GUERRAS INTERNAS, CONSTRUCCION DE ESTADO Y TRIBUTACION

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Abstract: *This article addresses the question of whether internal wars can build state capacity in general, and taxing capacity in particular. It offers a new conceptual framework for understanding the effects of internal wars on state building, as measured through taxation. The leverage provided by this framework is demonstrated through a case study of Colombia. Like external wars, internal wars are a stimulus for state building and increased taxing capacity when they (i) enhance elite solidarity with the state, and (ii) motivate the state to strengthen and territorially expand the tax administration. However, due to the existence of insurgent actors with taxing capacity, the positive effect of internal wars on state building may be hampered. The state-building potential of internal wars rests largely with the changing incentives of economic elites. In the struggle for tax revenues, the state will prevail over the insurgents depending on the intensity of elite solidarity, which in turn is caused by elite perception that the threat of war is real, elite dependence on the state, elite sense of patriotism, and elite identification with a popular leader.*

Key words: Internal wars, development, state building, taxation, comparative/historical sociology

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Leading theories emphasize interstate war as a crucial cause of state formation in general and the development of taxing capacity in particular (Campbell 1993; Centeno 2002; Downing 1992; Herbst 2000; Hintze 1975; Finer 1975; Levi 1988; Migdal 1988; Thies 2005; Tilly 1975, 1990). These bellicist theories of state formation hold that interstate wars, like the ones fought in Europe between the 16th and 18th centuries, stimulated the concentration of administrative resources and the enhancement of the state's capacity to tax. The expanded resources and the new administrative bases provided a foundation for well-ordered, centralized states.

Today, however, most wars are internal wars (Herbst 1989; Hironaka 2005; Zacher 2001).[1] Of the 164 armed conflicts that have taken place since 1945, only 18% have been between two or more states (Holsti 1996: 25). With an internal war, "armed combat is not against another state but against the authorities within the state or between armed communities" (Holsti 1996:21). These wars tend to differ from external wars in myriad ways: tactics, rules, type of violence, role of civilians, and duration (Hironaka 2005; Holsti 1996; Kaldor 2007; Kalyvas 2006).

In sharp contrast to the bellicist theories of state formation, scholars of internal wars see these wars as causing state disintegration and chaos, rather than state building (Bates 2008b; Collier 2006; Fearon and Laitin 2003). Although there is no theoretical model concerning the mechanisms through which internal wars lead to state collapse, scholars believe that internal wars can fracture state integration. An example comes from Fearon and Laitin's influential article: "If our analysis is correct, then policy makers should not assume that *civil wars and the 'failed states' they sometimes produce* are temporary phenomena of the immediate post-Cold

[1] These wars are called interchangeably internal, intrastate, or civil wars.

War world" (2003: 88; emphasis added). The literature also often equates civil wars to state collapse or "collapsed governance" (e.g., Milliken 2003). According to Bates, "Only one country that was conflict ridden in 1990 becomes peaceful by 1992, while eleven others crowd into the ranks of Africa's failed states" (2008b: 3). Likewise, one of the most comprehensive studies on civil wars carried out by the World Bank (Collier et al. 2003) contends that "civil war is development in reverse." In fact, the very definition of state failure used by many scholars includes civil war, such that civil war is constitutive of state disintegration (e.g., Bates 2008a; Esty et al. 1998; Ndulu et al. 2007). The literature also posits a strong empirical correlation between internal wars and state failure. For instance, Bates calls attention to findings by Ndulu et al. (2007) showing that "in 60% of the country-years in which there were failed states in Africa between 1970 and 1995, there were also civil wars. And in 70% of the country-years in which there were civil wars, there were failed states" (2008a: 3).

The objective of this paper is to explore whether and how internal wars can lead to state building.[2] The answer to this question has important implications for the prospects for development in countries immersed in these internal wars. Drawing on insights from the bellicist theories of state formation, the paper offers a new conceptual framework for understanding the effects of internal conflicts on state capacity, as measured through taxation. This framework is then used to make sense of the effect of the prolonged armed conflict in Colombia on fiscal measures of state capacity. In evaluating a general theory with a case study, the paper follows a long and distinguished tradition of research (e.g., Acemoglu, Johnson, and Robinson 2003; Adams 1994; Dahl 1960; Evans 1979; Loveman 2005).[3] Although the case of

[2] Drawing from Mann (1984, 2002), I understand state building as the accumulation of infrastructural power – that is, the "institutional capacity of a central state…to penetrate its territories and logistically implement decisions" (1984: 113). In other words, state building is the enhancement of state capacity.
[3] See Gerring (2004) for additional references of single case studies.

Colombia is obviously not sufficient by itself to fully test the general theory proposed here, it does serve a number of heuristic purposes. It provides an empirical check on the utility of the concepts formulated in the general theory and suggests ways in which the theory can be tested more broadly. Moreover, the case study allows us to unpack the relationship between internal wars and state building, providing insight into the mechanisms that link the two. The Colombian case is especially useful for these purposes because it has witnessed an unusually long internal war. If the mechanisms of the general theory are operative, they should be present and observable in this specific case.

For the Colombian case study, I draw on four main sources of data: (1) quantitative primary sources gathered in the field; (2) secondary literature on taxation and conflict in Colombia; (3) a systematic newspaper analysis, including coverage of two nationwide Colombian newspapers (*El Tiempo* and *La República*) from September 2002 to 2010; and (4) 35 in-depth, semi-structured interviews with major taxpayers from diverse sectors (industry, business, and agriculture), high ranking officials of the Colombian tax administration, current and former ministers of Defense and Finance, officials of the Pastrana administration (1998-2002), and President Álvaro Uribe (2002-2010).[4]

To anticipate findings, I show that internal wars, like external wars, are a *stimulus* for state building and increased taxing capacity under certain specific conditions. Internal wars lead to increased taxation when they enhance a feeling of solidarity toward the state among a segment of the elite.[5] Internal wars arouse this elite solidarity through four mechanisms: a) threatening

[4] All interviews were conducted by the author, in Spanish, and translated by the author. Interviewees gave informed consent and permission for their real names to be used. Audio files and transcriptions of the interviews are available from the author upon request.

[5] By "elite" or "economic elite" I am referring to wealthy individuals (Acemoglu and Robinson 2005: 15). The terms are used interchangeably throughout the paper. Within economic elites, below I distinguish between business/industrial elites and landed elites. By "state elites" I am referring to state rulers or the government (also used interchangeably).

the security and interests of the elite; b) increasing the dependence of a significant segment of the elite on the state; c) enhancing a feeling of patriotism among elites; and d) creating the crisis conditions in which popular leaders can emerge. Internal wars also enhance state capacity by motivating the state to expand into new areas of the country and incentivizing the existing tax administration to strengthen its infrastructural capacity. Levying taxes and managing the new resources requires rulers to build or improve the preexisting but precarious administrative state apparatus directly linked to the collection of taxation (like tax bureaus) but also indirectly related (like the police, the treasury, and a statistics department) (Campbell 1993; Centeno 1997).

In these ways, internal wars resemble external wars in their state-building effects. Consequently, the literature on state formation can be used to study cases where state making (i.e., the formation of a sovereign territorial state) is complete but state building (i.e., increases in state capacity) is an ongoing project. Although some theorists focus on the selection effects of war for the formation of sovereign territorial units (e.g., Mann 1988), my concern here is with the effects of internal war on state building among cases that have already achieved territorial sovereignty. The mechanisms identified in bellicist theories are useful for this purpose.[6]

However, the nature of internal wars, in particular the existence of insurgents, can thwart the mechanisms through which external wars enhance taxation. If a segment of the elite finds that private armies are more effective in protecting their interests than the state's army, they transfer their taxing capacity to the insurgents and away from the state. Whether the overall level of state taxation increases depends on the relative balance of taxes collected by the state versus insurgents. It will decrease if the amount of taxes collected by insurgents undercuts the ability of the state to generate revenue from the elite. It will remain unchanged if the enhanced

[6] Moreover, as Spruyt (2010) argues, the leading bellicist theory by Tilly (1990) is actually about how modern states increased state capacity and not about the formation of sovereign territorial states.

tax revenue collected by the state and the lost tax revenue collected by insurgents cancel each other out. Finally, it will increase if the amount of taxes collected by insurgents is small and does not exceed the gains in tax revenue for the state generated by the conflict.

State capacity is multi-faceted and can be conceptualized and operationalized in many ways, including the capacity to maintain monopoly over the use of violence, provide access to justice, guarantee the rule of law, and tax citizens. I follow a wide range of scholars in adopting a fiscal measure of state capacity because the ability of states to raise fiscal resources from their populations is a key indicator of state strength and at the same time a basic facilitator of state building in nearly all countries (Acemoglu 2005; Besley and Persson 2008, 2010; Braütigam 2008; Centeno 1997, 2002).[7] As Centeno puts it, "taxation is the best measure of effective political authority and institutional development, both representing and augmenting the strength of the state as measured by the capacity to enforce centralized rule on a territory and its population" (2002: 103). With regard to state-building potential, Lieberman argues that "states that regularly collect from a wide range of societal actors are generally also able to govern effectively in a range of other areas, while the inability of a state to generate significant revenue through taxation is often a precursor to state failure or even collapse" (2003: 6). In short, the ability to collect taxes lies at the core of state capacity and state building.

In the next section, I offer a general analytic framework for explaining when and how internal wars lead to increased taxation. The framework is then deployed to analyze how Colombia's internal conflict has resulted in a strengthening of the state's taxing capacity. I conclude with some implications of this analysis for future research on internal wars, taxation, modern state building, and development.

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[7] For those states whose income is not primarily composed of tax collection, a better measure might be the provision of services or the extent of the rule of law.

WHEN AND HOW CAN INTERNAL WAR FOSTER TAXATION? AN ANALYTIC FRAMEWORK

A core component of my argument is the contention that internal wars will lead to increased taxation when they threaten elites to the point that a segment of the elite finds strengthening the state as the best way to protect their interests. Key elites therefore become willing to cooperate with the state in the form of paying more taxes. Internal wars also affect taxing capacity by motivating the state to expand into new areas of the country and by incentivizing the existing tax administration to become more efficient. However, since insurgents have the power to tax elites (something which usually does not occur in external wars), a net increase in government taxation may not occur even if elite solidarity is enhanced and the state increases its institutional presence and capacity. Let us look in detail at how this process operates (see figure 1).

Figure 1 about here

From the classic bellicist theories of state formation (e.g., Downing 1992; Hintze 1975; Finer 1975; Tilly 1975, 1985, 1990) and some of their more recent applications (e.g., Centeno 1997, 2002; Herbst 1990, 2000; Hui 2004; Kurtz 2009; Spruyt 2010; Thies 2005), we know that external wars in early modern Europe and in certain areas outside of Europe were an impetus for enhancing taxation through two interconnected mechanisms: (1) enhancing elite solidarity with the state, and (2) incentivizing state leaders to build new administrative institutions necessary to collect taxes, like tax bureaus.[8] These same mechanisms apply in internal wars, and they correspond to the top half of figure 1. In particular, as the level of conflict intensifies, it increases the state's territorial presence and increases elite solidarity with the state in the form of paying more taxes, both of which foster expanded state taxation.

In normal times, without the threat of war, elites seek to contribute as few taxes as possible. Conversely, rulers seek to extract as many resources as they can obtain. Yet rulers might not encroach on elites because the easiest way for them to rule is to avoid antagonizing elites, who can destabilize government through capital flight, dissent, or obstructing production.

Internal wars change the incentives of both rulers and elites. Wars are expensive and demand resources. As conflict intensifies, state rulers have extraordinary resource needs. In the absence of alternative income, the level to which the state is willing to tax its citizens, especially elites, increases. The costs for the state of allowing the war to advance can exceed the costs of encroaching on the elite. Arguably, it might well happen that in times of internal war the rulers may not want to impose on the elite to avoid hindering economic activity. Yet, in the context of an internal war, where the insurgents may also be extracting from the elite, the state's incentive to impose itself on the elite is dramatically increased. Moreover, the fact that the internal war directly affects the integrity and interests of the elite can also make it easier for state leaders to justify the need for extracting resources. They can argue plausibly that the interests of the state are aligned with the interests of the elite.

[8] I use the term classic bellicist theories to refer to the first group of scholars that underscored the role of wars in building nation states in early modern Europe and whose central message is captured in Tilly's famous adage "war makes states, states make war" (1975: 42) (e.g., Hintze 1975; Finer 1975; Tilly 1975, 1985, 1990). Since Tilly, many scholars have revised and applied the theory outside of Europe, sometimes arriving at different conclusions (e.g., Adams 1994; Gorski 1999; Herbst 1990, 2000; Leander 2004; Midgal 1988; Spruyt 1994; Thies 2005). Nevertheless, classic bellicist theories remain the key point of departure for work on state building in the social sciences.

Yet taxation is a relational act. It also depends on citizens' willingness to pay (Levi 1988; Spruyt 1994). In order for internal wars to stimulate that willingness, they need to trigger the same elite solidarity with the state that external wars do (Centeno 2002; Tilly 1990). Internal wars can arouse elite solidarity through four mechanisms. The first of these is by threatening the security and interests of the elite classes. Elites must perceive this threat to be real. Second, however, elites must also conceive a strong state as their best alternative for confronting the threat rather than, for example, resorting to private forms of security or fleeing the country. They must view the government as a partner or a protector of their interests, not as a consumer of their wealth. Said differently, when threatened by war, elites must become dependent on the state to protect their interests. As the level of dependence on the state increases, the more elites accede to taxation.

Solidarity is further enhanced through a third mechanism: a feeling of patriotism (i.e., identification with government, society, and country). As in the case of external wars, the identification of a common enemy in internal wars helps overcome divisions among the domestic elite, promoting unity, a greater sense of collective identity, and nationalism (Centeno 2002: 266; Feldman and Slemrod 2009: 154; Kurtz 2009: 481; Swedberg 2003: 175; Tilly 1990: 83).

Lastly, solidarity may be the result of elite identification with a particular leader at the time of the threatening situation. When elites identify with the leader's policies or ideology, they are more willing to free resources to support the leader's strategy. The rallying-around-the-leader effect can help explain why only at a certain moment are elites willing to pay more taxes, in particular progressive taxes, even if the threatening situation existed previously.

As the external war literature suggests, internal wars can also enhance state taxation by encouraging rulers to expand the territorial presence of the tax administration or improve its efficiency. The revenue imperative provides an institution-building stimulus (Braütigam 2008). Greater territorial presence facilitates tax collection and increases the number of number of taxpayers. It can also increase the state's monitoring capacity, that is, the ability of rulers to collect information on the actions of citizens and officials (Kiser and Kane 2001: 186). As Tenenbaum argues, "One way nation-states demonstrate the strength and geographical extent of their power is through their ability to impose and collect taxes" (1986: xiii). But the revenue imperative can also stimulate rulers to improve the efficiency of the existing tax administration by enhancing its technological capacity or training its employees, for example.

Up to this point, the effects of internal wars largely resemble the effects of external wars. What varies fundamentally between external and internal wars is the existence of an insurgents' story, which is depicted in the bottom half of figure 1 with dotted arrows. Although it is often the case that internal wars have more than two insurgent groups with different ideologies and war strategies (e.g., left-winged guerrilla forces and right-winged paramilitaries), I group them all under the category of insurgents because they have similar consequences for state taxation.

Insurgents complicate the effects of war on taxation in two ways. First, while in external wars a state normally does not depend mainly on resources from the elite of the opposing country, in internal wars insurgents do attempt to tax the same domestic elite on which the state also depends. Second, in internal wars the economic elite is not necessarily aligned with the state elite. Elites can instead collaborate with the insurgents, and not with the government, especially in areas of the country in which insurgents exercise de facto control. Thus, internal wars might well raise elite solidarity, as we saw above, but not necessarily among *all* segments of the elite.

A distinct characteristic of internal wars is the combination of the absence of frontlines and the fact that the fight is more about acquiring territorial control than defeating a rival in successive battles (Arjona 2009: 202; Kalyvas 2006: 67,88). While boundaries still often separate the different sides involved in the war, they are typically fluid and fuzzy. A map of these wars usually looks like a "messy patchwork" (Kalyvas 2006: 87). This spatial fragmentation yields different zones in which control is exercised by the state, the insurgents, or both. Internal wars give rise to "multiple sovereignties" (Tilly 1973), which have important consequences for state tax collection.

The state and all insurgent groups seek exclusive civilian collaboration. Collaboration entails a wide array of behaviors, including the provision of food, shelter, information, and paying taxes. As control increases, so does collaboration (Kalyvas 2006). In that sense, it is reasonable to believe that in internal wars, tax compliance (or tax evasion) will follow the temporal and spatial dynamics of control. If one political actor gains control over a region, collaboration with that political actor will increase. Collaboration is more uncertain in areas where two or more of the actors are present. For instance, if the incumbents and the paramilitary forces share control, civilians might pay taxes to both actors.

Insurgents thus compete with the state over the taxing of elites. And elites can respond to the armed conflict by transferring their taxing capacity to insurgents instead of the state. Certain segments of the elite may find that paying for their own security, either by using paramilitaries to fight against guerrillas or directly paying both groups, is more effective than paying the state. The crucial implication is that an increase in the level of conflict can increase the level of elite dependence on insurgents, which increases the tax revenue collected by insurgents, not the state.

Because of these complications, the mechanisms through which external wars foster state building and taxation can be counteracted.

The final key step in the model holds that the net level of state taxation during internal wars is the product of *both* the amount of taxes collected by insurgents, on the one hand, and the level of the state's territorial presence and the level of state taxes on the elite, on the other hand. The state and insurgent forces work in opposite directions. Hence, in internal wars the overall level of state taxation can decrease, remain unaltered, or increase. It will decrease if the amount of taxes collected by the insurgents undermines the ability of the state to generate revenue from the elite. It will remain unchanged if the greater tax revenue collected by the state and the lost tax revenue collected by the insurgents cancel each other out. Lastly, it will increase if the amount of taxes collected by the insurgents is small and does not surpass the gains in tax revenue for the state caused by the conflict. Ultimately, the state-building nature of internal wars depends heavily on elite response to internal war. Whether the net level of state taxation is enhanced or not depends on the intensity of elite solidarity, which is, in turn, a function of the four mechanisms described earlier (i.e., elite perception that the threat of war is real, elite dependence on the state, elite sense of patriotism, and elite identification with a popular leader). In short, state building will prevail over state disintegration depending on how intensively these four mechanisms are activated, jointly or individually. Referring back to figure 1, the four mechanisms are represented by the arrow connecting level of internal war to elite solidarity, which eventually tilts the balance toward enhanced state taxation or state debilitation.

In the next part, this general model is deployed to understand how the Colombian armed conflict eventually fostered state building, as measured through taxation, despite the insurgent challenge.

THE COLOMBIAN INTERNAL WAR: A CASE OF STATE BUILDING

The theory developed in this paper applies broadly to countries that (1) have had or have ongoing, protracted internal wars in which part or all of the war is against the state; (2) have a relatively clearly defined elite or groups of elites; and (3) depend on taxing their citizens as their main source of revenue. Most countries with prolonged internal wars meet these conditions and thus are appropriate for assessing the theory.

I begin to assess the theory with a case-study methodology (Gerring 2004). This methodology is especially useful for the initial evaluation of a new theory that entails a complex set of over-time causal hypotheses. The case-study method allows an analyst to carry out a "plausibility probe" of a theory using fine-grained longitudinal data that measure the changing values of specific variables in light of the broader context of the case (George and Bennett 2005). For instance, the case study method permits the use of personal interviews with key actors that measure the changing incentives of elites and rulers in times of war. Furthermore, as many methodologists have pointed out (e.g., Brady and Collier 2010; George and Bennett 2005; Hall 2003), case studies are especially useful for studying the causal mechanisms that connect an independent variable (e.g., level of internal conflict) with a dependent variable (e.g., level of taxation). Given the importance of causal mechanisms in the theory proposed here, the case-study method therefore offers a key source of leverage. Nevertheless, despite these virtues, this method cannot go beyond a preliminary test and caution must be exercised when generalizing beyond the one case. Ultimately, this paper must be viewed as an effort at theory development with a suggestive but not definitive evaluation of the theory.

Colombia is a particularly good case for intensive analysis. For one thing, the Colombian conflict is an unambiguous and sustained instance of internal war. Thus, according to those scholars who view internal wars as fostering state disintegration, Colombia should be a good example of "collapsing governance," perhaps on the road to becoming a "failed state." However, as some have noted (e.g., Arjona 2010: 7; Robinson 2010), Colombia is surprisingly not a case of institutional collapse. The case thus offers an empirical puzzle that merits explanation in its own right. And the duration of the conflict means that the proposed variables in the theory presented here should be in operation and, crucially, that data can be obtained to measure these variables. At least for this single case, then, it seems possible to assess whether the theory presented is valid. Again, however, it bears emphasis that the empirical analysis in this paper cannot establish the more general validity of the theory. This paper makes a start toward understanding how and why internal wars can foster state building by proposing a new theory and suggesting its plausibility; it does not offer a complete test of this new theory.

In the next section I present the in-depth study of Colombia. As I will demonstrate, this is a case in which the amount of taxes collected by insurgents weakened the ability of the state to generate tax revenue, but not enough to undermine the gains in taxation for the state generated by the internal war. State building prevailed over state disintegration because the state bolstered the tax administration and because the four mechanisms that enhance elite solidarity were triggered intensively.

A Brief Overview of the Colombian Armed Conflict

The Colombian internal armed conflict[9] is one of the longest ongoing conflicts in the world and the only one ongoing in North and South America (Arjona 2009; Bergquist, Peñaranda and Sánchez 1992; Gutierrez, Acevedo and Viatela 2007). Like many other Latin

[9] Colombian scholars debate over the term to describe the conflict. Many (e.g., Posada-Carbó 2001) argue that the Colombian conflict is not a civil war because the country is not split along supporters of the warring factions. However, the conflict is indisputably an internal war.

American countries, Colombia witnessed the rise of guerrilla movements with strong peasant support in the 1960s (Wickham-Crowley 1992). Yet, unlike the rest of the region, two of the main left-wing guerrilla groups, the Revolutionary Armed Forces of Colombia (FARC) and National Liberation Army (ELN), are still active. These guerrilla groups are largely rural and follow typical guerrilla tactics in a protracted conflict such as attacking government positions, public infrastructure, and the civilian populations (Kalyvas 2006; Restrepo, Spagat and Vargas 2004).

In addition to the left-winged rebels, the conflict witnessed the emergence of a third armed actor: right-winged paramilitary forces or self-defense groups. Originally created by local elites, landowners, and drug lords to counterbalance guerilla extortion and ransom in rural areas of Colombia, these scattered private armies became increasingly organized during the 1990s into the umbrella organization United Self-Defense Organization of Colombia (AUC). Although the AUC were officially dismantled between 2003 and 2007, today fragmented groups are still quite active in the country (Arjona 2009; Blanco and Vargas 2010).

In the mid-1980s, and in particular since the mid-1990s, the Colombian conflict escalated rapidly. This intensification was reflected in an increase in the number of attacks against the civilian population, politicians, and state institutions; in the level of illegal armed activity; and in territorial expansion by both guerrillas and paramilitaries (Sánchez and Palau 2006; Velásquez 2008). Part of the explanation for the scaling up of activities was the improved sources of financing from which both guerrillas and paramilitaries benefited. These revenue streams include illicit crop production and drug trafficking, kidnapping, extortion, theft of municipal funds, and levying taxes (Arjona 2009; Sánchez and Palau 2006).

The escalation of the armed conflict has forced the government to strengthen the army and increase military expenditures, which in turn has forced it to search for additional resources through various sources, including especially taxation.

The Evolution of National Taxation

Like many Latin American countries, Colombia has experienced a sharp and steady increase in tax revenues collected by the central government, jumping from 6.99% (as percentage of GDP) in 1990 to 12.92% in 2009 (see figure 2).[10] Notably, however, Colombia has been the Latin American country that has "caught up" the most, rising from the lowest level of central government tax revenue as percentage of GDP in 1990 to very close to the regional average in 2009. Concomitantly, the Central Government's expenditures as a percent of GDP jumped from 8% in 1990 to 18% in 2006 (see figure 3; Tanzi 2008).

Figure 2 about here

The striking growth of the Colombian state is seen with the dramatic increases in the provision of social services and the enlargement of the military. The increase in social spending came about in the aftermath of a new, more welfare-oriented Constitution drafted in 1991 (Kurtz and Brooks 2008; Ocampo, Romero, and Parra 2007: 345-6). The increase in military expenditures has accompanied the intensification of the armed conflict (Ocampo et al. 2007: 391). Total expenditures in defense and security as share of GDP have grown from 2.2% in 1994, to 3.6% in 2001, to 4.0% in 2009 (Colombian Ministry of Defense 2010).

[10] Colombia collects taxes at three levels of government: the national level, the state or departmental level, and the local or municipal level. The national level taxes are collected by the Colombian Tax Administration (DIAN for its Spanish name). DIAN collects six types of taxes: income tax (corporate and personal), VAT, net wealth tax, financial transaction tax, gasoline and fuel tax, and stamp taxes. Of the national taxes, the most important are the income tax and the VAT.

In an effort to finance the greater public spending, Colombia passed eleven tax reforms between 1991 and 2009 (see figure 3), more than any other Latin American country (Cárdenas and Mercer-Blackman 2006). In addition, it issued three presidential decrees to introduce new taxes. Of this plethora of laws and decrees, ten created taxes or contributions specifically directed toward financing the war (see Appendix A for the list of all laws and decrees). According to data from the Colombian tax administration, individuals and corporations paid taxes and contributions for security equivalent to 9.8% of GDP between 1991 and 2010. A third of this amount (US$4.7 billion) was collected between 2002 and 2010 from a net wealth tax designed to "finance democratic security" (see table 1).

Figure 3 about here

Since 2002, the country's wealthiest individuals and enterprises have been subject to this national-level net wealth tax designed to "finance democratic security." This tax was originally created through a presidential decree (Decree 1838 of 2002) as a one-time, emergency tax. However, in 2003, 2006, and 2009, Congress extended the wealth tax.[11] According to the Director of the Colombian tax administration, the tax burden is carried by a very limited number of individuals and companies. Today, only about 2,000 individuals are recorded to have a net wealth over 3,000 million Colombian pesos (US$1.5 million) (Amat 2011).

Table 1 about here
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[11] In all three occasions (Law 863/2003, Law 1111/2006, and Law 1370/2009), the tax was almost identical to its predecessor, the main difference being the rate, which was decreased in the tax reform of 2003 to 0.3%, raised again to 1.2% in the law of 2006, and then raised to 2.4% and 4.8% in 2009. The law of 2009 established a rate of 2.4% for individuals and enterprises with a net worth between 3,000 and 5,000 million Colombian pesos and a rate of 4.8% for a net worth above the latter sum. The minimum taxable amount starting in 2003 was a net worth of 3,000 million Colombian pesos ($1.5 million).

What enabled the creation of this wealth tax? What motivated citizens to pay this progressive tax? Although the sharp increase in the tax revenues of the central government is explained by the joint increase in the income tax, the value added tax (VAT), the financial transactions tax, and the net wealth tax over the last twenty years (especially by the rise of the former two), I focus on the net wealth tax because it is most appropriate and relevant for assessing the hypotheses in the general model presented above. Most importantly, the net wealth tax allows us to examine the conditions under which elites are willing to pay taxes, in particular progressive taxes to which rich people are generally opposed (Acemoglu and Robinson 2005: 103). Moreover, the wealth tax is a clearly identifiable tax -- introduced in a precise time period and for a specific purpose -- that allows me to isolate citizen reactions to it. The other taxes, although partly used for war expenditure as well, are not clearly designed for that purpose. It is hard to make a link between willingness to pay these other taxes and the effects of the internal war. By contrast, with the net wealth tax, this link can be readily established.

Facilitating Conditions for the Creation of a Tax: Loss of Territorial Control and the Absence of Alternative Resources

In May 2002, when Alvaro Uribe (2002-2006, 2006-2010) was elected president of Colombia, the armed conflict had reached its height. Peace talks between the FARC and the government of President Andres Pastrana had failed two months before; there was an average of 6.3 kidnappings per day; the national homicide rate was 69.8 per 100,000; and internal displacement had peaked, with a total of 459,000 persons displaced in that year alone. Both guerillas and paramilitaries had gained greater control of strategic areas of the country. The security crisis was accompanied by a drawn out economic crisis. As President Uribe recalls, “Colombia, which had always had a great rating by the multilateral agencies, was starting to be classified by these agencies as a *failed state*… In the first weeks of my government, delegates of the World Bank told me 'Be careful, you are on the brink of collapse.'"[12]

Uribe was elected president on a platform to restore security to the country with a firm hand. He promised to crush all illegal armed groups, in particular the guerrillas, by military means. The government's strategy required a major increase in security and defense expenditures on top of previous growth from 1991 to 2002. Yet the fiscal deficit and the pressing economic situation meant the state faced a terrible shortage of resources. Some funds from US-supported "Plan Colombia" were used to fight the guerrilla forces, but they were not enough.[13] President Uribe recalled the conversation with his Minister of Finance, which illustrates the economic juncture of the country in mid-2002: "The deficit is 4.2 [% of GDP]; it's unmanageable. We do not have other financing sources. We have to cut the budget for this year [2002] by one trillion pesos (US$ 350 million). And despite that cut, there is no money to pay the soldiers."[14] At the time, even FARC's leader, Manuel Marulanda, publicly said, "Uribe will not have the money to defeat us."[15]

The security crisis, coupled with the absence of alternative resources with which to finance the war, transformed the incentives of the state elite. The government felt the need to encroach on the elite to extract resources. According to President Uribe,

> At that moment, I told myself: we need the policy of security. But at the same time I thought two things: this country is very weak, yet many people have just voted for this policy and I am going to deliver. But they have to help me finance it. And that is why we imposed the wealth tax…. It was our only alternative.[16]

[12] Interview with President Alvaro Uribe, 4/19/2011. Same opinion given by Roberto Junguito, Minister of Finance (2002-2003), interview, 3/24/2011.
[13] Interview with Jaime Ruiz, former Director of the National Planning Department (1998-1999) and one of the drafters of "Plan Colombia," 3/23/2011. In fact, as argued by Olivera, Pachón and Perry (2010: 28), "there was a significant opposition to permitting the use of Plan Colombia resources for security purposes (they had initially been approved exclusively for use against drug trafficking), as the government wanted."
[14] Interview with President Alvaro Uribe, 4/19/2011.
[15] Interview with President Alvaro Uribe, 4/19/2011.
[16] Interview with President Alvaro Uribe, 4/19/2011.

In a vivid example of what O'Donnell (1993, 1994) calls delegative democracy,[17] the government declared a 90-day state of commotion (Decrees 1837 and 1838 of 2002), allowing the temporary reintroduction of the net wealth tax, which had been eliminated in the 1986 tax reform. The tax forced individuals and enterprises with 170 million pesos (US$ 85,000) or more in assets to pay a one-time tax equal to 1.2% of their capital. The tax was allegedly to temporarily finance the required increase in defense expenditures to counteract the growing influence of guerrilla warfare and the significant deterioration of public order. Interestingly, the idea of reintroducing the tax was inspired by the case of post-war Germany. As the Vice-Minister of Finance at the time of the tax noted:

> I had read some books on German history, in particular the biography of Ludwig Erhard, the Minister of Finance of Konrad Adenauar. He designed a wealth tax as a starting point of the postwar, to make Germany a viable social democracy... So we discussed this possibility with the President, the Minister of Finance, and the first decree of interior commotion was issued. It described the situation of public order, the loss of mobility, and the need for the wealth tax. Our firm conviction at the time was that Colombia had to see security as an investment.[18]

In short, as the model predicts, the progressive net wealth tax in Colombia was introduced when the state elite felt threatened by the loss of territorial control and rising insecurity, but lacked resources other than domestic taxation to respond to the financial requirements of warfare. Turning our lens from the state elite to the taxpayers, the question that follows is why was this tax widely supported by a segment of the economic elite?

How the Internal War Enhanced Taxing Capacity: Elite Solidarity

The First Net Wealth Tax: 2002.

[17] Delegative democracy is a type of democracy in which once elected by a majority, the president governs as he or she sees fit without being fully accountable to the other branches of power and under the belief that he or she represents national interests.
[18] Interview with Juan Ricardo Ortega, Director of the Colombian Tax Administration and Vice Minister of Finance (2002-2004), 3/18/2011.

Despite the trying economic juncture, the distortionary nature of the tax (a hindrance to investment), the country's high rates of evasion, and the characteristic rejection of elites to progressive taxation, business groups and individuals enthusiastically supported the wealth tax.[19] In 2002, the 4,200 largest corporations in the country carried most of the tax burden (60%). Of these, the two main contributors were the financial and the manufacturing sectors. Over half of the tax (54%) was paid in the capital city, Bogotá, followed by Colombia's second largest city, Medellín (Rico 2006). This distribution has remained relatively steady over the years.

Evidence of willingness to pay the tax in 2002 is readily apparent. The explicit support of the Colombian business leaders and associations manifested shortly after the tax passed. At the annual conference of bankers held in the city of Cartagena, two of three participants said in an informal survey that they would be willing to pay even more of the net wealth tax (Forero 2002). Another manifestation of explicit support comes from the figures on voluntary contributions. Of the revenues collected between 2002 and January 2006, 0.4% corresponds to voluntary contributions made by 10,390 Colombians who, without being legally required to report and pay the wealth tax, paid a total of 8,975 million pesos (US$ 4 million) (Rico 2006). Individually, taxpayers also expressed their support at the time of the enactment of the tax. "There are difficulties because no one has extra money, *but what is important is that there is willingness*," reported Jorge Piñeros, owner of a 15-acre farm, to the New York Times. "Before, people did not want to pay even if they had the money. Now it is the reverse. *They want to pay*" (Forero 2002; emphasis added). When asked if there was a tax they had paid most willingly, a majority of the business and industrial elites interviewed for this study answered similarly:

[19] Interestingly, it had been the large private sector groups that applauded its abolition in the 1986 tax reform.

"Yes, undoubtedly, the net wealth tax. We willingly paid that tax."[20] In the same spirit, the tax advisor of the National Association of Businessmen of Colombia (Asociación Nacional de Empresarios, ANDI) replied that "with everything that has to do with the war, I think there is a more favorable attitude... As opposed for example to some regional taxes."[21]

Not surprisingly, according to the Colombian tax administration, the net wealth tax is one of the taxes with the lowest levels of evasion (Rico 2006). Although this is partly due to the fact that it is a relatively easy tax to collect, the explicit support of the business and industrial elites elite has been instrumental as well.

What sparked elite willingness to pay? Why was it possible to pass this tax in 2002 and not before? As the model presented above anticipates, elite willingness to pay resulted from the combination of four main factors. First, the business and industrial elite perceived the risks of war as real. Although the war has been, and continues to be, fought mainly in the countryside where these predominantly urban elites are not threatened, they nevertheless began to feel the consequences of the war and the extent and failure to control the violence. Their lives were being directly menaced by kidnappings, which increased sharply between 1998 and 2002. A kidnapping strategy implemented by FARC, known as the "pescas milagrosas" (miraculous catches), consisted of mass abductions carried out at illegal roadblocks. Guerrillas would force the drivers and their companions out of the vehicles and select their hostages, which were not restricted to wealthy people. These random kidnappings emerged because the police and military forces lacked the capacity to safeguard the transport infrastructure. For the business and

[20] Interview with Miguel Gutiérrez, CFO of one of Colombia's most powerful economic groups, Organización Ardila Lüle, 3/30/2011.

[21] Interview with María Mercedes Vélez, 3/31/2011. Naturally others expressed opposition, particularly against the tax's distortionary nature. "This tax is completely anti-technical. It hinders investment. I would have preferred a surtax," responded the President of another of Colombia's largest economic conglomerates (Interview with Nayib Neme, 3/21/11). Similarly, according to the President of the National Association of Financial Institutions (ANIF) at the time of the first tax "this decision was not assertive because it directly undermines investment and growth" (El Tiempo*,* 2002).

industrial elites, this rise in insecurity translated into a loss of mobility, the impossibility of enjoying their places of leisure outside the main cities, an increase in private security costs, and a drop in the value of their assets.

Evidence of the change in the elites' perception of threat comes from a monthly survey carried out by the National Association of Businessmen of Colombia (ANDI). Every month since January 1990, the ANDI has asked its associates the open-ended question, "What is your industry's main problem?"[22] From June 1994 to 1998 "insecurity" was not a response. In September 1998, insecurity was mentioned by 3% of the 371 entrepreneurs interviewed. The figure continued to increase, reaching a peak of 16% in the first semester of 2002 (see figure 4). When asked why his willingness to pay taxes changed, the owner of a large private transportation firm said:

> Our willingness began to change because our perception changed. We're screwed! If we don't put our hands into our pockets, we're screwed! That was the expression, both within ANDI and outside ANDI… People started to give the money painlessly. People began to witness the problem of insecurity, of the kidnapping, of the guerrilla. We were all touched by the kidnappings. It was unbearable. I would say the growth of armored cars and the increase of the willingness to pay specific taxes for the war were simultaneous.[23]

Figure 4 about here

However, perceiving the threat of war as real is a necessary but insufficient condition to stimulate elite's willingness. Paying progressive taxes is neither the only nor necessarily the most rational alternative to address the rising threat. As Rettberg (2003) has shown, business entrepreneurs react to the armed conflict in myriad ways: fleeing,[24] passivity, profiting from the armed conflict, contributing to the financing of paramilitary groups, leading peace initiatives at

[22] The number of industries surveyed ranges from 240 to 360.
[23] Interview with Javier Rios, 3/4/2011.
[24] In fact, between 1996 and 2001, nearly 1 million Colombians left the country mostly because they thought insurgents had taken aim at them for extortion or kidnapping (Forero 2001).

the local level, or any combination thereof. To Rettberg's list I would add: paying the guerrilla forces to avoid being kidnapped or killed and, most importantly, contributing to the financing of the state. In order for internal war to spur elite solidarity in the form of paying higher taxes, elites have to see a strong state as their best alternative to protecting their interests in the war.

As the President of the Board of Directors of the Colombian Association of Flower-growers explained:

> It was better to contribute to the state than continue being in the hands of these bandits and almost surely contributing through extortions and *vacunas*[25]…the country could not continue witnessing these levels of internal displacement and insecurity. We were aware that *either we paid so the state could become stronger and fight the guerrilla, or we were going to be those displaced by the guerrilla*…. For flower growers, fixing the kidnapping situation was a life or death issue. We could not continue to run our companies on remote control.[26]

Similarly, the President of a metallurgic company expressed to the press the need for a stronger state: "the country has no alternative other than to strengthen its security forces, its intelligence capacity, and the military apparatus to eradicate the calamity that has engulfed the country" (La República 2002). Likewise, the financial director of an industrial conglomerate noted: "Our trucks had to stop circulating at a certain hour. The army closed certain roads after 6pm. We could no longer guarantee the security of our merchandise. We needed the state to solve the insecurity problem."[27]

Along with the rising perception of threat and the concomitant increase in the elite's dependence on the state, a third factor boosted elite solidarity: the sense of patriotism. As in external wars, the existence of a common enemy aroused a feeling of patriotism that motivated business and industrial elites to pay. The President of one of the largest transportation companies in Latin America set up the parallel beautifully:

[25] *"Vacuna"* (in English, vaccine) is the word used colloquially to refer to the guerrilla or paramilitary taxes against kidnapping or death.
[26] Interview with Francisco Bazzani, 3/17/2011.
[27] Interview with Patricio Serrano, 3/23/2011.

> What happened with the taxes to finance security could be compared with what occurred during the war with Peru [and Colombia in 1932-33], when the people in towns and cities stood in lines to hand over their jewelry and gold so the government could arm itself and expel Peruvians from Colombian territory. These lines were calm and voluntary. They were simply the product of a sense of patriotism, like I think have been those taxes to finance public order.[28]

Similarly, Colombia's leading banker and wealthiest man emphatically framed his willingness to pay the security taxes in terms of nationalism:

> Indignation is what motivated us. The indignation of seeing that these groups [of insurgents] kidnapped, drug trafficked, extorted, and blackmailed… We witnessed how that grew and grew, destroying our nation. That was the best motivation. We could not tolerate that to continue… They corrupted the judges, the police, and the municipal authorities… There was enough money to corrupt everyone. We were convinced that that situation had to change. All businesses contributed and paid those taxes… Even if we were aware that only a few of us paid, we accepted on good terms, it was not optional. We had to end that. So we accepted the burden... Definitively I was the person who invited the rest of the entrepreneurs of this country to address the requirement of paying more taxes. I organized several meetings and I invited them to contribute. That is how it started.[29]

Lastly, the newly elected president himself stimulated the elite's willingness to pay the tax. Uribe, son of a wealthy landowning family, won by a large margin. Elites and citizens who identified with his hard-line, anti-rebel policy elected him.[30] During his campaign, he appealed to the middle and upper classes and the military with a pledge to double the size of the military and enroll around one million civilian volunteers to constitute civilian "watch groups" to help inform the Colombian military of "potential terrorists." Simultaneously, critics strongly questioned Uribe's human rights record and his possible links to the paramilitaries.

The elite identified with Uribe's firm hand ideology and responded positively when asked to contribute. A rallying-around-the-leader effect thereby occurred. Several interviewees acknowledged that Uribe played a role in their willingness to pay the wealth tax. "Undoubtedly, the fact that Uribe commanded this whole process and asked for money was instrumental in

[28] Email communication with Javier Rios, 3/5/2011.
[29] Interview with Luis Carlos Sarmiento, 3/25/2011.
[30] During the presidential campaign, public opinion polls had Uribe ahead since peace talks with the FARC collapsed two months before the election.

getting people to pay," underscored the President of the Colombian Agricultural Society.[31] Other responses included: "The arrival of Uribe accompanied this process with great leadership;"[32] "Uribe can be criticized for many things, but he can never be accused of not having tried to defend the country;"[33] and "I think people made a vote of confidence in the Government."[34] Despite Uribe's role, it would be inaccurate to argue that only Uribe could tax the elite. The net wealth tax was again passed in late 2010 by Uribe's successor, President Santos. Although Santos was part of the Uribe administration, he lacks Uribe's hardline reputation and has adopted social and economic policies that Uribe vehemently resisted (e.g., a land reform).

In sum, the magnitude of the security and economic crises changed the interests of the government who encroached on the elite in the form of a wealth tax. Meanwhile, an escalation in the level of armed conflict increased the perceptions of risk by the elite, expanded their dependence on the state, and aroused sentiments of nationalism and support. The war became a taxable moment in which the interests of the state elite and the business and industrial elite aligned, leading the former to make an extraordinary request for resources while motivating the latter to comply.

The Net Wealth Tax becomes Law: 2003, 2006, and 2009.

In 2002, the President passed the wealth tax by decree and promised it would be a one-time tax. Yet appealing to the persistence of the security crisis and to the achievements attained by the military, the government persuaded Congress to pass the tax as a law in 2003, 2006, and

[31] Interview with Rafael Mejia, 3/25/2011.
[32] Interview with Alejandro Figueroa, President of one of the country's largest banks, 3/18/2011.
[33] Interview with Javier Rios, President of one of Latin America's largest transportation companies, 3/4/2011.
[34] Interview with María M. Vélez, Director of the Tax Division of ANDI, 3/31.2011.

2009 (Olivera, Pachón, and Perry 2010). On each of three occasions, the business and industrial elite strongly endorsed the tax.

As an example of continuing elite backing, several interviewees mentioned the support of the 2009 reform by the affiliates of the National Association of Businessmen of Colombia (ANDI) during its General Assembly. ANDI's Director of the Tax Division, who was present at the meeting, recalled the situation:

> The Minister of Finance of the previous government [Uribe] went to ANDI's General Assembly in 2009 and said 'This is the situation of the war. It has not ended. We don't have the money to put an end to it. We need the wealth tax. We need 8 trillion pesos (US$ 3.9 billion). We need you to give us 4.8% of your net wealth.' Which by the way is a lot. But the entrepreneurs immediately said, 'Yes. We support it and we think it is important to try to diminish the internal conflict.'[35]

In short, Colombia's business elite was willing to pay and support a heavier tax burden even after the threat had receded from the 2002 levels.

Three factors beyond those that had been present in 2002 enhanced elite solidarity: improvement in the security situation, ensuing economic growth, and an informal accountability mechanism. Most of the resources from the net wealth tax were used to increase the number of uniformed personnel in the security forces (army, navy, air force, and national police)[36] and enhance their technical capacity. By 2006, "Police were present in all of Colombia's municipalities… This was possible in part due to the additional resources coming from the wealth tax," explained the Vice-Minister of Defense.[37] The strengthening of the military translated into security improvements relatively quickly, while concerns about human rights abuses by the state increased (e.g., Arjona 2010). The number of kidnappings and illegal

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[35] Interview with María M. Vélez, 3/31/2011.

[36] The number of uniformed personnel in the security forces increased by 32%, from 313,406 in 2002 to 437,548 in 2009 (Colombian Ministry of Defense 2011).

[37] Interview with Yaneth Giha, 3/22/2011.

roadblocks plummeted, revealing improvements in territorial control and state penetration (see figure 5).

Figure 5 about here

Correspondingly, the perception of insecurity of the business elite also improved shortly after 2002 (see figure 4). Several of the businessmen interviewed noted improvements in security and underscored those results as one of the factors that enhanced their willingness to pay the additional wealth taxes. "We saw developments in terms of security and thus when the extensions [of the tax] came, we were willing to pay. We were able to return to the countryside… The threats not only decreased, they ended completely in a matter of five years."[38]

In turn, better security boosted economic growth (see figure 6), which further motivated elites to pay the tax. When asked how his attitude towards the net wealth tax evolved, Colombia's most important banker said:

> We began to see the positive outcomes. Now it was not only indignation, but also the positive consequences on the economy. We gave the money, the army did a great job, Uribe was a great manager, and they got rid of those people [the insurgents]. Some areas of the country that I know well are clean. The reasons multiply…. Wealth reemerged in the country.[39]

Figure 6 about here

A final factor that bolstered elite solidarity was accountability. In 2007, shortly after the net wealth tax was extended for four more years, the minister of Defense set up an informal commission called the "The Ethics and Transparency Committee."[40] This committee empowered businessmen, academics, former ministers, and presidents of the main business associations to

[38] Interview with Francisco Bazzani, Colombian Association of Flower-growers, 3/17/2011.
[39] Interview with Luis Carlos Sarmiento, 3/25/2011.
[40] Interview with Yaneth Giha, Vice Minister of Defense, 3/22/2011.

periodically report on how revenue from the wealth tax was spent and consider investment alternatives. In addition, the President mandated that security forces provide annual, publicly available reports on how money was used, to reassure taxpayers that the government was not squandering resources.[41]

Several of those interviewed for this study participated in the commission and underscored the role it had played in their support of the tax. For instance, the aforementioned banker explained: "I was part of that committee…We were left with a very good feeling that the investments were directed where they were needed [and] that the acquisitions [of equipment and technology] were done rigorously."[42] Similarly, the President of the National Federation of Businessmen (FENALCO) noted, "The committee made us all feel that the money was being well spent."[43]

How Internal War Enhanced Taxing Capacity: Institutional Expansion and Strengthening

As the level of conflict intensifies, the government's need for resources increases. Yet collecting greater revenue does not depend exclusively on taxpayers' willingness to pay (Levi 1988). It also hinges on the state's *capacity* to collect taxes. One way of improving capacity is by expanding territorial presence. As is characteristic of many Latin American countries, the Colombian state has traditionally had a high degree of heterogeneity in the scope, both territorial and functional, of the state and of the social order it supports (O'Donnell 1993). When Uribe rose to power with the objective of eliminating the insurgents, his plan included increasing resources to finance the new security strategy, as well as expanding state presence through myriad state institutions to those areas where the writ of the state was absent. In the case of the

[41] Interview with President Alvaro Uribe, 4/19/2011.
[42] Interview with Luis Carlos Sarmiento, 3/25/2011.
[43] Interview with Guillermo Botero, 3/23/2011.

tax administration, “This [expansion] was the result of the explicit objective of increasing the number of taxpayers” in order to raise resources.[44] Between 2002 and 2009, the Colombian Tax Administration went from being present in 120 municipalities to 535 (DIAN 2009). Although this means that it is still absent in almost half of the municipalities of the country, its presence increased by more than three-fold in seven years.

A second way to increase revenues is by improving the efficiency of the tax administration by modernizing and upgrading its technological platform. Modern tax administrations depend on the management and cross-analysis of substantial information about taxpayers. This task relies on the use of intelligent systems for data management and processing that enable building taxpayer profiles and detecting inconsistencies.

In 2003, DIAN began to transform its technological platform and data management system through a management model called MUISCA (Modelo Único de Ingresos, Servicio y Control Automatizado / Income, Service, and Automatic Control Unique Model). As explained by the Director of MUISCA, the diagnosis from which this program started was that “As many other State entities, the DIAN was disarticulated, it had poor performance and management indicators, tax evasion was high, tax revenue was low, employees had problems of internal mobility, and therefore the decision of improving and modernizing the administration was adopted” (Rodríguez-Garavito and Rodríguez-Franco 2012). The MUISCA implemented numerous technological changes, which transformed the institution’s operation and improved its capacity to collect taxes. Two examples are the online completion and filing of tax forms and the creation of the Unique Tributary Registry (Registro Único Tributario – RUT), which was designed as a mechanism to identify, locate, and classify taxpayers with a single number. In

[44] Interview with President Alvaro Uribe, 4/19/2011.

short, the state was willing to bolster the tax administration because it seriously needed resources.[45]

Although the system still presents problems to its users, the effects of this technological change have been substantial and immediate. For example, the introduction of the online filing option resulted in a remarkable increase in the number of tax declarations presented online from 260,000 in 2006 to 1,070,000 in 2007 (DIAN 2009). This change also helped diminish evasion and increase revenue. Tax revenue collected by DIAN more than doubled between 2002 and 2009 (going from 27.6 to 69.5 trillion pesos).[46] As a share of GDP, this upsurge represented an increase from 11% to 13%. Likewise, income tax evasion decreased from 36% in 2002 to 27% in 2009, and VAT evasion decreased from 24% to 21% in the same period. Although tax evasion is still high for international standards and the tax administration suffers from corruption scandals, clientelism, and the absence of a meritocratic civil service (Rodríguez-Garavito and Rodríguez-Franco 2012), higher tax revenues and decreased tax evasion are both signs of enhanced fiscal capacity.

The evidence up to this point reveals an increase in tax revenues by the central Government during times of internal war. The process through which this has occurred, which includes the strengthening of the tax administration given the desperate need for resources and greater business and industrial elite support of taxes, suggests that the same mechanisms through which external wars enhance taxing capacity operate during internal wars. However, as I will show in the following section, the particular nature of internal wars can hamper the state-building potential of wars.

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[45] See figure 3 above the wide gap between government expenditures and tax revenues.
[46] US$ 9.6 billion of 2002 dollars and US$ 34.0 billion of 2009 dollars, respectively.

Competing over Taxpayers: The Insurgents versus the State

With internal wars, unlike external wars, the state is not the only actor engaged in tax collection. Armed conflict motivates insurgents, both guerillas and paramilitaries, to look for financing sources, including taxation. In fact, while the FARC and the paramilitaries are usually treated as representing opposed ideological and political tendencies, when viewed in terms of taxation, their actions are analogous: they both compete with the state over the taxing capacity of citizens, corroding the state's revenue base.

The FARC has traditionally levied what they call "revolutionary taxes" on medium size and large corporations and farmers as a way of generating revenues. In March 2000, it formalized the practice by issuing revolutionary Law 002, which demanded a 10% tax from all corporations or persons, national or foreign, with assets of 1 million dollars or more. The law was strictly enforced and tax evaders risked kidnapping. As explained by a FARC spokesman:

> We will stop the kidnappings when the armed conflict ends in Colombia. There are many people who are already paying, that is, they are paying their tax voluntarily. However, there are others who are not paying. Hence, we kidnap those who are not paying to ensure that they pay. This is a tax. Those who have the resources must pay their share (McDermott 2001).

In the first year of the law, the FARC collected over 408 million dollars (Reyes 2001).

Similarly, in the regions of illegal drug production, the FARC collects a tax on coca leaf cultivation, cocaine base production, and trafficking (Sánchez and Palau 2006). Experts argue that the FARC takes in between 500 million and 600 million dollars annually from the illegal drug trade (Hanson 2009). Moreover, the FARC imposed an unofficial "tax" in the countryside called "the ticket" (or "la boleta" in Spanish), which individuals of all income levels had to pay yearly.

The paramilitaries also tax. In their hearing before the public prosecutor's office, three former paramilitary leaders explained that their finances were based on levying taxes on cattle-raisers, truck-drivers, and on every kilo of cocaine that was produced in the region, among several other activities (Verdadabierta.com 2011a). "Between October 2000 and December 2001, we collected 4,200 million pesos (US$ 1.8 million) per year from the rubric of *taxes and roads* and 1,400 million pesos (US$ 600,000) from the rubric of *taxes on drug trafficking*" (Verdadabierta.com 2011a). Likewise, another paramilitary leader revealed that "Between 2002 and 2005, farms and rural commerce of the State of Magdalena paid 1,450 million pesos (US$640,000) and commerce of the city of Santa Marta contributed with 13,250 million pesos (US$ 5.8 million)" (Martinez 2008). While these statements are ultimately of individual paramilitary leaders from two different fronts, they illustrate financing strategies common to many paramilitary armies. Arjona (2009) was told by several interviewees in the State of Cordoba, in the northwest region of Colombia, that the paramilitaries tax every worker in town, from street vendors to shop owners, not only landed and commercial elites.

To be sure, not everyone pays voluntarily to guerrillas or paramilitaries. Evidence of resistance comes from the FARC leader previously cited, who acknowledged kidnapping those who refused to pay. Others were killed or internally displaced. However, private multinational and national corporations whose economic activities are based in the rural areas, as well as landowners, rural businessmen, and cattle raisers, paid voluntarily, especially to the paramilitary forces. As Rettberg (2003) underscores, contributing to finance the paramilitary organizations was one of businesses' responses to the armed conflict. "I remember talking to some colleagues from [the state of] Antioquia and they would not even blush when they accepted to pay taxes to the paramilitaries," explained the aforementioned President of the Board of Directors of the Colombian Association of Flowergrowers.

Another example of voluntary payments is Chiquita Brands, one of the largest banana producers in the world. It was fined 25 million dollars after pleading guilty in March 2007 before U.S. courts to paying Colombian paramilitary militias over 1.7 million dollars between 1997 and 2004 (Romero and Torres 2011). Instead of leaving the country or refusing to pay, which were common responses of corporations to the armed conflict (Rettberg 2003), the CEO of Chiquita stated in an interview on the program 60-Minutes that "The company decided to pay, absolutely" (CBS 2009).

Similarly, according to an accounting book handed to the Prosecutor's office by paramilitaries on trial, in the small town of Puerto Lopez, in the Southeast region of Colombia, 230 farmers paid paramilitaries 450 million pesos (US$ 160,000) in 2003. According to the Prosecutor's Office, it has not been able to verify the crime because it has not received extortion claims from the farmers. The General Prosecutor argued that the reasons for the lack of extortion complaints are that paramilitaries arrived to Puerto Lopez summoned by some cattle-raisers and thus it is unlikely that they confess having made those payments (VerdadAbierta 2011b).

Evidence from taxes collected by the FARC and paramilitaries suggests that when the war escalates, economic elites have two options with regard to taxation: pay taxes to the state or transfer their taxing capacity to non-state actors. The differential behavior of elites came to surface in several of the interviews. Tellingly, the current director of the Tax Administration alleged:

> There exists a progressive elite who depends on a modern state and who is willing to strengthen the state. Then there is a feudal elite. Landowners do not pay. Sugar growers pay very little. The palm-growers do not pay. They pay neither the real estate tax nor the wealth tax to finance the war.[47]

[47] Interview with Juan Ricardo Ortega, Director of the Colombian Tax Administration, 3/18/2011.

Economic historian Salomon Kalmanovitz synthesizes the situation in the following terms: "The weakness of the State at the local level opened opportunities for the guerrilla to capture the taxing potential of landowners and businessmen of many regions of the country. The insurgents started to prey on the agrarian economy and to kidnap its businessmen. *Landowners and rural businessmen responded by supporting private armed groups... Instead of paying taxes to the Central Government and to the local administrations to guarantee security and offer social services to the population, they opted to recur to the para-State*" (2010: 318-9; emphasis added).

While it is impossible to know the exact amount of the insurgents' total tax revenues, the evidence suggests that in the case of Colombia state taxes were negatively affected by rivaling insurgent taxation, but not enough to trump the positive effect that the internal war has had on state taxation. In that sense, the Colombian case is a strong test of the internal-war theory of state building. As the theory predicts, the overall impact that the internal war has had on state taxation depended, first, on how much the state was willing to bolster the tax administration to collect more resources and, second, but perhaps more importantly, on the willingness of a segment of the elite to collaborate with the state. In Colombia, enhanced state taxation was possible because the four mechanisms that cause elite solidarity were strongly and jointly activated in 2002 among the business and industrial elite. Escalation in the level of armed conflict increased the perceptions of risk by the elite, enlarged their dependence on the state, awakened sentiments of patriotism, and aroused support for a hard-line leader who promised to crush the insurgents, even if that meant paying higher taxes.

Although the general model goes a long way toward explaining the Colombian case, it does not provide a fully comprehensive list of all factors that mediated the effects of war on taxation in Colombia. For example, high economic growth during the years analyzed here enhanced revenue collection. Yet economic growth by itself does not suffice to explain why Colombia caught up with the regional average in tax collection capacity. When compared to other Latin American countries, Colombia's growth rate was actually below average during the period when its tax revenue as percentage of GDP improved.[48] It is also true that several tax reforms, including changes in the income tax and the financial transactions tax, contributed to the revenue gains made by Colombia. Yet the key finding of this analysis remains: war did not hamper the fiscal side of state development, despite all of its negative social and economic consequences. The capacity of the state to impose successfully taxes on the Colombian business and industrial elite was crucial to this outcome.

CONCLUSION

Internal wars are more common than external wars. However, scholars of state formation (e.g., Herbst 2000; Spruyt 1994; Tilly 1975, 1990) have mainly focused on external wars as a potential source of state creation. Meanwhile, the literature on internal wars (e.g., Bates 2008b; Collier and Hoeffler 2004; Fearon and Laitin 2003) argues that these wars hamper development and can cause state collapse without spelling out the mechanisms through which this occurs.

The fundamental question of whether and how internal wars can build state capacity in general, and taxing capacity in particular, remains unanswered and largely unexplored.[49] In this paper, while not intending to dismiss the tragic effects of war, I have proposed that internal wars can boost taxing capacity by altering the incentives of both the government and the elites. The

[48] The average annual GDP growth rate of Brazil, Chile, Colombia, Mexico, Peru, and Venezuela between 1990 and 2009 was 3.52%, while Colombia's was 3.44% (IMF 2012).
[49] One exception is Besley and Persson (2008) and (2010), who explore the role of war in shaping investments in fiscal capacity. Likewise, Stewart (2011) explores the conditions under which the tragedy of war can be a catalyst for community development.

loss of territorial control and the revenue imperative motivate rulers to encroach on the elite, despite the possible reduction of productive effort. In addition, internal wars motivate rulers to strengthen and territorially expand the tax administration to improve its revenue collecting capacity.

The other mechanism through which internal wars enhance taxation is triggering elite solidarity with the state. Feeling the threat of war as real, elites become more dependent on the state to protect their interests and thus more willing to contribute to strengthening state capacity by paying more taxes. Likewise, the sense of patriotism that results from the existence of a common enemy, and the elite's identification with a ruler, help spur solidarity.

In these ways, then, internal wars are more similar to external wars for state building than the literature acknowledges. However, the difference with external wars lies in the existence of insurgents, who compete with the state over tax revenue. Ultimately, the overall level of state taxation will increase if the taxes collected by the insurgents are comparatively small and do not surpass the gains in tax revenue for the state generated by the war. One implication is that the state-building potential of internal wars rests largely with the changing incentives of elites. This does not mean that other social groups are irrelevant for processes of state building. Rather, the point is that the possibility of strengthening states is largely a function of elite decisions, particularly in societies in which income and wealth are concentrated in the hands of a relatively small group of people. If the elites decide to organize or financially support their own private security by transferring their taxing capacity to insurgents, they block efforts to levy the necessary taxes to strengthen the state. Alternatively, if elites see strengthening the state as the best way to protect their interests, and correspondingly pay taxes, then internal wars can effectively enhance state taxation. In the end, the extent to which state building is possible depends on how strongly the four mechanisms that produce elite solidarity are trigged, jointly or individually. State building during internal war depends on the degree to which a significant segment of the elite perceives the risks of war as real, decides to protect its interests with the help of the state instead of the insurgents, feels a sense of patriotism, and is motivated by a popular leader to pay taxes.

A distinctive feature of the Colombian conflict, and contrary to many of the internal conflicts being fought around the globe (mainly in Africa and the Middle East), is the absence of ethnic, racial, or religious cleavages defining the conflict. Colombia's is a class-based war, or what Sambanis (2001) calls a non-identity war. This fact raises the question of whether the theory presented here applies to identity wars (like Iraq or South Africa, for instance). One hypothesis is that as long as a segment of the elite (defined on the basis of race, religion, or ethnicity) develops a sense of solidarity with the state, we can expect that segment to be willing to pay taxes to strengthen the state. Thus, state building will prevail over state collapse in identity-based wars to the extent that the same four mechanisms that enhance elite solidarity during non-identity based wars are activated. Regardless of whether they are part of the minority (e.g., whites in South Africa under Apartheid) or the majority group (as in Colombia, where the minority consists of those aligned with the insurgents), and regardless whether they are united on identity grounds that go beyond economic status, elites need to trust the state to represent their interests for state building to occur.

The possibility that internal wars can generate state building under certain specific circumstances has far reaching implications for development in countries that are vulnerable to or now undergoing such wars. For if internal wars can activate the same state-building mechanisms of external wars (i.e., elite solidarity and institutional strengthening), despite their destructive effects, they can have an unintended positive effect for country and society. This paper has provided a theoretical framework for understanding how and why this positive effect is possible. A crucial next step is to explore further whether the findings from the Colombian case presented here can be generalized to other countries that have experienced internal wars.

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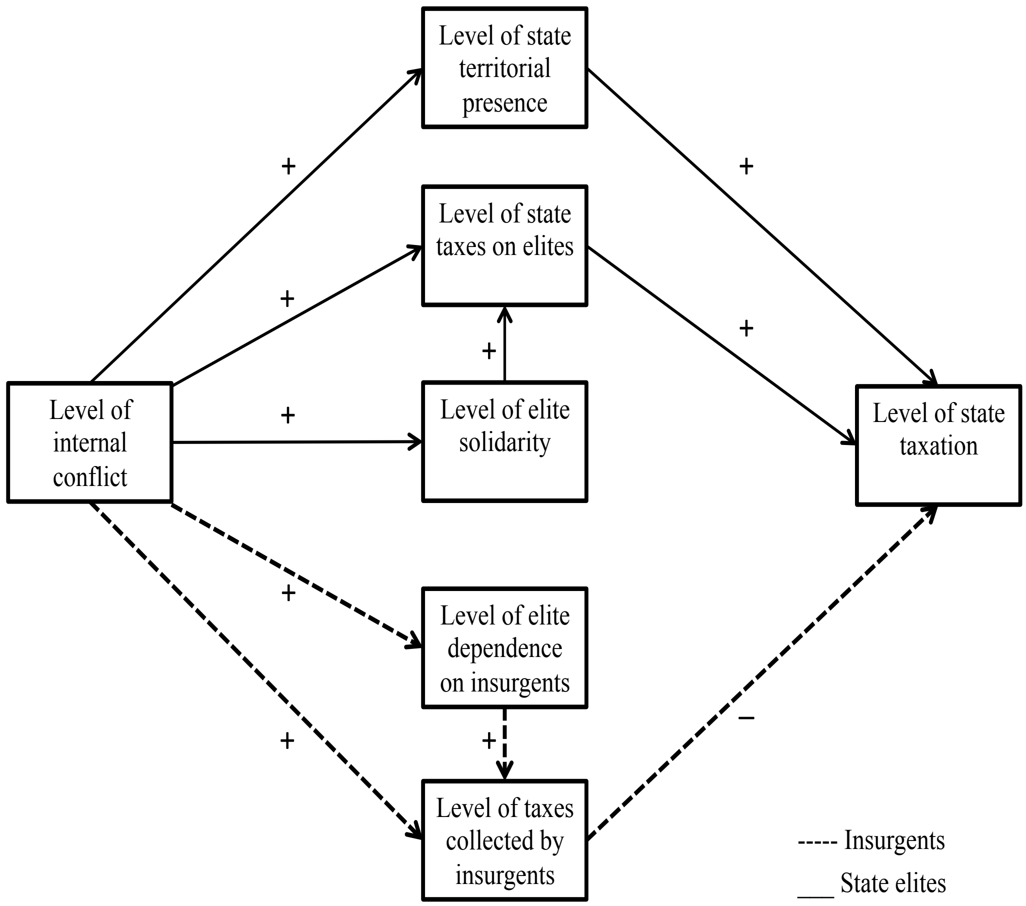
FIGURES AND TABLES

Figure 1. Internal Wars and Taxing Capacity: A General Model


Level of state territorial presence
Level of state taxes on elites
Level of internal conflict
Level of elite solidarity
Level of state taxation
Level of elite dependence on insurgents
Level of taxes collected by insurgents
+
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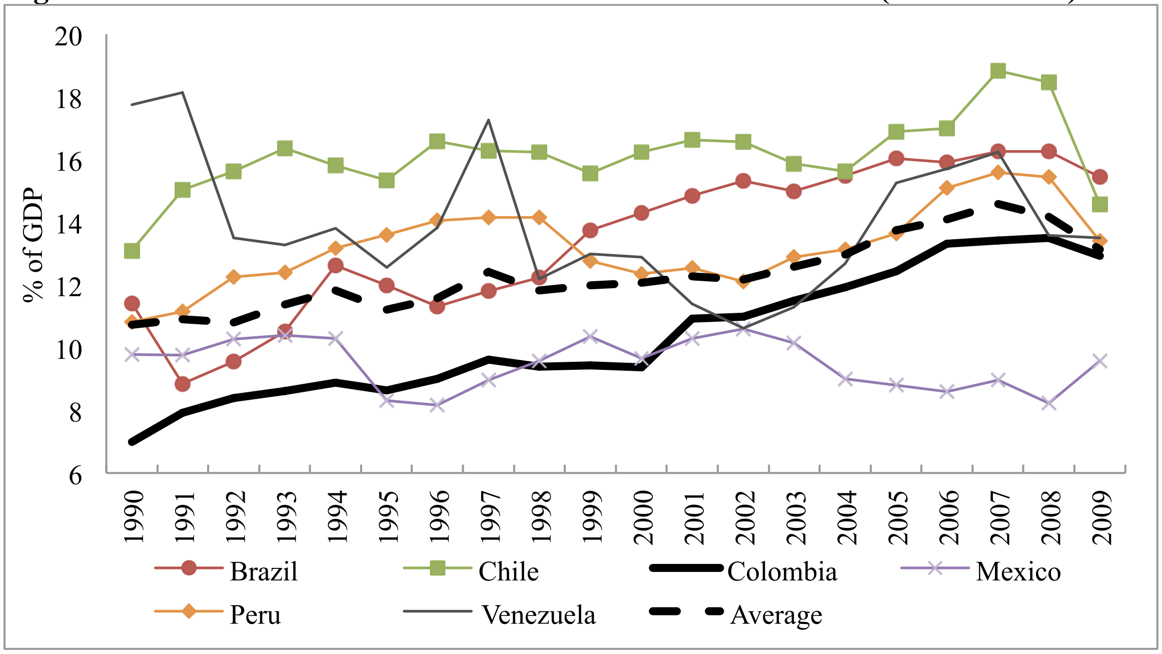
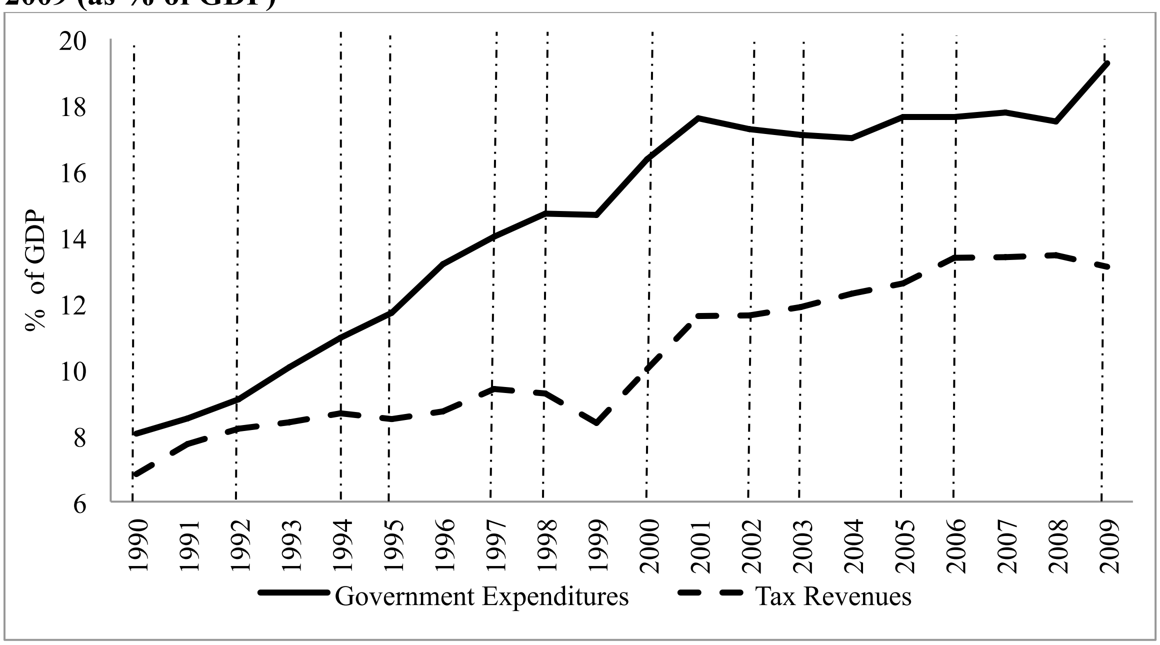
+
–
----- Insurgents
___ State elites

Figure 2. Central Government Tax Revenues in Latin America (as % of GDP)



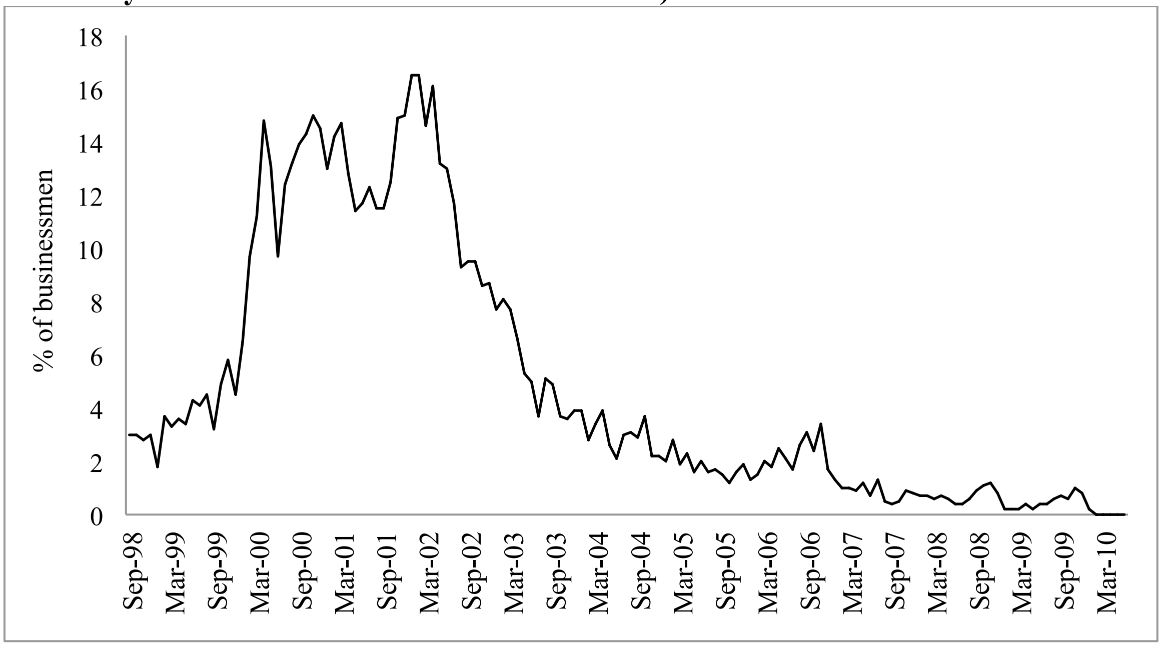
Source: Economic Commission for Latin America and the Caribbean, ECLAC (2010).

Figure 3. Central Government Tax Revenues, Expenditures, and Tax Reforms, 1990-2009 (as % of GDP)



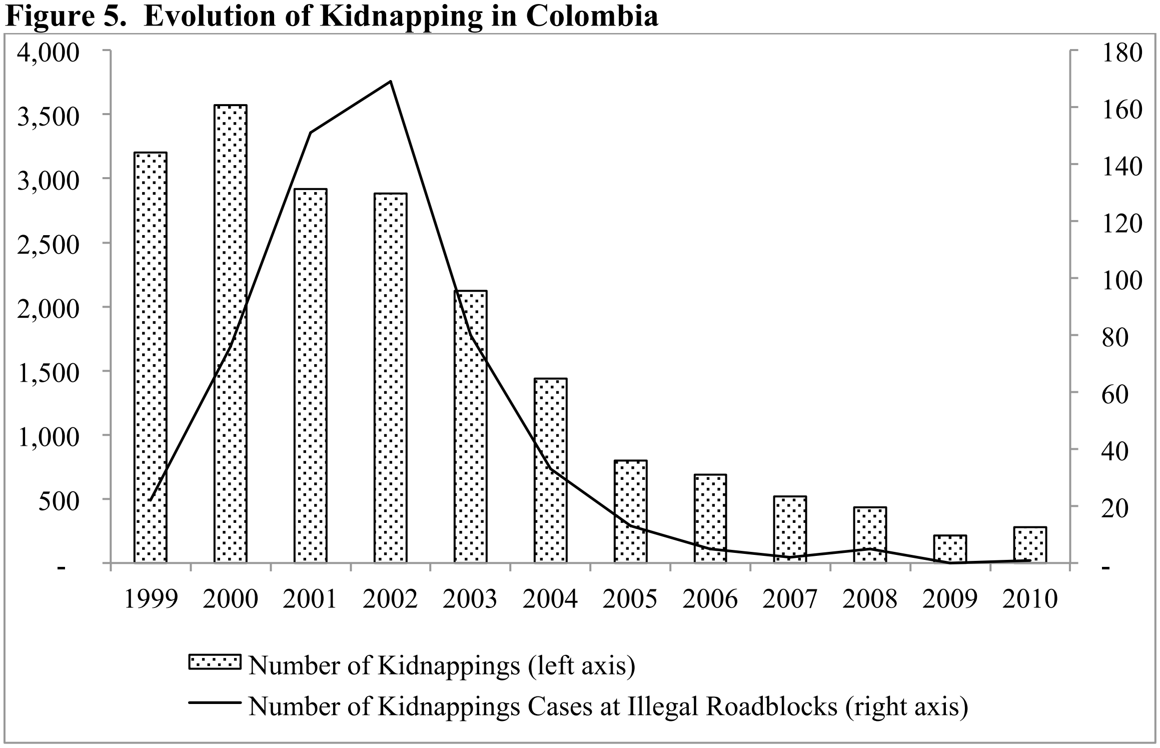
Sources: Colombian Ministry of Finance (2010), DIAN (2011) and Perry (2010).

Figure 4. Perception of Insecurity by the Business Elite (% of businessmen claiming that insecurity is the main obstacle for their business)



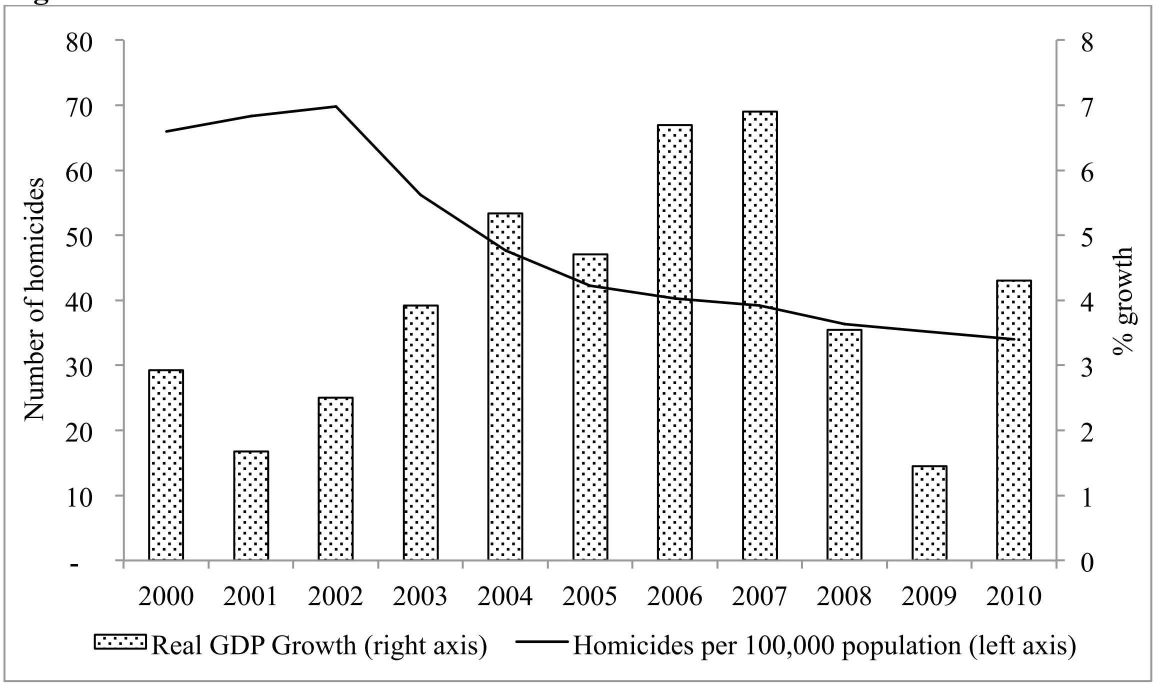
Source: ANDI, Joint Industrial Opinion Survey (1998-2010)

Figure 5. Evolution of Kidnapping in Colombia



Source: Colombian Ministry of Defense (2011).

Figure 6. Evolution of Violence and Economic Growth 1999 - 2010



Sources: Colombia Ministry of Defense (2011) and DANE (2011)

Table 1: Revenues from the Net Wealth Tax

Year	Million Colombian Pesos	Million U.S. Dollars	% of total Government Revenues	% of GDP
2002	1,250,722	437	4.54	0.5
2003	1,227,934	442	3.80	0.5
2004	454,012	190	1.20	0.2
2005	474,219	208	1.10	0.1
2006	536,233	240	1.02	0.1
2007	1,232,681	612	2.05	0.3
2008	3,320,867	1,480	4.95	0.7
2009	2,238,618	1,095	3.24	0.4

Sources: Colombian Ministry of Finance (2010), DANE (2011), and DIAN (2011).

APPENDIXES

Appendix A. Taxes and Contributions to Finance Defense and Security 1991-2009				
	Law/Decree	Description	Revenue (million Pesos)	Revenue as % of GDP
1	Decree 416/91	This was the first decree issued in the 1990s, which created taxes to finance security spending. It created three contributions of extraordinary and temporary nature: (1) A special contribution for the reestablishment of the Public Order, which consisted of 5% of the Complementary Income Tax. Only corporations were taxed, individuals were excluded, after a ruling from the Constitutional Court which declared taxing persons unconstitutional; (2) A 2% surcharge on the 12% VAT on long distance calls; (3) A special contribution for the reestablishment of public order in relation to the exploitation and exporting of gas, oil, and coal.	38,814	0.10%
2	Decree 1071/91	This decree was issued as an extraordinary measure, during a state of siege. It established an advanced payment of 5% over the income tax calculated based on the income of 1990.	45,481	0.12%
3	Law 6/92		1,191,770	2.52%
	- Article 16: Bonds for Social Development and Internal Security (BDSI for its Spanish acronym)	Authorized the emission of redeemable bonds up to 270,000 million pesos (US$ 332 million) with no interests. Only corporations or people with income higher than 7 million pesos (US$ 8,600) or net worth over 30 million pesos (US$ 37,000) were required to pay it.	208,571	0.44%
	- Article 12: Contribution for the exploration and exploitation of hydrocarbons	It established a monthly contribution over the production or export of petroleum, gas, and coal.	983,199	2.08%

4	Law 345/96	Congress authorized government to issue 5-year Security Bonds for the value of 600,000 million pesos (US$ 600 million). All corporations (with some exceptions) and individuals, whose assets did not exceed 150 million pesos (US$ 150 million), were required to buy these bonds once.	415,597	0.35%
5	Law 418/97 (Art. 120 and 122)	Article 120 established a 5% special contribution over the cost of public works contracts. Article 122 established the creation of a national security fund.	167,610	0.12%
6	Law 487/98	Authorized the emission of Internal Security Bonds up to the sum of 2 trillion pesos (US$ 1.3 billion), with a term of 7 years. In 1999 and 2000, all corporations (with some exceptions) and individuals were required to buy these bonds if their assets did not exceed 210 million pesos (US$ 140,000).	1,283,533	0.77%
7	Decree 1838 and 1885/02: Net-Worth Tax to Preserve Democratic Security and Law 963 of 2003 (revenues until January 06)	Decree 1837 of 2002 declared the State of Inner Commotion in all the national territories for a 90-day period. Based on this norm, Decree 1838 of 2002 created the “Tax to Preserve Democratic Security”, to be paid by taxpayers with assets above 3,000 million pesos (US$1.5 million). The rate was set at 1.2%	2,478,656	1.01%
8	Law 963/03	Extension of Democratic security tax (revenues received in 2004-2005)	1,464,464	0.54%
9	Law 1111/06	Extension of Democratic security tax (revenues received in 2006-2010)	6,792,166	1.77%
10	Law 1370/09	Extension of Democratic security tax (to be received in 2011-2014)	N/A	

Source: Author’s calculations based on DANE (2011), DIAN (2011), and Rico (2006).