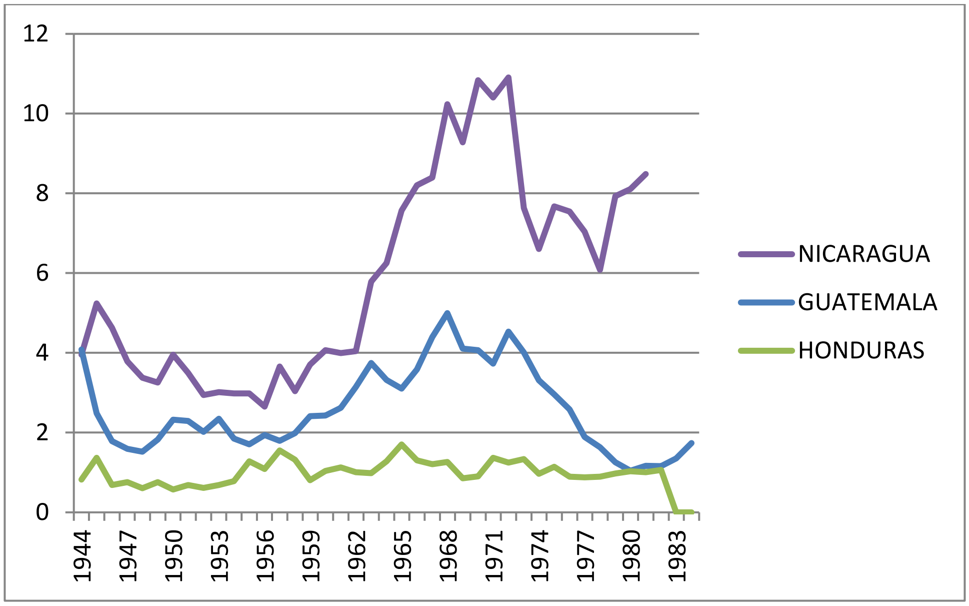
Source: Reports of Ministries of Finance and Central Banks, Various years.

Guatemala, Honduras, Nicaragua: Income Taxes as % of total taxes.



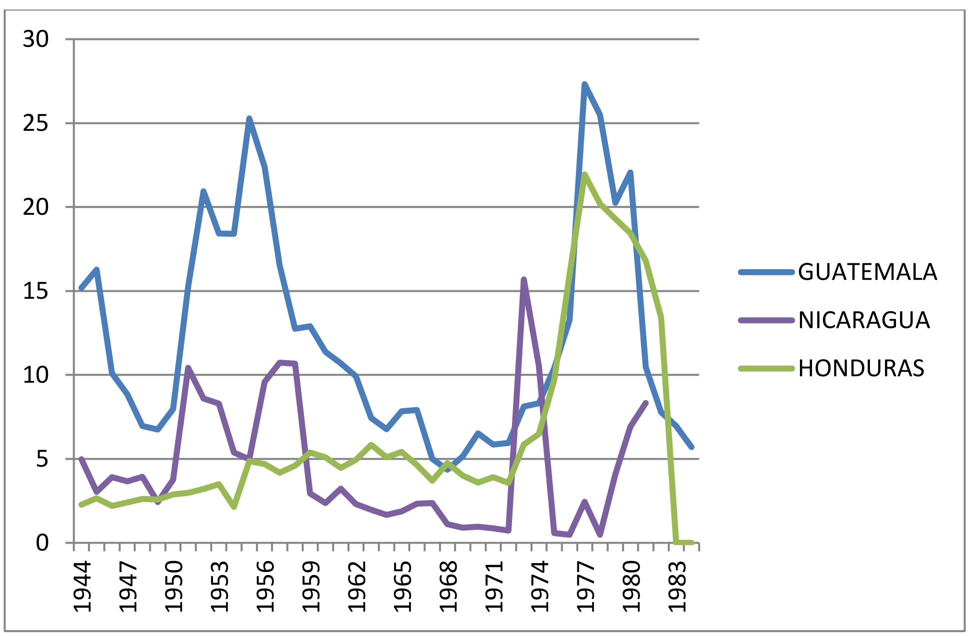
Source: Reports of Ministries of Finance and Central Banks, Various years.

Guatemala, Honduras, Nicaragua: Property Taxes as % of total taxes



Source: Reports of Ministries of Finance and Central Banks, Various years.

Guatemala, Honduras, Nicaragua: export taxes as % of total taxes:



Source: Reports of Ministries of Finance and Central Banks, Various years.

Annex 2. Tax structure in the three countries under study, 1945-1980

GUATEMALA
(CENTRAL GOVERNMENT REVENUES)
Percentages

	1945	1950	1955	1960	1965	1970	1975	1980
Direct tax revenues	**13,2**	**11,8**	**8,2**	**10,6**	**15,6**	**16,7**	**21,2**	**15,1**
Taxes on income, profits and capital gains	10,8	9,5	6,5	8,2	12,5	12,6	18,2	14,0
Taxes on property	2,5	2,3	1,7	2,4	3,1	4,1	3,0	1,0
Indirect tax revenues (Taxes on goods and services)	**28,9**	**33,0**	**24,7**	**29,2**	**28,3**	**27,6**	**22,1**	**17,1**
General taxes on goods and services	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Taxes on specific goods and services	28,9	33,0	24,7	29,2	28,3	27,6	22,1	17,1
Taxes on foreign trade	**39,6**	**46,0**	**53,5**	**51,9**	**40,5**	**31,2**	**30,4**	**38,2**
Import taxes	23,3	38,0	28,3	40,5	32,7	24,7	20,0	16,2
Export taxes	16,3	8,0	25,3	11,4	7,8	6,5	10,4	22,1
Other taxes	**18,2**	**9,2**	**13,6**	**8,2**	**15,5**	**24,5**	**26,3**	**29,6**

HONDURAS
(CENTRAL GOVERNMENT REVENUES)
Percentages

	1945	1950	1955	1960	1965	1970	1975	1980
Direct tax revenues	**3,51**	**13,38**	**11,60**	**16,45**	**18,65**	**27,97**	**31,00**	**33,88**
Taxes on income, profits and capital gains	2,15	12,80	10,32	15,42	16,95	27,07	29,86	32,85
Taxes on property	1,36	0,58	1,28	1,04	1,70	0,90	1,15	1,03
Indirect tax revenues (Taxes on goods and services)	**40,64**	**30,91**	**25,92**	**28,33**	**33,86**	**39,90**	**33,62**	**26,15**
General taxes on goods and services	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Taxes on specific goods and services	40,64	30,91	25,92	28,33	33,86	39,90	33,62	26,15
Taxes on foreign trade	**55,67**	**55,45**	**62,08**	**54,98**	**47,38**	**32,07**	**35,30**	**39,93**
Import taxes	53,02	52,57	57,22	49,89	41,97	28,48	25,60	21,49
Export taxes	2,65	2,88	4,86	5,09	5,41	3,59	9,69	18,44
Other taxes	**0,18**	**0,26**	**0,40**	**0,24**	**0,10**	**0,06**	**0,08**	**0,04**

NICARAGUA
(CENTRAL GOVERNMENT REVENUES)
Percentages

	1945	1950	1955	1960	1965	1970	1975	1980
Direct tax revenues	**5,24**	**3,95**	**11,71**	**13,49**	**20,72**	**21,56**	**22,57**	**19,23**
Taxes on income, profits and capital gains			8,73	9,42	13,16	10,72	14,90	11,13
Taxes on property	5,24	3,95	2,99	4,07	7,57	10,84	7,67	8,10
Indirect tax revenues (Taxes on goods and services)	**31,50**	**32,98**	**21,41**	**18,93**	**30,79**	**42,58**	**45,50**	**50,30**
General taxes on goods and services	0	0	0	1,0	0,8	5,8	15,5	12,6
Taxes on specific goods and services	31,50	32,98	21,41	17,92	30,00	36,82	30,02	37,75
Taxes on foreign trade	**57,89**	**58,57**	**63,53**	**63,42**	**43,03**	**33,92**	**29,92**	**22,37**
Import taxes	54,86	54,81	58,56	61,04	41,15	32,96	29,34	15,44
Export taxes	3,03	3,76	4,97	2,38	1,88	0,95	0,59	6,92
Other taxes	**5,36**	**4,50**	**3,34**	**4,16**	**5,46**	**1,95**	**2,01**	**8,10**