

Political Costs, Infrastructural Obstacles, and Tax State Development

This chapter compares the development of the tax states in the four cases. It finds that the Chilean and Mexican states established much greater extractive capacity than did their Peruvian and Colombian counterparts, as reflected in the greater impositions they could place on the population, and in the wider range of types of taxes they could collect. The chapter shows that the ideational and institutional arguments outlined in Chapters 1 and 2 account for this variation in state development. Ideas about the role of the state in development shaped tax policy choices, underlying the striking dismantling of the Colombian fiscal states and efforts to build extractive capacity in the other three cases. Institutions of local administration determined the effectiveness of tax assessment and collection where it was implemented.

As in all of the empirical chapters, the ideational and institutional account I develop is counterposed here against a set of alternative explanations that are particularly relevant for this aspect of state development. This chapter addresses two such alternatives – commodity booms and federalism – and shows that neither can account for the full pattern of variation in tax state development. I argue that the key gap in both alternative explanations is similar – they both focus on *political* obstacles, which relate to formal political institutions, and ignore the *infrastructural* challenges of taxation, which relate to state capacity.

Perhaps the most important alternative explanation for variation in tax state development is that the presence of easily tapped revenue from commodity booms accounts for the absence of extractive capacity. Later, I show that booms and busts in nitrates and guano can provide at best a

partial explanation for the divergent trajectories of the two countries in which these were important historically: Chile and Peru. The presence of resource booms explains the absence of taxation: I show that both states dismantled their tax apparatus as resources flowed in. But resource-based explanations tell us little about what happens when resource rents dry up. Thus, the puzzle of why Chile recovered fiscally from the end of the nitrate boom within a decade (despite significant political upheaval) while Peru's fiscal crisis lasted half a century remains. A paired comparison of the post-boom efforts to tax in the two countries shows that as opposed to the *political* costs of taxation that form the core of resource-based explanations, the greater ability of the Chilean state to overcome the *infrastructural* obstacles to taxation explains its quicker recovery. The Chilean state's ability to tax derived from the fact that it relied on deployed bureaucrats, while by contrast, the Peruvian state's post-guano efforts to tax were undermined by the unwillingness of local elites serving as state agents to overcome analogous obstacles to taxation.

A second explanation for variation in tax state development is the role of federalism. Mexico and Colombia provide a propitious context for examining this issue, since federal systems in both countries gave subnational interests a platform to restrict taxation by the national government. Yet while federalism explains the origins of a distinct political dynamic of taxation that was absent in Peru and Chile, it cannot explain the much greater tax state development in Mexico than in Colombia. Here, again, we must turn to the role of ideas. Central governments in Colombia chose to pursue development through limited state intervention, and to finance this small government with import duties, which remained until the late 1920s the dominant source of revenue. In Mexico, by contrast, state leaders drew on a more interventionist version of liberalism, and sought the power to collect a wide range of other taxes. By negotiation and innovation, they steadily expanded the range of taxes collected by the federal government at the expense of the states. Thus while federalism established similar challenges in Mexico and Colombia, it cannot explain the divergent outcomes. Additionally, the Mexican case, like that of Chile, shows the crucial role of deployed rule, which ensured the effective collection of taxes. Even more than in the realm of education (discussed in Chapter 4), the Porfirian state aggressively centralized control over tax administration, and removed it from the hands of subnational government and local elites. The result, like in Chile, was

significant development of a tax state; something that Colombian leaders did not seek, and Peruvian leaders could not accomplish.

Thus, the ideational and institutional arguments advanced in Chapters 1 and 2 can better account for variation in tax state development than either of these two alternative explanations. To develop this argument, I begin by discussing how we should measure the state's extractive capacity. The second part of the chapter describes the trajectories of tax state development in the four cases. I then engage in two paired comparisons of the cases, each of which is designed to evaluate the power of my argument against one of the alternative explanations. As discussed earlier, Peru and Chile are paired to evaluate the commodity boom explanation, and the limits of federalism as an explanation for variation in tax state development are explored in the narratives on Colombia and Mexico.

OPERATIONALIZING TAX STATE DEVELOPMENT

Taxation is central to the study of state power and state-society relations. But as Lieberman (2002) shows, different aspects of taxation shed light on different aspects of the state. Care is therefore needed in extrapolating from evidence about taxation to conclusions about the state. To assess the state's infrastructural power, we must design measures that capture its ability to extract taxes from its population, and how that ability varies across society and territory. To do so, this study explores two dimensions of taxation: the *types of revenue* collected by the state and the *tax burden per capita* imposed on the population. Because the commonly used tax ratio conflates the state's capacity to tax with the regime's willingness to do so, I set it aside and opt for these more fine-grained assessments of the extractive capacity of the state.

Tax Types

Scholars often draw conclusions about state power from information on the types of taxes collected by the national government (Chaudhry 1999). The requirements for collection vary across tax types in two ways relevant to infrastructural power. First, taxes vary in their *spatial distribution of incidence*. Those taxes that can be collected in a small number of central locations require a more skeletal administrative apparatus than do those that require the presence of agents throughout the territory.¹ Thus,

¹ In addition to the implications of a tax type for the spatial reach of the state, I also discuss the available evidence about spatially uneven imposition and collection of taxes.

TABLE 5.1. *Revenue sources ranked by implications for state power*

Tax type	Nature of assessment needed	Intensity of penetration required	Territorial reach required
Import duties	Customs inspection at port(s) of entry	Low	Low
Export taxes	Inspection at production site or port of exit	Low	Low
Monopoly production	Control of distribution	Low	Medium
Consumption taxes	Control of distribution	Low	Medium
Tolls, internal duties, and fees for service	Inspection on roads/ rivers at certain points	Low	Medium
Professional license fees	Audit of services	Low	Medium
Sales taxes	Audit of bills of sale	Medium*	Medium
Head taxes	Census of population	Medium	High
Land area taxes	Land survey or cadastral maps	Medium	High
Income taxes	Income data	High	High
Land value taxes	Detailed land census	High	High
Taxes on non-land wealth	Detailed property census	High	High

* This assessment is based on the limited set of transactions that were subject to sales taxes in the cases under investigation. As this set of transactions expands, this tax would move higher in the rankings of intensity.

a state that relies heavily on customs duties – collected only at major ports of entry and exit – requires little in terms of extractive capacity throughout the vast remainder of its national territory, while the taxation of domestic commerce, wealth, or income likely requires the state to have a much greater reach. Second, taxes vary in the *difficulty of assessment and collection* required to extract revenue. For example, it is easier (although less precise) to impose a tax based on the area of land owned than a tax on the value of land, or to impose customs duties by weight rather than by value (Scott 1998).

By combining these two dimensions, as shown in Table 5.1, we can array the range of state revenue sources by the extent of infrastructural

power required for their collection.² Each row of the table represents a significant source of state revenue in the countries investigated in this study. They are listed in increasing order of infrastructural power: those at the top of the chart require only minimal levels, while those at the bottom imply a truly capable state. The second column briefly describes typical collection procedures as they are reflected in records examined for the four cases; the rightmost two columns assess the two dimensions of collection challenges for that tax type. In the remainder of this chapter, I use the distribution of state revenues according to this ranking to assess its ability to penetrate society for extractive purposes. While there may be some debate over the scoring of particular tax types, the overall pattern for any case should be robust to any disputes about where an individual tax type should be placed in this table.

Tax Burden

I also use the *tax burden*: the amount of taxation imposed by the state directly on its citizens as a second measure of the extractive dimension of state power.³ I exclude duties on the exports of raw materials, monopoly profits, and customs duties because they are not imposed directly on the population. Thus, the tax burden is calculated by summing taxes on income, property, and wealth, sales taxes, inheritance taxes, and various fees for service and permits, and dividing this quantity by the size of the population. This provides a measure of the average amount of revenue extracted by the state per capita directly from its citizens. This amount can be calculated at the national level, and compared across time or across countries with appropriate adjustments for inflation and purchasing power where possible. By combining information on the tax burden with information on the broader set of revenue sources of the state, we can get a nuanced picture of its power to tax.

COMPARATIVE DEVELOPMENT

I begin with a summary of the comparative development of taxation in the four cases so that the variation to be explained is clearly shown. The discussion that follows reveals striking variation across cases. I periodize

² Lieberman (2002, table 3) produces a similar list, but Table 5.1 arrays the actual revenue sources that were used by states in the four cases.

³ A helpful discussion of how to choose among the myriad options for operationalizing this concept appears in Lieberman (2002).

the discussion of Chile and Peru to parse out the effects of the commodity booms in those cases. I also highlight how the federal institutions in Colombia and Mexico posed obstacles to tax collection by the national state. Yet once these factors are accounted for, we will see that the cases follow patterns similar to those seen in our investigations of education and coercion: the absence of a state-building project in Colombia, state-building efforts in Peru stymied by reliance on delegation to local elites, which allowed those actors to block fiscal imposition, and concerted, successful state building in Mexico and Chile that depended centrally on the implementation efforts of deployed local officials.

Tax Types

Chile

Extractive capacity grew sharply in Chile in the first century after independence, as reflected in the growth of direct taxation, and in the rise of internal taxation as a complement to customs revenues, which nevertheless remained the most important source of state revenues throughout the period. Although direct taxation declined with the nitrate boom after 1880, gains in the state's extractive capacity were not lost. The changing composition of the Chilean tax structure is summarized in the series of snapshots in Table 5.2.

Pre-nitrate tax state development: After independence, the Chilean state relied heavily on foreign debt and asset confiscation, reflecting its weakness⁴ (MHAC 1834, 3ff). Limited revenues came mainly from customs takings and monopolies: the state lacked the capacity to assess and collect taxes directly from the population. In 1840, only about 2 percent of government revenue came from internal taxation. But internal taxation increased almost forty-fold between 1840 and 1875, rising to 20% of total revenue by 1845 and remaining steadily above 10 percent until 1885. Thus, between about 1840 and the War of the Pacific (1879–1883), the Chilean state developed extensive tax capacity.

This period also saw a change in the *types* of internal taxes collected. In 1840, internal tax revenue came entirely from monopoly rents on tobacco, playing cards, and salt. A tithe collected from the heads of households rose in prominence, and made up the majority of tax collection in Chile in both 1845 and 1850. In 1853, the *contribución territorial*

⁴ Data in this discussion draws on the MHAC for various years and the statistical series in Mamalakis (1976) and Wagner et al. (2000).

TABLE 5.2. *Chilean revenue sources, selected years*

Tax type	1841	1860	1875	1895	1927
Customs duties	59.0%	59.1%	57.3%	31.6%	28.2%
Resource rents		7.3%		62.3%	28.3%
Monopoly production	21.2%	14.5%	13.1%		
Consumption taxes					
Tolls, internal duties, and fees for service				3.9%	
Professional license fees					
Sales taxes	3.5%				
Head taxes	11.6%				
Land area taxes				0.0%	
Income taxes					9.7%
Land value taxes		7.1%	7.9%		
Taxes on non-land wealth					7.9%

Source: Wagner et al. (2000).

(a 7.11 percent tax on the value of landholdings) was introduced, which by 1855 made up the largest portion of internal taxation, about 37.5 percent of the total internal tax collected. This tax represented a significant leap in the state's infrastructural power, since it inaugurated the assessment of property holdings by the state – some 31,000 properties, for instance, in 1861. In the 1870s, as the country was gripped by economic crisis, taxes on inheritance, property, and income were introduced (Sater 1976, 326ff). By 1882, these taxes were the third most important source of revenue. While this trajectory of increasing capacity was cut short by the onset of the nitrate boom after 1885, it is clear that extractive capacity had grown sharply since 1840.

The nitrate boom and national government taxation: With victory in the War of the Pacific, Chile seized massive nitrate fields from Peru and Bolivia. Nitrate proceeds drove a near-doubling in government revenues between 1886 and 1890, and dominated them until the end of World War I. In response, the national government eliminated nearly all other forms of taxation (Mamalakis 1976, 213). Internal taxes declined to a tenth of their 1885 level by 1895, and by 1900, the only one remaining was the *papel sellado*.

Reliance on nitrate duties left state revenues vulnerable to fluctuations in the nitrate market, and this concern drove state leaders to begin to reintroduce taxation even at the height of the boom. To supplement

nitrate revenue, in 1902 a tax on alcohol was introduced, followed by a tax on insurance companies in 1905, on tobacco, playing cards, and inheritances in 1910, and on banks in 1912 (Bowman and Wallerstein 1982, 451). The introduction of these taxes, however, does not undo the overall trend of heavy dependence on nitrate revenues during the early twentieth century.

Nitrate exports began to falter during World War I before collapsing in 1920, and government revenues plummeted. In response, the state turned back to internal taxation, which tripled between 1913 and 1920, at which point it was fifty times the 1900 level. By 1920, the Chilean state was generating over 25 percent of its income from internal taxation, relying heavily on a property tax introduced in 1915 that generated over 5 million pesos annually. By the mid-1920s, the Chilean state had not just returned to its pre-nitrate levels of extractive capacity, but was actually stronger than it had been prior to the nitrate boom. Although the capacity-intensive taxes introduced between 1840 and the onset of the nitrate boom disappeared during the boom, they quickly reemerged thereafter. Rather than being replaced by customs revenues, the lost resource rents were replaced with increases in domestic taxation. In Chile, the nitrate boom had limited long-term effects on the fiscal state. It is this strikingly fast recovery from the collapse of the nitrate boom that sets Chile apart from the Peruvian experience.

Peru

As discussed in Chapter 3, the Peruvian state was unique in that domestic taxation actually made up a significant share of its revenue in the initial decades after independence. The head tax on the indigenous population represented the second largest share of tax revenue in 1846, suggesting a state that could impose extraction on its population. Head tax collection was actually rather effective in the 1840s as the government was able to collect more revenues than it had projected.⁵ With the onset of the guano boom in the 1840s, internal taxation was eliminated. The state's extractive capacity would remain vestigial long after the boom ended in the 1870s. The trends are summarized in the snapshots in Table 5.3.

Guano and the decay of the Peruvian tax state, 1845–1875: As guano revenues flowed after the mid-1840s, the state began a “step-by-step dismantling of surviving direct taxes” (Gootenberg 1989, 122). The most dramatic step was the 1854 elimination of the head tax. This shift

⁵ Data in Tantaleán Arbulú (1983), Appendix, Table Four, my calculations.

TABLE 5.3. *Peruvian revenue sources, selected years*

Tax type	1846	1865	1890	1923–1924
Customs duties	26.3%	22.0%	48.2%	42.5%
Resource rents	8.4%	75.2%		
Monopoly production				
Consumption taxes			15.3%	24.4%
Tolls, internal duties, and fees for service				
Professional license fees				
Sales taxes				
Head taxes	21.5%			
Land area taxes				
Income taxes				
Land value taxes				
Taxes on non-land wealth				

Sources: Tantaleán Arbulú (1983, Appendix), Extracto Estadístico del Perú 1929–1930, and Contreras and Cueto (1999, 218).

“significantly lessened the presence of the guano-era state in the highlands” where the indigenous population was concentrated (Klarén 2000, 163). As the state came to rely more heavily on guano revenue, its ability to penetrate the national periphery disappeared, and its extractive capacity sharply eroded. Dependence on guano even replaced customs as a source of income. Guano revenues became a form of emergency finance, as state dependence on loans rose. To maximize up-front revenue, the state auctioned off gross export rights to whoever could provide the largest up-front loan most quickly, rather than collect even per-ton taxes on the guano (Gootenberg 1993). There was, in short, no fiscal state in Peru by the end of the guano era.

Post-guano crisis, 1875–1895: In the aftermath of the guano collapse, Peru entered a major crisis of state that incorporated defeat in the War of the Pacific, the resulting loss of its nitrate fields, several years of Chilean occupation, and a decade of internal conflict. Given this litany of disasters, it is no surprise that the state found taxation difficult. Postwar governments sought revenue by reintroducing a head tax and by fiscal decentralization that made departments responsible for their own expenses. The head tax made up about 50 percent of budget projections, but collection fell far short of this amount (Turner 1997, 105). While generating little revenue, the introduction of the head tax, as discussed further later, triggered the largest uprising since independence (Turner

1997). Postwar governments also introduced consumption taxes on alcohol, tobacco, opium, matches, and salt. None of these required significant intensity of penetration, since they were assessed on distributors rather than on sellers and consumers. The costs these taxes imposed on the population also prompted major revolts, and collection also suffered from smuggling and evasion. Thus, after guano collapsed, the state remained strikingly weak, a sharp contrast to the recovery of extractive capacity seen in Chile.

The civilista tax state and its limits, 1895–1919: The recovery of extractive capacity was strikingly slow by comparison to Chile. One set of obstacles was political. In an attempt to generate revenue, state officials confronted political opposition as they sought to tax recovering commodity exports: mine owners gained a fifteen-year exemption in 1890, and sugar producers blocked any export tax on agricultural products (Thorp and Bertram 1978, 30). But the most important obstacle was the simple inability to effectively extract revenue from the population. This forced the state to continue to fill its coffers mainly from consumption taxes, import duties, and foreign loans.

The state did generate significant revenue from what its records call “direct taxes” in the early twentieth century: these generated 14.6 percent of annual government revenue between 1899 and 1939 – about half the level of consumption taxes (28.8 percent) and customs revenues (32.8 percent).⁶ While this appears to reflect a state with significant infrastructural power, a more detailed look undercuts that view.⁷ The label “direct tax” was deeply misleading: revenue in this category included fees on mining and agricultural exports, charges for professional and industrial licenses (collected only in Lima and Callao), and a tax on industrial company revenue. Thus although “direct taxes” contributed to the recovery of the Peruvian tax state after about 1915, this does not reflect increased infrastructural power. Instead, the Peruvian tax state remained vestigial, depending for the vast majority of its revenues on customs, tobacco and salt monopolies, and consumption taxes on alcohol and other commodities. The contrasting post-boom trajectories of Chile and Peru are explored in detail later.

⁶ These figures are based on my calculations from data in various years of the *Extracto Estadístico*.

⁷ Unfortunately, little data about the composition of the category labeled “direct taxes” is available before 1925. The discussion here is based on data from 1925–1931, and its utility depends on the assumption that infrastructural power was not lower in 1925 than in preceding decades – a reasonable claim given a holistic view of Peruvian history.

Commodity booms did not sharply distort fiscal development in our other two cases, so the presentation of their fiscal evolution does not require the same periodization. It does, however, require addressing the role of federalism, which affected tax policy in both countries.

Colombia

The limited development of Colombia's tax state can clearly be seen in Table 5.4. In the first quarter century after independence, the Colombian state generated most of its revenue from three sources: customs revenue (31.3 percent), the tobacco monopoly (24.5 percent), and the salt monopoly (12.3 percent).⁸ As of 1850, the Colombian state collected no direct taxes. This pattern continued throughout the first century after independence: the state continued to rely heavily on customs revenue and monopoly production. This failure to develop any tax capacity left the state vulnerable to fluctuations in world trade, and unable to impose any taxes on its population.

The Liberal Reforms after 1849 involved two significant changes to taxation. Both reflect the disdain for the state held by Colombia's Liberals in their development vision. First, a wide range of taxes (most importantly the tax on alcohol) were devolved to subnational authorities, who would thereafter retain a great degree of fiscal autonomy. Despite sporadic policy initiatives and the nominally centralist character of the 1886 constitution, taxation thereafter remained largely in the hands of subnational units (Cruz Santos 1966, 40–41). Second, the tobacco monopoly and many other taxes were eliminated in 1850, resulting in a 47 percent decline in national government revenues between 1849 and 1851⁹ (McGreevey 1971, 86). Reformers hoped that eliminating the tobacco monopoly would spur economic growth via tobacco export, allowing the national government to draw revenue from duties on increased imports. Absent other sources of revenue, dependence on customs increased after 1850. These generated 63 percent of national government revenues from 1850 to 1900 (Rosenthal 2001, 33–34). Import duty collection was limited by the rampant smuggling in Caribbean ports (Posada-Carbó 1996, 228).

Salt taxes also remained significant, making up 16 percent of national revenues between 1850 and 1900, and reaching as high as 29 percent

⁸ These figures are drawn from Rosenthal (2001) and are based on annual data for twenty-one years between 1824 and 1850.

⁹ Park (1985, 54) cites an 1870 calculation claiming that the reforms cost the government half its potential income between 1850 and 1870.

TABLE 5.4. *Colombian revenue sources*

Tax type	1835–1836	1870	1911	1927
Customs duties	36.4%	54.6%	65.3%	62%
Resource rents				
Monopoly production	53.1%	26.3%	7.8%	5.5%
Consumption taxes				
Tolls, Internal duties, and fees for service		8.8%		11.5%
Professional license fees				
Sales taxes	0.4%		4.8%	2.4%
Head taxes				
Land area taxes				
Income taxes				
Land value taxes				
Taxes on non-land wealth				

Sources: Deas (1982, 326 fn100), McGreevey (1971, 40), Park (1985, 56), Cruz Santos (1966, 141). Sales taxes were primarily generated from *papel sellado*, and fees for service are overwhelmingly from railroads.

in 1865 (Park 1985, 57–58). Although the salt monopoly violated the Liberal edict of minimal government, and was highly unpopular, it was retained because it was “simply too important to be eliminated” once other revenue sources were gone (Rosenthal 2001, 28). Another significant source of revenue was the *degüello* tax on cattle slaughter. Deas describes this tax as both progressive (since the poor did not eat beef) and fairly easy to collect since it was rare for cows to be slaughtered exclusively for personal consumption, meaning that they had to be brought to market.¹⁰ In 1874, it was the main revenue source for the country’s subnational entities (Deas 1982, 305–307). When the national government claimed jurisdiction over it in the 1886 constitution, it quickly became the third largest source of revenue in the budget (Cruz Santos 1966, 38–41).

Although the economy was transformed by the boom in coffee production after 1887, no direct revenue for the state resulted. An 1895 proposal to tax coffee exports was met with major opposition not only from coffee producers but from those who saw the tax as a violation of *laissez-faire* principles (Bergquist 1986, 52). With the trade crisis of World War I, an income tax was introduced in 1918, but it generated 1.7 percent of government revenues in 1919 and remained marginal

¹⁰ Posada-Carbó (1996, 217) disagrees.

well into the 1930s. Even in the late 1920s, customs represented 62 percent of government revenue, and railroad fees 11.5 percent. Salt sales remained significant at 5.5 percent of revenues, while *papel sellado* and the income tax remained of minimal importance, at 2.4 percent and 1.5 percent, respectively (Deas 1982, 325). The composition of tax types continued to reflect a strikingly weak state. Although this was in part a function of the devolution of taxes to the subnational level, it also reflected the belief of Colombian political elites that increasing state fiscal capacity would not promote the development they sought.

Mexico

Mexico's federal constitution, like Colombia's, limited the taxes available to the national government. Yet its trajectory of tax state development was distinct, as Liberal and Porfirian officials made aggressive efforts to reduce their reliance on customs revenues by developing the capacity of the national state to tap many revenue streams. The evolution of tax types in Mexico reveals two broad trends (see Table 5.5). First, it reveals a steady increase in reliance on internal taxation. Second, this internal taxation is increasingly composed of revenue sources that require significant infrastructural power. Together, these changes show that the Mexican state increased its capacity to extract from its population during the Liberal and (especially) the Porfirian eras. This increase was also reflected in the penetration of land surveys, census administration, and state regulation of property rights even into remote regions like Chiapas (Bobrow-Strain 2007, 52ff).

In the post-independence era (1821–1867) 62.3 percent of state revenues came from customs duties (Pérez Siller 2004, 50). Endemic internal conflict often prevented customs revenues from reaching federal coffers, and allowed challengers to national power to use customs revenue to fund insurrection (Ludlow 2002, Vol. 1, p. 336). Beginning with the first Liberal governments, leaders sought to reduce dependence on customs, driven by these concerns, but also by a belief that export taxes were an obstacle to economic development. Early efforts fell victim to political instability, and internal taxation by the federal government largely remained limited to duties on the transit of goods into the Federal District and the territories of Baja California and Tepic (the *alcábalá*). But after 1867 political stability allowed state leaders to begin the building of extractive capacity.

TABLE 5.5. Mexican revenue sources, selected years

Tax type	1856	1873	1895	1910
Customs duties	67.4%	68.5%	44.9%	44.4%
Resource rents				
Monopoly production				
Consumption taxes				
Tolls, internal duties, and fees for service		7.0%	3.3%	6.3%
Professional license fees				
Sales taxes		12.8%	35.7%	29.6%
Head taxes				
Land area taxes				
Income taxes				
Land value taxes		3.2%	3.2%	5.7%
Taxes on non-land wealth				

Source: Carmagnani (1994, Appendix 3), Tenenbaum (1986, Appendix, Tables A and C). Despite its changing composition over time, I coded the *timbre* as a sales tax for all years. This coding decision is chosen in order to understate the capacity of the Mexican state, since over time, the *timbre* came to encompass a range of tax types. The land value tax, the *contribución predial*, was collected only in Mexico City and the federal territories.

The centerpiece of reform was the introduction of the *timbre* in 1871. Generating at least 29 percent of revenue every year between 1890 and the revolution, the *timbre* became the most important internal tax collected by the federal government. The *timbre* contained multiple components, which came over time to include more infrastructurally demanding tax types. In its original form, it was comprised of the *contribución federal*, a surcharge on all state and local taxes, and a stamp tax levied on official documents and the consumption of certain luxury goods. An important institutional innovation in the *contribución federal* was a shift in the burden of this surcharge from state governments to taxpayers, which ended conflict between levels of government over tax revenues (Castañeda Zavala 2001; Uthoff 2004). Between 1867 and 1910, it represented 7 to 13 percent of total federal revenue. In nominal terms, *contribución federal* revenues grew fivefold between 1867 and 1906, declining slightly on the eve of the revolution. This tax appears consonant with a weak state, since it required little penetration of the economy by the federal government. But Uthoff (2004) shows that the *contribución federal* led to the construction of a direct relationship between the central state and its citizens because it relied on federal tax collectors to inspect the state and

local tax bills of citizens throughout the national territory. This process of revenue centralization shows how the Mexican state steadily worked to overcome the obstacles of federalism to fiscal capacity.

Over time, the set of revenue sources included in the *timbre* increased, revealing a state inserting itself into an increasingly wide range of economic activity. Taxes on tobacco, alcohol, and perfume were added in 1881 (Carmagnani 1989, 478). State officials responded to complaints from producers of these goods about the unfair burden imposed on their sectors by this new tax: rather than exempting the complaining industries, they increased the scope of the tax to also include soaps, pharmaceuticals, playing cards, textiles, and some foods. The *renta interior*, a tax on the consumption of all domestic manufactured goods beyond basic needs, was introduced in 1887 (Carmagnani 1989, 483). As discussed later, this tax was eliminated in 1893 in negotiations between federal and state governments over the balance of fiscal federalism. Yet its introduction and the collections that resulted reflect a sharply more powerful central state than existed several decades earlier.

Thus, the increasing revenues generated from internal taxes and the broader range of economic activity and wealth on which they fell reflect significant growth in the state's extractive capacity. Whereas at the beginning of the Liberal period, the state generated no revenues from internal taxation outside the Federal District, it generated more than 40 percent of its revenues from domestic taxation in 1910. This trajectory is a sharp contrast from what was observed in Colombia, where federalism also created political obstacles to the extractive power of the national government.

Tax Burden

In addition to the types of taxes a state collects, we can also assess its capacity to extract by examining the tax burden it imposes on its population. As explained earlier, this tax burden is measured by per capita internal taxation. A comparison of the four countries (to the extent allowed by data limitations) reveals striking divergence, even after the effects of the resource booms in Chile and Peru are taken into account. The tax burdens in Chile and Mexico far outstripped those in Peru and Colombia.

Chile

The inflation-adjusted trajectory of the Chilean tax burden is shown in Figure 5.1. Over the course of the pre-1885 era, the state steadily

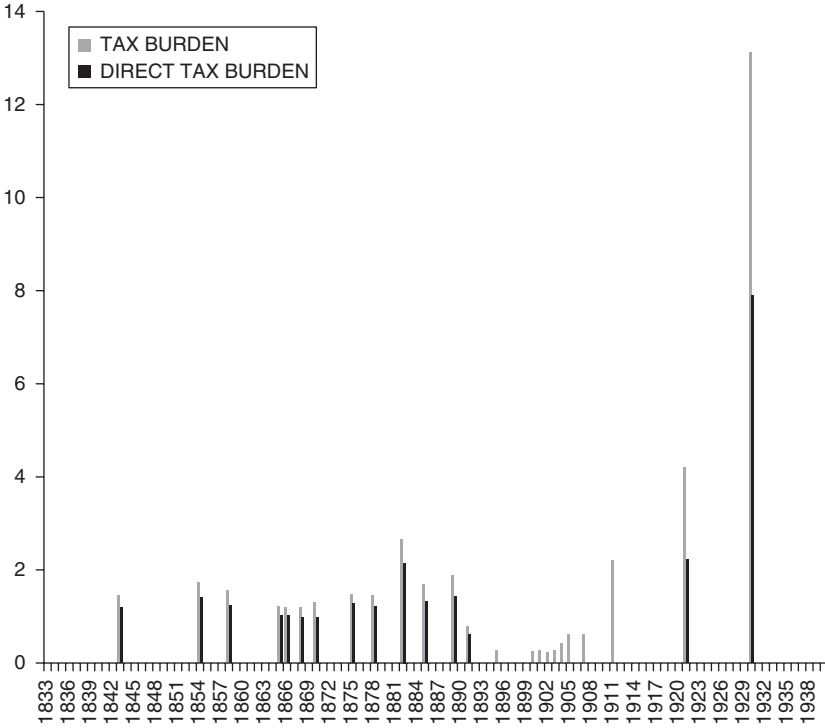


FIGURE 5.1. Chilean tax burden in pesos per capita, selected years, 1833–1938. Data from Wagner et al. (2000).

built the ability to impose taxes on its population. The onset of the nitrate boom led the tax burden to disappear as internal taxation was essentially eliminated, although it slowly crept up as the instability of nitrate revenues spurred diversification of revenue streams. With the nitrate collapse, the tax burden leaped back up. By 1920, real internal taxation per capita was already 50 percent higher than its pre-nitrate level, and by 1930, the Chilean state’s extraction from its population had tripled once again. Thus we see a state that developed the power to tax before the nitrate boom, stopped taxing as resource rents flowed in, but quickly and aggressively reasserted its power to tax once the nitrate boom ended.

Municipal taxation in Chile: In addition to national government taxation, Chileans were subject to municipal taxes. Municipalities could get national government permission to impose certain taxes, most of which were earmarked for a particular purpose such as the operation of butcheries, street lighting, and street cleaning. From the mid-1850s through

1881, these taxes grew steadily.¹¹ The average municipal tax burden per capita (nominal data, based on a population-weighted average of sixty-two municipalities) rose from slightly over 0.5 pesos per capita in 1869 to over 2 pesos per capita during the War of the Pacific. As explored in more detail later, municipal taxation rose after the 1891 decentralization and continued to do so throughout the nitrate boom. In 1903, municipal taxes were two pesos per capita, rising to 4.2 pesos per capita in 1911, and 9.9 in 1920.¹²

Municipal taxes were one way in which revenue was extracted from the Chilean population even during the resource boom. The revenues generated by municipal taxation flowed into the coffers of local administration, not those of the central state. Thus, at first glance it appears that this taxation is irrelevant to an analysis of national state development. Yet there are two reasons to temper this view. First, this taxation was under the authority of the national state: it had to be explicitly authorized by the national government. Municipal authorities had to explain the type of tax they wanted to collect, and the purpose for which it would be earmarked, in order to be authorized to impose it.¹³ Second, as explored in more detail later, this municipal taxation was pivotal in the rapid reassertion of national taxation when the nitrate trade collapsed. Because municipalities continued to collect taxes and maintain the relevant infrastructure, the challenges to reimposing taxation that national authorities faced were greatly reduced.

Peru

The evolution of the tax burden over time shows very clearly the weakness of the Peruvian state. The contrast with Chile during and after the commodity booms in both countries is especially striking, and will be explored in detail later. The data in Figure 5.2, calculated from the sum of all direct internal taxes for the years available during the guano boom, show that the elimination of the *contribución indígena* reduced internal taxes per capita by nearly 90 percent. Thereafter, the state imposed a minimal burden on its population.

The territorial unevenness of tax collection also reveals the tax state's weakness. Taxation during the guano era was almost nonexistent, outside

¹¹ Based on twenty-one years of municipal tax data, 1856–1891, collected from various government sources.

¹² Calculated from nominal municipal tax data from Mamalakis (1976). The value for 1920 is calculated using 1921 population data.

¹³ This was true even after the 1891 decentralization law.

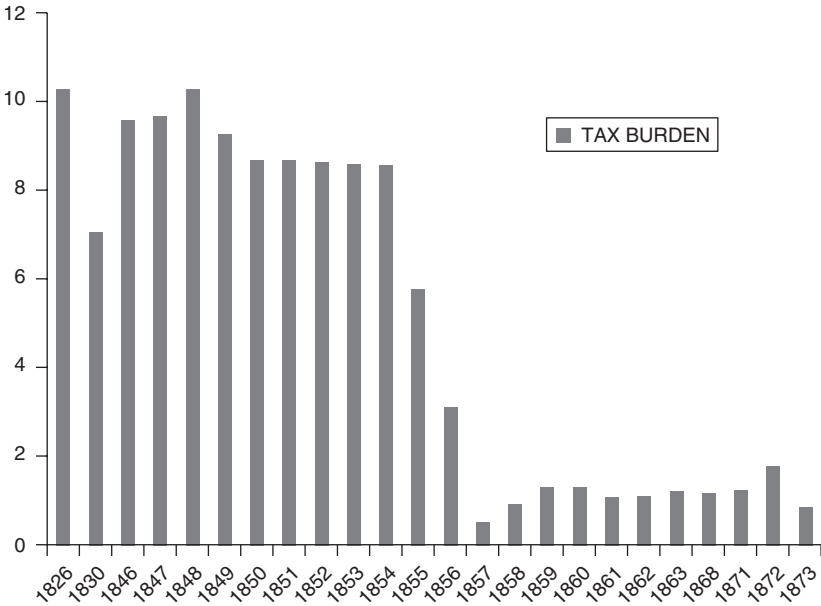


FIGURE 5.2. Peruvian tax burden, soles per capita, selected years, 1849–1873. Sources: *Memorias* of Ministerio de Hacienda, various years and Tantaleán Arbulú (1983).

a few cities. During the guano era, the provinces were abandoned as sites of revenue collection even though *de jure* their population was subject to the few taxes that remained on the books. This absence of the state from the interior can be seen in various kinds of tax collections. Table 5.6 shows no collection of license fees for businesses and industries in ten of the nineteen departments, and no taxation at all in some Amazonian departments. The overwhelming majority of collections were from just five departments: Lima and its port of Callao, and Arequipa, Junín, and Cuzco, which contained the largest secondary cities in the country. The tax state simply did not exist outside a few large cities.

After the end of the guano boom, as discussed earlier, the Peruvian state struggled to re-impose taxes. Before 1900 it was unable to generate any revenue at all from impositions on its population. The tax burden rose tenfold between 1899 and 1920 – and although this data (in Figure 5.3) are not corrected for inflation, this does represent a real increase.¹⁴ This reveals a state that gradually gained the ability to impose taxes on its

¹⁴ The price index needed in order to correct for inflation during this period does not exist.

TABLE 5.6. Tax collection by department, Peru, selected years

Depts.	Urban property tax			Rural property tax			Industrial tax		License fees		
	1855	1863	1869	1855	1863	1869	1863	1869	1855	1863	1869
Ancash	385	564	34	12,834	7,636	1,484	1,833	955			
<u>Arequipa</u>	<u>3,224</u>	<u>1,612</u>		<u>25,663</u>	<u>15,015</u>	<u>435</u>	<u>452</u>		<u>3,541</u>	<u>2,136</u>	<u>343</u>
Ayacucho	1,349	496	248	10,050	4,220	865	26				
Amazonas				502	121		32				
Cajamarca		150	295		2,674	2,744	2,002	512			
<u>Callao</u>		<u>11,491</u>	<u>5,000</u>		<u>448</u>	<u>224</u>			<u>7,013</u>	<u>10,670</u>	<u>14,088</u>
<u>Cuzco</u>	<u>1,420</u>	<u>1,304</u>	<u>652</u>	<u>14,692</u>	<u>10,741</u>	<u>12,272</u>	<u>1,106</u>	<u>3,140</u>	<u>3,108</u>		
Huancavelica	266	532	343	3,121	3,648	1,067	1,137	54			
Huánuco			355			5,128		30			
Ica		364			2,929					1,964	63
<u>Junín</u>	<u>5,043</u>	<u>5,274</u>	<u>3,169</u>	<u>20,161</u>	<u>8,202</u>	<u>18,977</u>		<u>4,679</u>		<u>3,802</u>	<u>4,320</u>
La Libertad	2,539	1,118	548	17,161	6,206	5,508	3,488	787	1,360	917	178
<u>Lima</u>	<u>32,917</u>	<u>45,520</u>	<u>58,694</u>	<u>34,126</u>	<u>4,089</u>	<u>10,442</u>	<u>21,919</u>	<u>10,672</u>	<u>56,549</u>	<u>72,686</u>	<u>76,063</u>
Loreto											
Moquegua	608	2,549		7,303	9,306	749	2,304	750	2,648	3,838	4,519
Piura	638	660	118	2,997	1,315	752	1,315	1,124			552
Puno	94	68		6,713	13,305	5,684	2,540	99			
Tarapacá											
Total	50338	73565	71325	157178	91718	68200	40017	24671	76074	97876	101995
Share from underlined depts.	84.64%	88.63%	94.66%	60.21%	41.97%	62.10%	58.67%	74.95%	92.29%	91.23%	92.96%

Source: Tantaleán Arbulú (1983, Appendix, Table 17) Underlined cells are data for the departments from which the vast majority of revenue was generated.

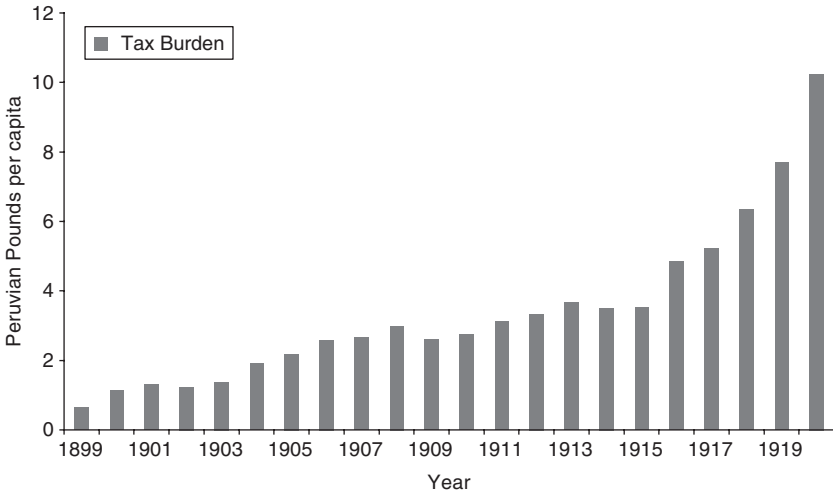


FIGURE 5.3. Peruvian tax burden in Peruvian pounds per capita, 1899–1920.
Sources: *Memorias* of Ministerio de Hacienda, various years.

population, overcoming significant obstacles, both political and infra-structural. Yet this finding must be tempered, as discussed earlier, by a realization that most of these taxes were far from capacity-intensive: the Peruvian state did increase its ability to extract during the Civilista era, but could only rely on certain kinds of revenue. Thus its capacity remained far lower than that of its southern neighbor.

Colombia

Because it relied primarily on import duties, the Colombian state never imposed a significant burden in direct taxes on its population. Indeed, even including indirect taxes and all other sources of revenue, the “weight” of the state was quite limited. An 1871 estimate, quoted by Malcolm Deas (1982, 310) was that government revenues, at less than one peso per capita, were one-third the level of Mexico’s, one-fifth those of Chile, and one-twelfth those of guano-flush Peru. Revenues only declined from this level: an 1898 estimate pegged the per capita tax income of the national government, including both internal and customs revenues, at 80 centavos, a decline in real terms of 20 percent over the previous twenty years (*ibid.*, 313).

Additionally, as in Peru, many parts of Colombian society and territory remained exempt from even this limited tax burden. The state never developed any tax capacity in the Llanos federal territories, which were under national government control. Property rights

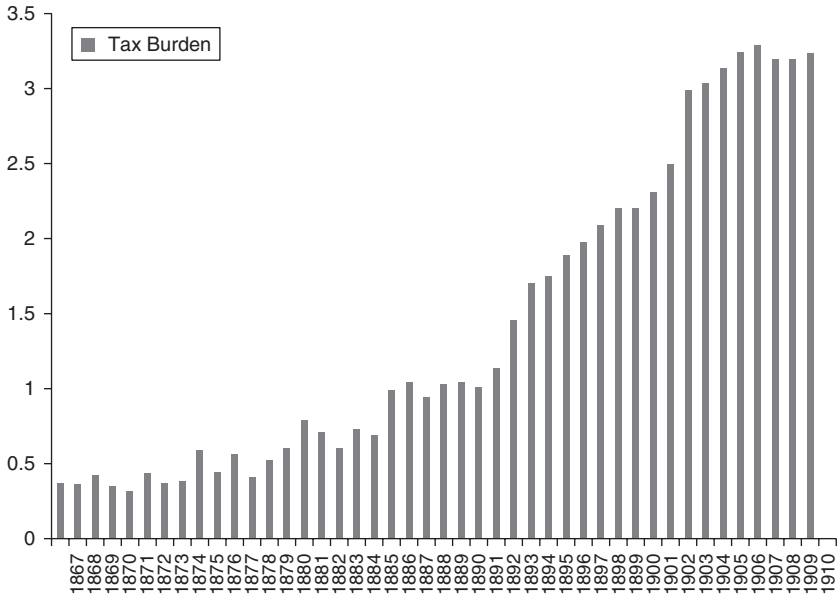


FIGURE 5.4. Mexican tax burden in pesos per capita, 1867–1910.

Sources: Internal taxation is calculated from data in Carmagnani (1994, Appendix 3). Population data are taken from Meyer and Sherman (1995, 466).

were completely absent from the region of Casanare, and a land transfer tax could not be collected because no titles were on file with the government (Rausch 1993, 174, 306). The limited spatial reach of the state was also reflected in customs collections: over 90 percent of customs revenues came from only four ports: Santa Marta, Sabanilla-Barranquilla, Cartagena, and Buenaventura (Park 1985, 56). Little tax was collected from the steady flow of cattle and other goods across the Venezuelan border. Sixty-two and a half percent of salt revenue between 1855 and 1897 was generated from a single salt mine complex, Zipaquirá (Rosenthal 2001, 34). In all, the state generated much of its revenue from a few isolated locations where it enjoyed some degree of control; much of the rest of the country remained outside the reach of its fiscal bureaucracy.

Mexico

Calculating the tax burden in Mexico is difficult because only nominal data are available. Nevertheless, its growth over the course of the Porfiriato is striking. In 1874, internal taxes per capita were 0.37 pesos, while by 1910

they had grown to 3.23 pesos, as seen in Figure 5.4. This increase of nearly 800 percent must far exceed the inflation rate. Thus the trend of increasing the tax burden is still quite clear, and is consonant with the overall pattern of increasing fiscal capacity in Mexico described earlier.

EXPLAINING VARIATION IN TAX CAPACITY

Because taxation lies at the core of the state's capacity, scholars have focused on its development in studying state building and state-society relations. Two robust currents of literature – one on the effects of commodity booms and the other on federal institutions as an obstacle to tax state development – have received much attention in recent years. In the following paired comparisons, I show the limitations of each of these explanations in accounting for variation across our four cases.

I begin with the comparison of Chile and Peru, both of which saw their fiscal development distorted by massive commodity booms. The paired analytic narrative that follows reveals the limits of “resource curse” explanations in their inability to account for variation in tax state development outside these exceptional periods. To account for the rapid recovery of Chile from commodity collapse, and the absence of a similar trend in Peru, I show that we must shift from the politics of taxation to its administration, and highlight the role of local state agents in determining the state's capacity to tax.

Deciding to Tax: Resource Rents and Political Costs

Resource endowments are perhaps the factor most commonly cited to explain the state's extractive capacity.¹⁵ As Dunning (2008, 46) writes, a broad consensus holds that “resource booms lead to a decline in taxation and a decimation of extractive efforts on the part of the state.”¹⁶ The logic is that because taxation is more politically costly than the

¹⁵ Most scholars use resource dependence (share of government revenue generated from resource rents) rather than resource abundance (share of GDP generated from resource rents) to identify cases where commodity booms affect state development. But there is, of course, a problem with endogeneity here – a state dependent on resources *by definition* has low infrastructural power because it generates little revenue from other sources (Kurtz 2009).

¹⁶ Chaudhry (1997) makes a similar argument. Notice that resource booms need not have a similar effect on other elements of state capacity – see Saylor (2014) for an account of how commodity booms can, under certain conditions, lead to the development of other elements of the state.

alternative of relying on resource rents to fund public good provision, when leaders have an alternative source of revenue, they will substitute away from taxation. Indeed, this may be sufficient to explain the elimination of national taxation during certain periods in both Peru and Chile.¹⁷

But as the description earlier of the dismantling of taxation during the booms in Peru and Chile suggests, this argument is convincing in accounting for state weakness *while resources provide revenues*. We should be cautious, however, about applying this argument to explain overall variation in tax state development. While resource dependence is sufficient to explain the lack of taxation, its absence tells us nothing about levels of taxation. We can draw no conclusions about why post-boom recovery took so much longer in Peru than in Chile despite booms that were equivalent in length and in their distortionary effects on the economy.¹⁸ The political costs underpinning the resource-dependence argument cannot account for variation in taxation in non-boom conditions.

In addition to the political costs, I argue that a complete theory of tax state development must also take into account another kind of cost of taxation: the *infrastructural* or administrative obstacles that must be overcome for taxes, once legislated, to be collected.¹⁹ These administrative challenges – the existence of tax records and accounting infrastructure, the presence of police able and willing to enforce the rulings of tax collectors, and the like – explain the implementation of tax policy, and thus the relationship between tax policy and tax outcomes. This shift of the focus to the *capacity to tax*, to administration rather than politics, can account for variation in tax state development outside boom times.

¹⁷ Notably, resource dependence is not the only explanation for the decision not to tax: as shown later, the *laissez-faire* ideology of Liberal leaders in Colombia explains the failure to introduce taxation in that country.

¹⁸ Paredes (2013) disputes the comparability of these two booms, arguing that their differential timing led them to have different effects on tax state development. This argument depends on the counterfactual claim that, had the guano boom in Peru arrived later, it would have had a different effect because the Peruvian state would have developed greater capacity. The development of education and coercion (discussed in Chapters 4 and 6), which were less distorted by the guano boom than was taxation, cast doubt on this claim.

¹⁹ Although her focus is on what I have called the “political costs” argument, Karl (1997, 61) hints at the importance of the administrative costs of taxation in explaining the weakness of petro-states.

Implementing Taxation: Forms of Rule and Effective Administration

When states do try to tax – whether after resource booms or more broadly – their ability to do so depends on the extent of the infrastructural or administrative challenges posed by taxation. Here, again, we see the importance of delegated and deployed rule. Where states administer their periphery through delegated rule, as in Peru, the argument of this book predicts that efforts to tax will founder because of the disinclination of local officials to implement tax policy. But under deployed rule, I expect that local officials will have incentives to maintain a level of state power in their communities, which induces them to play an active part in tax state development.

The decision to tax, and the ability to implement tax policy, then, are each partial explanations for tax state development in Chile and Peru. The former is sufficient to explain the elimination of taxes, and explains why commodity booms distort the tax state. But when resource rents disappear, local administration matters. During and after the nitrate boom in Chile, the actions of local state agents were central to overcoming the infrastructural obstacles to taxation. In post-guano Peru, by contrast, local elites serving as state agents in fact created many of these roadblocks to tax administration. Even when the state sought to cut local elites out of tax administration, their central role in other aspects of local governance allowed them to undermine taxation. As a result, whereas Chile recovered its ability to tax its population within a decade after nitrates ran out, Peru took fifty years to undergo an analogous transition and was left with a much weaker tax state.

Peru: Local State Agents and the Failure to Tax after the Guano Boom

The absence of taxation in Peru after the guano ran out demands explanation. An examination of this period reveals the important role of infrastructural obstacles to taxation in addition to the political costs highlighted by existing scholarship. It highlights how administration through delegation to local elites diluted collection efforts, meaning that those internal taxes that made it through the political process were ineffectively implemented and failed to generate projected revenue.

Political Costs

Much analysis of Peru's post-guano fiscal failures has focused on the political obstacles to taxation. Scholars point to one notable instance in

particular: the refusal of Congress to approve taxes to fund the defense of Lima during the Chilean invasion of 1879 (Kurtz 2009, 496). Political opposition also explains the failure to tax primary product exports after these sectors recovered in the 1890s. The mining lobby managed to gain a fifteen-year exemption in 1890, and sugar producers were able to block any export tax on agricultural products (Thorp and Bertram 1978, 30). No export taxes were introduced until 1916, preventing the state from generating revenue from this source.

But political opposition to taxation only goes so far in explaining the failure of the state to tax. For during the years after the collapse of the guano trade – and after 1895 in particular – a range of taxes *was* instituted in Peru. Yet the Peruvian state was unable to generate any revenue from the taxes on its books. This failure revealed sizable gaps in the state's infrastructural power: its absence of records and administration, and the absence of effective policing to enforce taxation. In the discussion that follows, I highlight how the reliance on local elites to administer the national periphery shaped these failings. Because of the failure of local state agents to effectively impose taxation, the state struggled to generate revenue from a head tax, consumption taxes and monopolies, and other direct and indirect taxes. Although revenue did grow (in nominal terms) over the first two decades of the twentieth century, the painful process of tax collection further reflected the weakness of the Peruvian state.

Failure of the Head Tax

As described earlier, the first efforts to restore taxation after the War of the Pacific centered on the reintroduction of a head tax – which now, unlike in previous iterations, would fall on the entire population rather than just the indigenous segment. But collections fell far short of assessments. The failure to generate revenue cannot be blamed on decentralization: in Chile, as shown earlier, local governments continued to generate taxes even during decentralization. Nor were the fiscal shortfalls driven by political costs. The Cáceres government, ruling in a context of abject crisis and allowing little voice to the population, had no trouble imposing this tax. The problems came in its collection. Important to this failure was the lack of policing power, another aspect of the infrastructural weakness of the state. Collection was also hampered by the absence of reliable population statistics (Thorp and Bertram 1978, 121). But even more central was the fact that the state was unable to penetrate indigenous society to organize collection. Forced instead to rely on local elites, its ability to induce them to impose a new tax on their communities was limited.

This can be seen most clearly in the 1885–1886 Atusparia uprising in Ancash, the largest revolt in nineteenth-century Peru.²⁰ The central actors in this revolt were indigenous authorities, who were responsible for collecting from their jurisdictions. The state, in other words, did not penetrate these communities, relying instead on the mediation of community leaders.²¹ Unrest was triggered when these local officials publicly petitioned the government for relief from the burden of tax collection, asking for reduced payments (Thorp and Bertram 1978, 55). When this protest was met with repression, a massive insurgency broke out. A central part of ensuring regional peace in Ancash was the negotiation of tax payments over the subsequent decade. In other words, the government largely conceded in its attempts to tax; this reflects the weakness of the Peruvian state. Each year, local officials refused the taxation schedules sent from Lima, and forced the national government to bargain with the threat of further uprising. As a result of this annual bargaining, taxes fell far short of expectations, with collections averaging about 15 percent of assessed levels between 1886 and 1895 in Huaraz, and reaching a low of 1 percent in 1887 (Thorp and Bertram 1978, 104ff). Thus the first major attempt to reimpose taxation, after the War of the Pacific and Chilean occupation, ended in abject failure because of the inability of the state to force its local representatives to make the population pay.²²

We might think that since revolts reflect opposition to taxation, they should be seen as a political rather than infrastructural obstacle. Yet there are two reasons to see these as an indicator of the state's inability to implement tax policy effectively. First, they arose at the time of imposition rather than as policy is being made – thus, in Michael Mann's terms, they are related to the infrastructural rather than the despotic power of the state. Thus, they contrast with instances of political obstacles to taxation, such as the refusal of Congress to pass a tax bill for the defense of Lima in 1879 cited earlier. Second, a state with greater coercive capacity would have been able to overcome this opposition, highlighting once again the interconnected nature of the various aspects of infrastructural

²⁰ Thurner (1997) offers a definitive account, on which this discussion is based. He argues that this revolt was not motivated purely by fiscal causes; nonetheless, the attempt to impose a tax seen as illegitimate and overly burdensome did play a pivotal role.

²¹ In this instance, the delegation of authority to local elites resembles what is elsewhere described as indirect rule, since these local elites – indigenous leaders – administered the communities using customary law. As discussed in Chapter 2, however, most local administration in Peru did not take this form.

²² Although Thurner's evidence about the absence of collections comes from Huaraz, a more general pattern of illusory budgets can be seen in the national-level data as well.

power. The enforcement of taxation depends on the ability to effectively deploy policing power – and because the Peruvian state could not do the latter, it could not do the former. Thus, it is appropriate to see this generalized pattern of uprising against taxation as an infrastructural obstacle to tax collection. The absence of effective coercion, discussed in Chapter 6 and traced to the role of local elites in security administration, undermined the state's efforts to tax.

Resort to Consumption Taxes

The failure of the head tax became complete with its abolition by the Piérola government shortly after its ascension to power in 1896. With the failure of the head tax, and export taxation precluded due to the political power of producers, the government turned to a series of consumption taxes. Here, too, the fundamental obstacles to taxation were infrastructural: the inability to induce compliance with taxes legislated in Lima. While these consumption taxes were fairly easy to assess, they prompted major revolts, the most important of which are listed in Table 5.7.

Notably, these revolts took place in significant regional centers, reflecting the inability of the state to impose taxes even in large and important cities such as Cuzco, Chiclayo, and Puno. Most galling for the population was the imposition of the salt monopoly by Piérola in 1896, as can be seen from the large number of revolts that year. The monopoly increased salt prices by as much as 400 percent. As a result, despite appeals to national pride in promises that its revenue would allow the rescue of Tacna and Arica from the Chileans, the salt tax led to a wave of unrest. It was only with a massive show of force that the state generated revenue from these taxes, although they remained a significant stream of revenue through much of the twentieth century. Thus, we see nothing in Peru like “quasi-voluntary compliance” with taxation (Levi 1988).

Another, not unrelated, factor undermining the collection of consumption taxes was the willingness of local administrators to grant tax relief for political gain. Nugent (1997) shows that local state agents in Chachapoyas used their control over taxation to win the support of local lower classes. As elites competed for access to administrative positions, one strategy of coalition building was granting tax relief. Nugent (1997, 69) argues that “tax relief was a favor that could be withdrawn at any time, and thus was an effective way of disciplining peasants and artisans.” Relief from consumption taxes on staples like salt, tobacco, and matches represented a significant economic boon, and the dilution of tax administration for political gain sharply reduced the funds entering state coffers.

TABLE 5.7. *Anti-fiscal revolts in Peru, 1885–1896*

Location	Year	Location	Year
Ancash	1885	Cuzco	1894
Puno	1886–1887	La Mar	1895
Huánuco	1886	Cerro de Pasco	1896
Castrovirreyna	1887	Ilave	1896
Chiclayo	1887	Huanta	1896
Andahuaylas	1892	Cuzco	1896
Cerro de Pasco	1893	Juli	1896

Source: Kapsoli (1977).

Despite the fact that these taxes were on the books, they generated little in the way of revenue due to the reluctance of local elites charged with tax collection to impose on their coalition of local allies and clients. Delegated rule facilitated these practices by peopling the administration with bureaucrats who had deep local ties, and by reducing the salience of sanctions from the national government. Thus it in several ways reduced the effectiveness of tax administration.

Tax Reform Efforts

To remedy these faults, as they did with education, the Civilistas sought to remove tax administration from the hands of local elites. In 1902, tax collection was contracted to a private firm, the *Compañía Nacional de Recaudación* (CNR).²³ Officials hoped that privatization would eliminate the obstacle that local elites posed to tax administration. Indeed, it should have done so, since the firm tended to appoint nonlocal department heads to administer tax collection (Nugent 1997, 51). At the provincial level, however, the CNR relied on locally chosen officials, which tended to undermine tax collection. Moreover, these company agents were chosen in consultation with the subprefect, who was deeply rooted in the local community. Additionally, the officials had to be escorted by police to protect them and the funds they collected, and the police were under the aegis of the subprefect. Nugent finds evidence that the subprefect “could withhold protection for tax collections” or “instruct his governors not to cooperate with the tax collection process” (51). Despite the privatization

²³ In 1912, the CNR was replaced by another private firm, the *Compañía Recaudadora de Impuestos*, and taxation remained in the hands of private firms well into the twentieth century. To my knowledge, no systematic study of this company has been written.

of tax administration, it remained firmly in the control of delegated state agents and therefore suffered in terms of implementation.

Conclusion

By the end of the Civilista era, the Peruvian state had regained some ability to tax. Internal taxation recovered to its pre-boom levels by 1920, marking the end of the post-guano crisis. But efforts to build the tax state had foundered. The CNR, established in an effort to remove local elites from tax administration, had failed to do so. Proposals to develop more infrastructurally complex taxes on income and wealth failed to generate any revenue, and state coffers continued to depend on customs and consumption taxes. Although (nominal levels of) taxation rose, the state's infrastructural power – as reflected in the ability to extract revenue from its population – saw little development. That Civilista taxation was limited to infrastructurally “easy” taxes reflected the continuing weakness of the Peruvian tax state, leaving it largely dependent on trade taxes and foreign loans for subsequent decades.

Chile: Deployed Rule and the Recovery of Taxation after the Nitrate Boom

In striking contrast to Peru, the Chilean state recovered fairly quickly from the dramatic collapse of nitrate revenues, overcoming the infrastructural obstacles to taxation when it needed to do so. This strikingly rapid recovery poses a puzzle for scholars of state development. The roots of this outcome – which diverged sharply from the Peruvian experience – can be found at the local level. I argue that even as resource booms filled national state coffers, and local elites who dominated municipal governments displayed unwillingness to tax themselves, local state agents sought continued taxation because they depended on the reach of the state for legitimacy and power vis-à-vis the communities in which they served. In this section, I show that pressures from deployed bureaucrats both pushed the national government to devolve taxes to the local level rather than eliminating them, and pressed municipal authorities (who were elected from their communities after 1891) to enforce the laws on the books and collect the taxes devolved to them. Thus, Chile's reliance on deployed administration limited the distortionary effects of the resource boom and decentralization on its fiscal state. Because of the pressures of local state agents throughout the boom, municipal governments continued to tax, and this sharply reduced the infrastructural obstacles to the post-nitrate reassertion of Chile's tax state.

Decentralization and Municipal Taxation

The beginning of the nitrate boom coincided with a decentralization reform that devolved many powers to local governments²⁴ (Eaton 2004, 93ff). Scholars have focused on its political manifestation: not only the election of local authorities but the end to presidential interference in elections (Valenzuela 1977, 193ff). But its administrative dimension was also crucial. The 1891 Municipal Autonomy Law (*Ley de Comuna Autónoma*) transferred many taxes to municipal governments, including all major non-customs sources of government revenue. Eaton (2004, 95) claims that rather than taxing, local authorities used their leverage over the election of national legislators to demand the delivery of revenue for local projects. Thus, he argues that the decentralization led to significant state weakening.

Yet there are two reasons to believe that municipal taxation was crucial for state extractive capacity. First, tax collection, independent of revenue generated, implied a continuity in record-keeping and administration that would later reduce the infrastructural costs of restoring national taxation. Second, the historical record shows, in contrast to Eaton's claims, that municipal taxation was quite significant. As Table 5.8 shows, municipal taxation reached between 5 and 10 percent of customs revenues for the period 1903–1911, climbing to one-quarter of customs revenues by 1920. Until 1915, municipal taxes were higher than was the internal taxation of the national government.²⁵

With decentralization, municipalities assessed property values, monitored the sale of alcoholic beverages, and regulated the exercise of professions and activities.²⁶ Property records included lists of each property owner with the values of his lands and structures.²⁷ Municipal review commissions responded to citizen complaints about the valuations, and revised the rolls on a regular basis.²⁸ Although the schedule for revision

²⁴ In terms of the typology of decentralization developed in Falletti (2010), this was a political and fiscal decentralization, with only a limited administrative component.

²⁵ Although data limitations prevent a systematic analysis, evidence suggests that the federal subsidy to municipalities as a share of municipal revenues *declined* during the nitrate years.

²⁶ On the introduction of municipal fees for the sale of alcoholic beverages, see, for example, MINT 1891, 146ff for decrees instituting alcohol taxes in the municipalities of Pisagua, Iquique, Tacna, Arica, Copiapó, Antofagasta, Chañaral, and Caracoles.

²⁷ For a detailed account of the kinds of property subject to and exempt from this tax, see the *Ley de Comuna Autónoma*, Articles 36–39. For administrative procedures of this and other taxes, see Articles 44ff.

²⁸ For a list of municipal taxes authorized as of 1892, see Fondo Ministerio de Hacienda vol. 2173 for text of January 29, 1892 law. On property value rolls, see Fondo Ministerio de Hacienda vol. 2009 for partial records of the 1889 *Aváluo de propiedades urbanas*, MINT 1892, 9 for complaints by the Intendente of Tacna about the need for a new

TABLE 5.8. *National and municipal taxation, Chile, 1903–1920*

Year	Customs revenues	Internal taxation	Municipal taxation
1903	69,587,478	1,907,763	6,234,120
1904	82,373,479	1,870,277	6,405,915
1905	90,804,726	2,473,901	6,214,258
1906	103,275,273	3,230,042	6,775,820
1907	111,970,973	4,338,287	8,686,735
1908	107,929,384	3,992,589	10,702,546
1909	113,281,315	3,206,771	9,376,322
1910	129,185,901	9,270,906	7,159,567
1911	136,356,438	12,145,679	14,331,709
1912	148,719,355	13,211,788	16,468,138
1913	158,483,825	17,635,439	19,782,838
1914	107,879,784	15,236,512	21,074,442
1915	90,558,998	33,250,023	21,977,145
1916	139,052,723	30,149,294	24,480,935
1917	163,358,723	34,267,559	27,643,229
1918	185,877,910	40,555,981	32,897,564
1919	74,528,194	45,660,075	34,120,351
1920	149,212,638	50,430,507	37,097,779

Data is in current year (nominal) pesos. According to Remmer (1984, 154), inflation ran between 5 and 9 percent per year between 1891 and 1924.

Source: *Anuario Estadístico de Chile*, various years.

was not systematic, municipal documents in the national archives show that individual municipalities did issue new tax rolls.²⁹ Another municipal tax, the *impuesto de mercados*, required daily collection of fees from market stall occupants (MINT 1887, 60). Thus the infrastructural capacity required for intensive taxation continued to exist at the municipal level during the nitrate era.

Deployed Rule and the Continuity of State Extractive Capacity

Municipal authorities were composed of wealthy members of their communities, and were often unwilling to impose taxes on themselves.³⁰ Yet

provincial tax roll, and MINT 1894: II, 408 for mention of a new survey in Vichuquén, among many other examples.

²⁹ For example, a new *rol de avaluos* was issued in 1912 in Malloa (Fondo Municipalidad de Malloa, vol. 1, p. 183). Wright (1973, 244) notes the existence of rolls of the value of agricultural properties for 1874, 1888, and 1908.

³⁰ See, for example, the refusal of Coquimbo landowners in 1892 to pay taxes that funded the rural police (MINT 1892, 314).

data for 1908 and 1909 (AE 1909: III, 14ff) show that some 30 percent of municipal revenue came from the *impuesto de haberes* that was levied on wealth, the second largest revenue source after the many permits issued. This tax only applied to holdings over 2,000 pesos – in other words, it only fell on the most wealthy segment of local society. This suggests that something made municipal governments willing to impose taxes on the wealthy and locally powerful.

The pressure this required came from local agents of the central state. In this newly decentralized context, the incentives of local state agents became crucial. The historical reliance on deployed rule had created a class of local state agents who gained power vis-à-vis the communities in which they served as the state's presence in their communities increased. Thus, whereas resource dependence could have turned the state's presence in the interior into a "fiction" as it did in Peru, local state agents prevented this outcome. First, they pressed national authorities with their concerns about the post-decentralization decay of state development in their communities and demanded intervention. Second, they pressed municipal authorities to continue taxation in order to fund those services, and intervened (where the constitution allowed them to do so) to ensure that taxes were collected and services delivered.

Pressure on the National Government

In the pre-nitrate era, local state agents had drawn on earmarked portions of the taxes they collected to pursue their local priorities. They feared that the elimination of national taxation would force them to depend on nitrate revenues from Santiago to fund the increased policing, primary education, and transportation improvements that increased the reach of the central state into their jurisdictions. Thus as momentum gathered for decentralization, governors and intendentes pushed for new tax responsibilities for local government (see, for example, MINT 1887, 255). Concern also manifested itself in consistent outcry against decentralized administration in their reports to the Ministry of the Interior, before and after its 1891 implementation. Governors and other local officials used the platform of their reports to authorities in Santiago to highlight the failures of municipal administration and call for a degree of recentralization. Because national officials saw decentralization as an unquestioned good, local officials chose not to tilt at windmills by calling for its abolition. Instead they pressed for piecemeal reform, often pointing to specific measures where centralized authority was particularly necessary. One example was the poor quality of the 1895 census, in which data collection at the

local level was carried out by municipal authorities rather than by central state agents as in past iterations (MINT 1897, 41–42).

Governors also offered criticism of decentralization. They claimed to be unable to comment on many aspects of governance in their departments because it was in the hands of local authorities (see, for example, MINT 1894: II, 266). Governors and other officials complained that local administration was “disorganized” (MINT 1895, 314), that it had no benefits for citizens (458), and that “it is impossible to know on what its revenues are spent because nobody has been able to observe what services it fulfills” (MINT 1910, 1029). Municipal authorities were criticized for being disinterested in effective governance: the governor of Petorca, for example, complained that his department had no rural police “through the fault of the *mayores contribuyentes*, who considered them unnecessary” (MINT 1893–1894, 218). This concern about the “lack of public spirit” of municipal authorities (MINT 1899, 6) was a trope of the *Memorias* of Governors during the years after decentralization. Another trope was a critique of partisan and patronage politics in municipal administration, which was cited as a font of poor public good provision (see, for example, MINT 1894, II: 378, on the partisan nature of rural police, and MINT 1895, 625, on the use of public funds for patronage rather than for public good provision). Another axis of criticism was the misallocation of funds: governors and other local officials reported that municipal authorities failed to spend revenues on the services for which they were earmarked (MINT 1910, 943ff). This complaint often centered on road building, which had become a municipal responsibility after 1893. By their constant reminder of the failures of decentralization, local state agents kept the national government aware of administration throughout the country even as state coffers filled with nitrate rents.

Intervention at the Municipal Level

Chile’s *intendentes* and *governors*, and their representatives at the municipal level also spurred the collection of municipal taxes. These interventions to continue collection prevented the erosion of extractive capacity that often accompanies both resource booms and fiscal decentralization in a context of high social inequality. This influence operated through several channels.

Perhaps most important was the formal power that the central state’s local agents retained after decentralization. Although decentralization limited their formal participation in municipal decision making, central state agents still presided over all municipal government sessions, and

had veto power over any municipal legislation they judged as “harmful to public order” (*Ley de Comuna Autónoma*, Article 104). Although municipal officials could appeal vetoes to the Supreme Court, this still gave national government officials significant leverage. Using this power, governors resolved conflict and deadlock over municipal budgets. In Búlnes in 1893, for example, the municipality’s failure to agree on a budget led to the elimination of a police force that could not be funded. The governor intervened to decree that the previous year’s budget would apply, reinstated taxation, and restored the police force (MINT 1894: II, 529–530).

Additionally, local state agents used their platform to press municipal authorities to increase taxation. This pressure most commonly revolved around the *impuesto de haberes*, because municipal authorities (*Ley de Comuna Autónoma*, Article 35) could choose the rate at which this tax was assessed, between 0.1 percent and 0.3 percent of wealth. State agents often complained about the failure of municipal authorities to raise the rate, and raised this issue in municipal council meetings (see MINT 1910, 45 for one example from the department of Achao). A parallel dynamic emerged in the funding of education. Although municipal authorities were responsible for funding primary schools, the national government continued to oversee and inspect education. As a result, when taxes were insufficiently collected for schooling, complaints trickled up through the education bureaucracy as described in Chapter 4 (see, for example, MIP 1894, xxi).

Third, national government inspectors reviewed municipal accounts to ensure that taxes were collected without irregularities, and *intendentes* provided more general oversight and pressure for policy implementation with their regular visits through their provinces, on which they were required to report to the Minister of the Interior.³¹ This meant that although municipal authorities made tax policy, they were accountable to the national government. The quality of reports by local state agents during this period (as compiled in the various ministerial *Memorias* and intendants’ reports) remained high, as municipal governments were held to a high standard of public service provision.

The End of the Nitrate Boom and the Leap in Internal Taxation

When the nitrate boom collapsed during World War I with the invention of a chemical process for producing artificial fertilizers, the Chilean

³¹ For one example of this oversight, see Fondo Municipalidad de Malloa, vol. 1, p. 331.

state entered into a deep fiscal crisis that also fostered political instability. Without any major export commodity that could generate customs duties, the state had to rely on internal taxes – the same kinds of taxes that had resulted in widespread riots and ineffective collection for decades after the end of the guano boom in Peru.

By contrast to Peru, the Chilean state quickly and effectively restored the collection of internal taxation. Some of this effort was carried out by placing new fiscal levers in the hands of municipal governments. A tax on the value of household possessions was added in 1919, which generated over 3 million pesos in its first year and 5 million in the second. By increasing the rate of collection of taxes already on the books, and by adding new taxes that were easy to collect based on information already collected, the municipalities were able to generate significant additional revenue to make up for the shortfall in customs revenues.

The state also began to re-nationalize the taxes that municipalities had collected throughout the nitrate era, increased the rates, and relied for collection on the state infrastructure that had survived the fiscal distortions of the nitrate boom (Eaton 2004, 23). A national tax on property was introduced in 1915 and generated over fifteen million pesos for each of the next five years. By 1919, with the nationalization of the tax on household possessions, internal taxation reached more than half the level of customs revenue (which included nitrate exports).

These taxes were able to generate significant revenues very quickly because the state was able to rely on the property records and land surveys that had already been carried out when these taxes were collected at the municipal level during the nitrate boom. Even as taxes were eliminated at the national level, more than 200 municipalities had continued to gather data about the economic activity, wealth, and occupation of their residents, and to collect significant quantities of tax throughout the twentieth century. As the external sources of revenue collapsed, the Chilean state had detailed information at its fingertips on land values and even the furniture and other property of residents throughout the country. Municipal governments had kept these records largely because of the pressures and interventions of the deployed agents of the central state. The continued infrastructural power of the state during the nitrate era – and not only its ability to overcome the political costs of imposing taxes on its citizens – underlay its quick recovery.

Federalism and Tax State Development in Colombia and Mexico

The comparison of Colombia and Mexico, both federal systems with much tax authority initially assigned to the states rather than to the national government, reveals the limits of that institutional factor in accounting for trajectories over time. In both cases, the federalist constitutions restricted the range of taxes that the federal government could institute, and allowed subnational authorities to use their influence over the national legislature to undermine efforts to tax. In both cases, federalism acted as a political obstacle to fiscal policymaking (Rodden and Wibbels 2002).

Yet the difference between Mexico and Colombia is striking. While Colombian national leaders regularly introduced policies reinforcing the fiscal autonomy of their states, Mexican leaders, committed to a project of concerted state building, sought to undermine those limits by pushing for changes in the balance of fiscal federalism. By contrast, as in the development of coercive power and primary education, the disinclination of state leaders to expand the powers of the state is sufficient to explain the absence of effective taxation in Colombia. This can be seen both in the dismantling of national taxation in the initial Liberal Reform period and in the limited efforts to centralize the country's fiscal federalism by more moderate governments thereafter. The *laissez-faire* vision of development, not federalism, accounts for Colombia's failure to develop tax capacity.

In Mexico, state leaders faced perhaps the biggest set of obstacles to taxation, as they confronted the legacy of decades of post-independence chaos and a federal system that sharply limited the taxes they could institute. Yet a concerted state-building project used creative legislation, negotiation, and the full range of its constitutional powers to expand its ability to tax at the expense of the states. The expansion in the extractive capacity of the central state, as the evidence that follows shows in detail, derived from the increasing bureaucratization of tax administration, and from the placement of this developing bureaucracy in the hands of deployed state agents rather than those of local elites.

Laissez-Faire Liberalism and Reluctance to Tax in Colombia

Perhaps nowhere was the commitment to *laissez-faire* liberalism among Colombian elites more apparent than in the realm of taxation. Although

the Hilario López tax reforms that began in 1850 were the most dramatic instance in this pattern, there was never a sustained effort to build a tax state in Colombia before the López Pumarejo government of the 1930s. As a result of this disinclination toward state building, central authority never developed in Colombia.

The Hilario López government that came to power in 1849 believed that “individuals left alone to pursue their intellectual and material interests would contribute to the progress of civilization and the well-being of society in general” (Rausch 1993, 62). In the realm of taxation, this view underlay the belief that taxes were “detrimental to national growth” (*ibid.*, 68). The result, as discussed earlier, was the elimination of the tobacco monopoly and several other revenue sources, and the cession of others – most notably the alcohol tax – to the provinces, “with the expectation that many provinces would abolish them altogether and that those which were retained would provide on the regional level the few services that Liberals were willing to admit were indeed the responsibility of the government” (*ibid.*, 68). As a result of these changes, historians find that the state ceded half of its revenue in pursuit of its liberal principles. In 1870, state and local governments took in more revenue than did the national government (McGreevey 1971, 88).

The “Regeneration” of 1886 saw centralization of political authority in the national government. But even during this period, tax administration remained decentralized (Santos 1966, 40–41). Only sporadic crises drove attempts to raise taxes: the Civil War of 1895, the collapse of international trade after 1917, and the Great Depression and war with Peru in 1932. The first of these saw a proposal to tax coffee exports defeated by growers. The second saw the establishment of an income tax (which generated negligible revenue), as well as imposts on medicine, matches, carbonated beverages, and beer (Junguito and Rincón 2007, 246). Yet direct taxes only became a significant source of revenue after further reforms under López Pumarejo in the 1930s.

Before that period, a *laissez-faire* approach to taxation marked Liberals and Conservatives both. This can be seen in their proposals to reform revenue generation. No influential proposal broached the possibility of building a powerful tax state. Instead, they proposed alterations of import duties, taxes on vices like alcohol and tobacco, and the nationalization of revenue sources (cattle slaughter tax, alcohol tax, and the like) that had been devolved to subnational authorities.³² When ordinary

³² See Deas (1982, 310ff) for several nineteenth-century proposals, and Junguito and Rincón (2007, 241–249) for details of proposed and implemented reforms during the first thirty years of the twentieth century.

revenues fell particularly far short of expenditures, the state regularly turned to the expedients of domestic and foreign loans, forced loans, and the sale of vacant lands to fill its coffers with extraordinary revenues rather than ever try to develop tax administration.

Deas (1982) argues that, due to the poverty of its residents and the country's limited domestic and international trade, Colombian governments faced an uphill battle in trying to tax. Yet the record of the period between 1850 and 1930 reveals a striking disinclination by the national government to insert itself into the economic lives of its citizens. As in the other aspects of the state, no effort was made to develop taxation in Colombia before the Great Depression. Once again, Colombia is a case where no state-building project emerged; its state weakness can be traced to the uniquely anti-statist worldview of its political elites.

Mexico: Deployed Rule and the Expansion of Federal Taxation

Mexico and Colombia faced similar challenges to tax state development in the form of federal institutions. But Mexican state leaders, who did not share the *laissez-faire* bent of their Colombian counterparts, pursued the centralization of fiscal authority. And as in Chile, taxation was implemented by deployed state agents, who could be pressured to comply with the state-building initiatives of the national government. The result was that as the federal government asserted its authority to collect taxes, its local representatives carried this authority into their jurisdictions and generated revenue.³³ Over time, the increased professionalization and centralization of tax collection reinforced this pattern, giving the central state greater power to collect the taxes it chose. While in Chile the mechanism linking deployed rule to tax state development was the initiative of local agents, the more important mechanism in Mexico was that deployed rule facilitated the state's ability to ensure that tax collectors fulfilled their duties.

This section explores various pieces of evidence that show the increasingly effective implementation of taxation by the central state's officials. Additionally, it explores the evolving nature of Mexican fiscal federalism: over time, the federal government's penetration of local society grew at the expense of that of its component states. The increased centralization of tax administration, and its increasing reliance on deployed

³³ By contrast, in places where tax administration remained in the hands of local elites, it foundered. For clear evidence of this in the case of Porfirian Chiapas, see Bobrow-Strain (2007, 78–79).

rule, turned tax policy into reality. As the state relied increasingly on its bureaucracy deployed throughout the national territory, its capacity to tax increased. Yet this upward trend in infrastructural power left Mexico behind its Chilean counterpart for three reasons: first, the state chose not to tax wealth, exports, or domestic commerce, believing that to do so would impinge on domestic economic growth. Second, the abject failure of the state to tax before 1857 left its fiscal power at strikingly low levels when the Liberals took power. And third, the central government faced significant political obstacles to taxation from its constituent states, which could use their power in Congress to protect their autonomy from the central state's reach.

Thus, this section highlights both the role of central state bureaucrats in increasing the state's tax capacity, and the limits of those gains in comparative perspective. Drawing on detailed studies by historians of the administration of particular revenue sources, I trace the increased reliance on deployed bureaucrats and the consequences for extractive capacity in two specific arenas of taxation: the *timbre*, and the assessment and sale of vacant land by the state. I conclude by exploring the unique political challenges of federalism for extractive capacity in Mexico, showing how central state extractive capacity increased despite the political obstacles of federalism.

Beyond these two specific administrative histories, a broader examination of tax state development shows a series of Liberal and Porfirian reforms that gave federal state agents increasing power over taxation. By the late Porfiriato, tax administration was firmly in the hands of federal bureaucrats. In 1906, two corps of oversight were created: *inspectores*, who supervised tax collection, and *visitadores*, who oversaw the inspectors and other tax officials (Carmagnani 1989, 489). Tax administration overall was overseen by federal agents stationed in "nearly every" state capital, who operated alongside officers responsible for each tax type (Ludlow 2002: II, 208). Alongside these improvements to internal taxation, a parallel series of customs reforms improved the efficiency of collection in that arena as well (*ibid.*, II, 158ff). Overall, the Mexican state sharply increased its extractive capacity during the Liberal and Porfirian eras. This stemmed from the placement of taxation in the hands of the federal bureaucracy, which extended its reach through the national territory. The reliance on deployed rule meant that, as Pérez Siller (2004) concludes, the state was able to effectively generate revenue from the taxes on its books by the end of the nineteenth century.

Administrative Reforms of the Timbre

As the most important component of internal taxation, the *timbre* is particularly fertile ground for the study of extractive capacity.³⁴ Before 1893, the *timbre* was collected by state and local officials, who remitted funds to the finance ministry. The result was significant irregularity in its collection, and the failure of the tax to translate into “a real, daily presence of the federal state” (Carmagnani 1989, 486). After 1893, a series of reforms would begin to insert the central state directly into the full range of transactions to which it applied. A first measure imposed a layer of federal *timbre* inspectors, who oversaw its administration by local and state officials. This was followed, in 1900, by the establishment of a corps of federal contractors to carry out collection in place of the local authorities. In 1906, a further reform created a tax inspection system that divided the country into six regions, appointing two layers of inspectors to oversee tax administration throughout the country. Thus by the end of the Porfiriato, the *timbre* was collected by the federal government rather than states, in a system that (although reliant on contractors) was overseen by federal inspectors. Along with the increasingly wide range of tax streams included in the *timbre* that was described earlier, this greater systematization and centralization of taxation represented the increased infrastructural power of the federal state, as it removed both subnational authorities and local elites from the extractive apparatus.

Surveying Vacant Land

As political stability became cemented, rural land in many parts of Mexico rose in value, which led to state intervention in the land market. In 1855, the Liberal government made the alienation of public lands – their identification, mapping, and sale – a federal responsibility, nullifying local and state power to intervene in their allocation. Unclaimed land was assigned to the federal government, which had the power to distribute it as it saw fit. Most importantly for the state, this land could be sold to generate revenue. The survey of land was also a pre-requisite for the construction of a system of land taxation, which had been stymied by “the cloudy and disordered state of property relations in rural areas” (Holden 1994, 11). But the conversion of vacant land into a source of revenue required a land survey to identify its extent. The process of surveying reflects the broader trend in state finance: its progressive centralization in

³⁴ This discussion is based on Carmagnani (1989, 486ff).

the hands of the federal government, the exclusion of local elites from its administration, and the growing effectiveness of central state oversight.³⁵

The survey of vacant land in Mexico began in earnest in the 1870s and peaked between 1883 and 1893. The scale of the endeavor can be seen in the fact that the sale of vacant land generated an average of 5.9 percent of all federal revenue between 1867 and 1910, and 23.5 percent of revenue between 1883 and 1890.³⁶ Surveys were conducted by private firms, compensated for their services with one-third of the vacant land they mapped.³⁷ This model of administration, analogous to tax farming, was chosen because it kept both local interests and the national government out of the potentially explosive demarcation of private property. Accepting private contracting of the survey implied accepting the most common mode of surveying private firms used. This was the “deductive method,” in which companies surveyed an area, subtracted private holdings (based on the information on the titles of landowners) and arrived at a number of vacant hectares. This method was inaccurate, but politically and infrastructurally less costly since it did not involve measuring the bounds of private property (49ff). Survey firms tended to be disinterested in surveying locations with small or complicated vacant lands, which were not worth the cost, meaning that many regions remained unmapped. In other words, this was far from a “real cadastral survey” (56), a reality that the Porfirian regime was willing to accept. So long as the survey process generated vacant land that could be sold by the federal government to generate revenue, and generated little unrest, the government accepted its limitations.

Yet despite the limits of the survey process – most importantly the reliance on private firms and the limited accuracy – it did represent a dramatic insertion of the federal government into rural Mexico, part of the Porfirian project of broadening the reach of “civilization” and state authority across the national territory (Meyer 1986, 187). Approximately 30 percent of Mexico’s land was surveyed between 1883 and 1893, including large proportions of the more remote, thinly populated states of Campeche, Chiapas, Chihuahua, Sonora, Sinaloa and Tabasco, and the territories of Baja California and Tepic (Holden 1994, 17). Surveying was further centralized in 1902, when a decree banned private companies

³⁵ This discussion is based on Holden (1994).

³⁶ My calculations from Carmagnani (1994), Appendix III, using his data on “ventas y arriendos.”

³⁷ Notably, these private firms were rarely local elites: see Holden (1994, Appendix) for details on the composition of survey firms.

from the practice, reserving it (and all of the vacant land identified) for the national government (Holden 1994, 108). This growing assertion of federal government intervention in the land market reflects the broader trends of state centralization of finance through the Porfiriato, a reflection of its commitment to building its infrastructural power.

The Federal Government and Mexico's States

As it sought to expand its extractive capacity, the central state confronted institutional obstacles to taxation posed by federalism. Reflecting the autonomy of the states, the 1857 constitution restricted the federal government to certain taxes, and allowed the states to generate any other form of revenue they chose. Because of its desire to promote trade and thus its revenues, the federal government long sought to abolish states' rights to tax the domestic commerce that crossed their borders: the *alcábalá*.³⁸ State elites resisted repeated federal efforts to do so, using their influence in Congress to thwart bills proposing bans on this important source of their revenue, which in 1890 represented more than half the revenue of many states (Ludlow 2002, vol. 2, p. 195). This was the most salient instance of the political difficulties of taxation under Mexico's federal system.

Yet as federal taxation grew, an opportunity to settle this conflict appeared. States protested increased federal taxation – and in particular the *renta interior* introduced in 1887 that applied to the consumption of domestic manufactures – as double taxation on their citizens. In response to the outcry by state governors and their congressional representatives, the federal government offered to eliminate the *renta interior* if states would drop the *alcábalá*. To assure states of its good intentions, the federal government moved first, dropping one of its new revenue streams. In turn, the states allowed the *alcábalá* to be banned in 1896. Once internal commerce duties were eliminated, the federal government immediately raised import duties accordingly, and this revenue went directly into federal coffers.

There is significant debate among historians about the implications of this agreement. On the one hand, Carmagnani (1989, 486) sees it as a “significant retreat of fiscal modernization” because the consumption tax on manufactured goods was abolished. In his view, the early

³⁸ Pérez Siller (2004, 149–150) suggests that the timing of efforts to eliminate the *alcábalá* relates to federal fiscal crises, hinting that the federal government was interested in expropriating this revenue stream rather than receiving the benefit of domestic commerce from its elimination.

1890s saw a shift from fiscal modernization to revenue maximization, as the state gave up efforts to develop new tax streams and focused on improved administration of existing sources (principally the *timbre*) and the promotion of increased economic activity to increase its revenue. By contrast, Uthoff (2004) argues that the central state was strengthened by the elimination of the *alcábalas* because the central state raised its revenues at the expense of the states, while eliminating what was (in both ideological and pragmatic terms) a less than optimal source of revenue. In either case, this active pursuit of central tax authority on the part of the Mexican state is in sharp contrast to its counterpart in Colombia.

Although Mexico's states retained significant fiscal autonomy throughout the pre-Revolutionary period, we can conclude that this did not prevent the increased strengthening of the central state. The federal government claimed the right to a wide range of tax streams, expanded that claim at the expense of the states, and collected those taxes directly and in an increasingly effective manner. The federal system posed an obstacle to taxation by the central government, largely because the legislature created a forum in which state governments could veto policy initiatives designed to increase the power of the federal state while claiming certain taxes for themselves. But through negotiation, compromise, and institutional reform, the Liberal and (particularly) the Porfirian federal state was able to wear away this opposition, setting the stage for even greater centralization of fiscal authority in the post-revolutionary era. The gains of the pre-revolutionary era, which would become consolidated after 1920, were the result of a concerted effort to build a tax state, which was implemented by deployed bureaucrats who put legislation into practice in a concerted manner throughout the national territory.

CONCLUSION

While resource booms and federalism shape the challenges faced by tax state builders, this chapter shows that they are insufficient to account for variation in tax state development. Instead, we must look to the role of ideas to explain why Colombian leaders were content to continue to rely on customs revenues, and why they were unwilling to impose a wider range of taxes even in times of fiscal crisis. Additionally, we must look to institutions of local rule to explain why some efforts to tax succeed while others fail. The foundering of Peruvian efforts to tax when guano revenues ran out can be traced to the fact that administration was dependent on local elites. On the other hand, the striking fiscal recovery after

the nitrate boom in Chile resulted from the roles of local state agents in pressing for increased taxation in the communities in their jurisdiction. The Porfirian state in Mexico understood this, as can be seen from its aggressive efforts to place fiscal administration in the hands of deployed bureaucrats.

The evidence presented here becomes more compelling in conjunction with the evidence for a similar argument in explaining the variation in education development. A similar set of factors can account for variation in these two distinct aspects of state development, and can do so better than can the prominent alternative explanations developed by scholars who treat each dimension independently. This suggests that rather than treating the evolution of taxation and education separately, scholars should pursue unified explanations for why states expand their capacity in some contexts but not others. I continue the effort to do so in the next chapter, which considers the development of the coercive dimension of state power.