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Aaron Schneider (2012)

**State-Building and Tax Regimes in Central America**

Cambridge: Cambridge University Press, 243 p.

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Aaron Schneider –who has already published many other works on Latin American fiscal policies and their consequences for equality– has written a book which presents the reader with two very compelling ideas: The first one is that a state-building process is not just an inaugural or foundational event, but it also happens at critical junctures (decisive historical moments) in each country's history or due to major international economic shifts. The second idea highlights that in the context of globalization those elites more connected to international production chains –denominated by the author as “transnational elites”– will be inclined to foster major state reforms and pursue different institutional arrangements in order to support fiscal regimes that are conducive to international trade. The mechanisms behind transnational elites' influence on institutional reforms described by the author are also very interesting, since they explore the entanglements between external economic integration and domestic institutions and social divisions inside elites in order to form a tax regime and reduce inequality.

In isolation, each of these ideas is not particularly innovative. Nonetheless, their combined application to the analysis of tax regimes is something not yet seen in the literature. The contribution of the book lies in its ability to connect three different literatures to analyze the process of tax regime change.

Firstly, using the theoretical framework of path dependence the author argues that at some critical junctures some state reforms should be considered more as enduring advancements in the process of state-building, than transitory changes in power relations between social groups.

Secondly, Schneider emphasizes that specific groups within national elites are particularly influential in leading certain types of reforms. Thus, the internal differentiation of elites and their capability to lead broader social coalitions towards major changes in state structures is key to understanding why some states pursue more equalizing tax policies than others.

Thirdly, and most importantly, the application of the previous arguments to the formation

and change of tax regimes is the central innovation of this book. Little consideration has been given to coalition formation processes and the internal structure of elites in the most common explanations of how tax regimes are formed and reformed. Equally important, yet neglected, has been the idea that tax regime changes can represent long-term transformations in state structures.

Focusing on the fiscal reforms performed by Central American governments during the 1990s and the 2000s, the author explores the state-building process in three different countries: El Salvador, Honduras, and Guatemala. These countries were selected, because despite their similar economic and social structures, as well as their shared position in the global economy, they promoted different fiscal reforms over the last 30 years. It is precisely the cohesiveness and dominance of transnational elites which explains these national differences.

The main hypothesis considered in the work is that certain groups within national elites are more or less successful in implementing tax reforms depending on two basic factors: their degree of internal cohesiveness and their dominance among elites. The first factor assesses how well a particular group within the elites can unite around a common reform project. The underlying hypothesis is that the more internally cohesive a group, the more capable it is of promoting broad state reforms. Nonetheless, internal cohesiveness is not a sufficient condition for state-building reforms. The second factor required is that transnational elites be economically and politically dominant over other traditional

elites in order to overcome their political opposition and promote the desired reforms.

The argument is constructed according to a sequential path composed of three stages. The first is the description of the elite structure in terms of its political and economic dominance and internal cohesiveness. Secondly, each combination of these two elements is hypothesized to generate a particular state-building project. “Dominant and cohesive” elites (El Salvador) would be able to conceive an “inside-out” reform strategy favoring the internal position of transnational groups and strengthening their role as exporters and brokers in regional trade. “Dominant but divided” elites would not have the same strength to conceive and implement reforms, depending mostly on external technocrats to suggest reforms and provide political support for their approval, engendering an “outside-in” project (Honduras). “Subordinate and divided” elites would be too fragile to impose any reform, being subject to a “crisis” project (Guatemala).

In the final stage, the impacts of the three previously mentioned state-building projects on tax regimes are measured according to three dimensions: fiscal capacity (how much), universality (who pays for it), and progressivity (how just is the burden).

The “inside-out” state-building project achieved high levels of change in terms of fiscal capacity, enhancing the tax levels in El Salvador. It also expanded the tax base, including more sectors to pay taxes, especially the poor via consumption taxes.

The reliance on value-added tax and indirect taxes had its cost in terms of progressivity, since the poor and middle classes were the most affected. In Honduras, the “outside-in” project obtained moderate levels of increase in fiscal capacity, but was unable to extend the proportion of those who were paying. Overall, this factor and the country’s dependence on indirect taxes left its progressiveness at low levels with few changes. Finally, the “crisis” project did not introduce major changes in the Guatemalan tax regime with respect to the three aspects considered.

The structure of the book can be considered a classical example of small-N comparative research. The first chapter introduces the research problem, the main questions, and the methodology to be employed in the analysis. The second chapter discusses what can be considered a state-building process in a “globalized political economy”, framing the discussion in terms of the fiscal sociology paradigm. The third chapter describes the historical paths towards the formation of the tax regimes in the countries under scrutiny until the beginning of the 1990s. The fourth chapter examines the process of transnationalization of the economies in the region. It then moves on to highlight how new elites were formed in the wake of this, to put forward different models of coalition formation among technocrats, traditional elites, and transnational elites and to describe their impacts on the formation of different tax regimes. The next three chapters conduct in-depth analyses of each country’s economic and political processes.

In general terms, the main limitation of the work is its failure to provide a sound discussion of the relation between elites and politics. The term elite, in this context, can be considered more as an empirical product than the result of an extensive and conceptual formulation based on the existing literature on elites and their role in society and politics.

References to key works on the subject and at least a brief theoretical discussion concerning the definition of the highly contested term would have provided the text with more complex and sophisticated hypotheses on how elites are structured, their divisions, their relation to politics and states, and how intra-elite disputes are settled and solved.

Despite this limitation, the work is a masterful piece of comparative research on state reform in Latin America. Its richness can be attested to by the long-term analytical horizon employed. In addition, the book combines multiple methods ranging from in-depth within-case studies to quantitative descriptive analysis. Most of the data sources employed were gathered by the author. Above all, the boldness of the results obtained by the analysis stand out. For all these reasons, this work is recommended reading to both undergraduate students and researchers of the Latin American political economy.

The text is successful in making the case that in contexts of high levels of external economic dependence and integration domestic elites are affected by international factors and

react to state institutions in order to promote changes. This is precisely the case of Central America. Nonetheless, the question yet to be answered is: how generalizable is this study to other Latin American countries with less reliance on exports and international trade? Though this question was not posed by the author it is a very interesting starting point for future research.