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A handwritten signature in black ink, appearing to read 'Andrés F. Gómez'. The signature is written in a cursive style with a large initial 'A' and a long horizontal stroke at the end.

**UNDERSTANDING SUBNATIONAL STATE CAPACITY: PROPERTY TAXES  
AND POLITICAL SETTLEMENTS IN BOGOTÁ**

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## **Abstract**

This is a case study of the political settlement in Bogotá as revealed by state-society relations around property taxes. Its main goal is to shed some light on the understanding of state capacity at the subnational level. With the use of statistical data and archival research, it traces how the local state tailored a fiscal revolution in order to modernize the city, and how in reaction to this a) construction sector elites blocked the use of a penalty tax that was meant to force a more productive use of land; and b) a particular group of council members introduced a series of tax brakes for low and middle-income classes in an effort to increase their electoral base. The local state succeeded at increasing the tax base and collecting more taxes, however it was incapable of making other contesting elites relinquish to their ability to device alternative rules. This case highlights the need for alternatives ways of strengthening state capacity.

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## 1. TAX IS POLITICS: AN INTRODUCTION TO THIS WORK

This study looks into the local state. It pursues a comprehensive analysis of the process by which state and society interact in the Colombian city of Bogotá to produce distinctive political and economic orders. Three analytical considerations are of key importance for tracing this process. Interactions among state and society will be addressed through the lenses of **taxation**. Taxation, also referred to as *patterns of resource mobilization*, are taken to unveil the distribution of political power, defined here as **political settlements**. And the neo-Weberian **state-in-society** conception of the state underpins the analysis.

This section will further introduce this work, explaining the puzzle that unfolds the research question, the objectives that drive the analysis, the methodological and theoretical framework, the scope and limitations that the kind reader should bare in mind and the findings of this research.

### 1.1. Puzzle

Taxation is a fundamental mechanism that formed and continues to shape the modern state. Departing from this thoroughly explored and fairly uncontroversial statement, which is the steppingstone to the sub-discipline of fiscal sociology, scholars have been using taxation to understand state-society interactions in many different contexts (i.e. developed, developing, developmental, transitional, ‘failed’, resilient).

Central to this literature is the proneness to measure and compare state capacity cross-sectional and longitudinally<sup>1</sup>. However, there is still some terrain to cover. On the one hand, there is little or no assessment of the differential capacity of the state to tax *within* its own boundaries. Why and how does the state works better as a tax collector in certain parts of its own territory? On the other hand, the methodological debate around the ‘correct’ use of taxes for depicting social behaviour is scarce<sup>2</sup>. It is relatively clear why taxes, out of every other source of income, reveals state-society

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<sup>1</sup> See Levi (1989); Skocpol (1989); Tilly (1990); North, Wallis and Weingast (2009); and Centeno (2002).

<sup>2</sup> See Lieberman (2002) and Gutiérrez (2009) for some insights.

relations. However, which tax best reveals the distributive orders between state and society?

In Colombia, where disputes over land tenure are at the core of the political conflict, land and property taxes become an outstanding measure of the types of social orders or political settlements that define state-society interactions. However, literature that touches upon the dynamics of violence, repression and resistance in Colombia has neglected the symptomatic significance of taxation for building an understanding of society<sup>3</sup>. This work aspires to partially fill this void.

## 1.2. Objectives

The general purpose of this thesis is to shed some light on the understanding of subnational state capacity. Relying on theoretical and empirical grounds, it engages with the question: **what kind of political settlement is revealed by resource mobilization patterns?** In order to address this question, this work will analyse the state-society relations over property taxes in the Colombian city of Bogotá between 1993 and 2011. With both descriptive and explanatory intentions, three specific objectives drive the analysis:

- a. Trace the institutional and fiscal evolution of property taxes in Bogotá;
- b. Identify key actors, their strategies and the political settlements reached over time;
- c. Reflect upon the implications of **a.** and **b.** for conveying an understanding of subnational state capacity.

## 1.3. Research Design

### 1.3.1. Case study

The quest for an understanding of subnational state capacity in Bogotá invites the use of a case study design. By its narrower definition, case studies are intensive studies to depict the covariance of a single unit of analysis with the purpose of elucidating the features of a larger class of similar phenomena (Gerring 2004: 342-

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<sup>3</sup> See González, Bolívar & Vásquez (2004), Oquist (1978); López & Ávila (2010).

3). Traditionally, the case study approach has been associated with certain research attributes. In this work, the emphasis on thick descriptions, the appeal to causal pathways (mechanisms) and the attempt to provide descriptive (as opposed to causal) inference, underpins the selection.

There are rich accounts of state-society relations, otherwise known as “the on-going struggles among shifting coalitions over the rules for daily behaviour” (Migdal 2001: 11). In those accounts, “the archetypical case is the dominant political unit of our time, the nation-state” (Gerring 2007: 94). This thesis attempts to provide an alternative approach. By focusing on land and property taxes in the city of Bogotá, this work hinges at the problem of state-society relations at the subnational level.

### **1.3.2. Case selection**

Case selection is not based on the dependent variable. The interest of this work is to trace the process by which state and society interact, and according to patterns of resource mobilization, identify how the political settlement looks like. In other words, this thesis wants to understand and describe the dependent variable.

Case selection is based on the personal interest of the author for understanding Colombia. This might not be very scientific but it is honest with the reader. Apart from this, Bogotá is the capital city of Colombia, is home to about 22% of the total population of the country and is where most economic and political decision-making takes place. In those regards, it is reasonable to consider that the unit of analysis is relevant and sheds some light on similar units of analysis in the developing world.

Theoretically, case selection is based on the emphasis that state building literature places on cities. Tilly (1992) and Jo Beal et al. (2013) show that the economic and political processes that kick-start the state-building process occurs in the economic and political epicentres of a nation. Bogotá represents this epicentre. It is also the industrial capital of a highly politically decentralized country with one of the highest concentration of income and wealth in the world. Moreover, Bogotá encapsulates Colombia’s turmoil: it produces and receives internally displaced people; it has the poorest and wealthiest people in the country; it suffers from petty, organized and

subversive crime simultaneously; it experiences corruption at every societal level but it is also home to some of the most unthinkable experiences of collective action movements (i.e. voluntary tax regimes, non-violent mobilizations, etc.). As any modern capital city, Bogotá is taken here as a good mirror of the Colombian nation.

### **1.3.3. Data Collection Strategy**

This work builds upon different sources of qualitative and quantitative empirical evidence. In order to understand land and property tax patterns, official data on tax revenue was collected for at least 1098 municipalities. This data is consolidated and made available online by the National Development Agency (“DNP”, by its abbreviation in Spanish) since 1984 and records 99,5% of all municipalities in Colombia.

To calculate effective tax rates, which are the ratio of tax liability to assessed value of the property, and following the data collection strategy in Iregui, Melo and Ramos (2004; 2005), information on land tenure and appraisal was officially requested to all cadastral institutions, namely the centralized geographical institute of Colombia (“IGAC”, by its abbreviation in Spanish) and four decentralized institutions in Bogotá, Medellín, Cali and Antioquia. Information at the municipal level from 2000 to 2011 was provided and classified in the following parameters: number and size of properties, type of property (i.e. urban or rural), square meters constructed, years in which the last survey took place and the sum total appraisal in Colombian pesos. All cadastral institutions except for Cali provided information. In the case of Bogotá, only the yearly sum total of the appraisal was made available.

The second step to find the tax rate required some calculations. Data from DNP was included in the dataset provided by IGAC and the other cadastral institutions. Then, the yearly municipal revenue from land and property taxes was divided by the sum total appraisal of property in each municipality. The result provides the un-weighted (simple) average rate at which citizens calculate their tax liability (effective tax rate). The validity of this process is corroborated in three ways. First, relevant literature uses the same process to calculate tax rates (Bird & Slack 2002: 7; Bahl & Martinez-Vazquez 2006: 18-9). Second, officials at IGAC ratified the procedure. Finally, to



check for reliability, the un-weighted averages calculated were compared to the weighted averages calculated by Iregui, Melo & Ramos (2004). The comparison yielded that more than 83% of the calculations coincide.

To attain information on how different interest groups affect the evolution of land and property taxes in Bogotá, archival research was conducted. Digital pictures were taken to the minutes that register relevant debates pertaining to land and property tax norms. The debates took place between November 2003 and December 2011. Around 2000 pictures were taken and they provide the most relevant qualitative source of information for this work.

Finally, primary and secondary sources were consulted in order to reconstruct the institutional evolution of land and property taxes in Colombia and specifically in Bogotá. Newspapers, bulletins from private associations and academic writings were accessed. Information from unstructured interviews with council members and civil servants from Abejorral (Antioquia) and San Vicente Ferrer (Antioquia) was also used.

#### **1.4. Framework**

This study builds on three conceptual and theoretical traditions. First, it embraces the state-in-society conception of the state posed by Joel Migdal (2001). Second, it makes use of the corpus of ideas developed by the Crisis State Research Centre in order to explain state fragility and resilience in the context of late development. Finally, it uses the approach of Joseph Schumpeter (1919 [1954]) to analyse social and political change, namely, the study of fiscal history. By focusing on the *evolution*, as opposed to the outcome, this study makes emphasis on the importance of depicting *processes*. In Migdal's words, we are keen "to understand the effects, not only of revelation, but also of the quest for redemption" (2001: 24).

The state-in-society approach portrays the state as an organization positioned within society, as opposed to being an appendix of one social class (Marxism, Pluralism), the arbitrator of contending preferences (Hobbes) or an autonomous and omnipotent creature (Skocpol 1985; Collier 1979). This approach has at least four relevant

insights. One, the state is taken to have a “unified dimension –its wholeness-expressed in its image” that battles with “the contradictory practices and alliances of its disparate parts” (Migdal 2001: 22). Two, the state is the dominant social group for making rules in a territory, but has proven incapable of making other loci of power relinquish to their ability to device rules. These other groups form coalitions among themselves or with parts of the state in order to retain social control. In this context, individual choice results from the material incentives that competing organizations offer regarding survival or mobility. Three, the struggle over social control is ongoing. Four, social control is important because “only societies that have developed state organizations themselves had a chance to resist being conquered and swallowed up by other states” (Migdal 2001: 49-50).

James Putzel, Johnathan Di John and its collaborators at the Crisis State Research Centre have developed a cogent interpretation of state failure and resilience in the context of late development. This thesis takes heed of their conceptual apparatus, especially of the idea of *political settlements* and the *patterns of resource mobilization* through which they express. Political settlements are defined as “the balance or distribution of power between contending social groups and social classes, on which any state is based” (Khan in Di John and Putzel 2009: 2). These balances are revealed in the distribution of property rights as well as in the regulatory structure of the state (Di John and Putzel 2009: 4). To understand a political settlement is to understand how and why a particular polity builds its particular social order. In this way, the idea of political settlements underpins the claim that ‘politics matter’ for the analysis of society. Laws (2012: 20) contend that the distribution of power takes place in a two-level game: horizontal bargaining between competing elites, and vertical bargaining between elites and their supporters. Assuming this idea, institutional path dependence (Steinmo, 1993; Sokolof & Zolt, 2007) is no longer sufficient to explain social outcomes, and an understanding of the distributional conflicts that pervade politics is deemed necessary.

Now, this thesis asserts that political settlements can be observed by looking into patterns of resource mobilization, particularly fiscal resources. Regarding this, Schumpeter famously said “The spirit of a people, its cultural level, its social

structure, the deeds its policy may prepare- all this and more is written in its fiscal history, stripped of all phrases.” (1918 [1954]: 2). In other words, “everything that happens has its fiscal reflection” (Schumpeter 1918 [1954]: 4).

Finally, why are taxes regarded as a valid measure of resource mobilization? It is not that taxes are a causal mechanism or even an independent variable for the construction of particular political settlements. However, they do represent a good indicator of how political settlements are formed. This is why Schumpeter (1918 [1954]: 2) holds that “even grater than the causal is the symptomatic significance of the fiscal history”. From the multiple sources of income that any state has at hand, there is some consensus around the validity of *taxation* for depicting patterns of resource mobilization. Taxation embodies the central tension between dominant (taxing) and competing (tax payer) groups. Similarly, the monopoly of tax collection reveals the leverage of the state as a dominant rule setter. This includes the enforcement of the law but also taxpayer’s adherence to the law (legitimacy). Moreover, taxation has proven to provide an empirically grounded picture of resource mobilization. Therefore, taxation conceals the state-society interactions that form political settlements.

To resume, “The state-in-society framework makes room for a political explanation of cross-national variation in taxation systems by identifying the different ways in which the state’s attempts to impose a uniform authority may be challenged, shaped, and reconfigured by various actors within society” (Lieberman, 2003: 40). And this work is interested in depicting the political settlements that derive from this interaction.

### **1.5. Limitations and Scope**

In regards to resource mobilization patterns, this work takes into account land and property taxes at the municipal level. Resource mobilization patterns are double faced: they entail income and expenditures. However, this work will only analyse the demand side of the state, namely, taxation patterns. Literature in the field of fiscal sociology operates in the same way; however, an analysis of the supply side is also relevant and necessary.

Why property taxes? Excluding transfers and royalties, land and property taxes is one of the fifteen legal and direct sources of income for municipal governments in Colombia. Despite not being the main source of revenue<sup>4</sup>, it has two features that make it an optimal reflex of political settlements: a) it deals with land tenure which is at the core of contentious politics in Colombia (Fals Borda 1975, Reyes 2008, Machado 2009), and b) it is the most far reaching subnational levy in terms of tax base.

### **1.6. Findings**

This work shows that the capacity of the local state in the Colombian city of Bogotá was enhanced by a series of developmental mayorships. They strived to produce a fiscal revolution that would serve as the material basis for modernizing the city. This revolution was only partially successful. Two interest groups reacted in order to curve its effects on them. On the one hand, the construction sector elite managed to block the norm that both redefined what unutilized land was and applied a penalty tax rate to its owners. On the other hand, a group of council members from the opposition party used the fiscal revolution as a Trojan horse to increase their electoral base by introducing tax brakes for lower and middle-income classes. This process shows the limited capacity to instil a developmental push.

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<sup>4</sup> Property taxes are the second source of tax revenue after the industry and business tax.

## 2. REVIEWING THE LITERATURE ON PROPERTY TAXES AND POLITICAL SETTLEMENTS

To understand how patterns of resource mobilization represent political settlements it is important to know the defining characteristics of property taxes. Literature consulted engages with a variety of questions. A first building block discusses who pays for the property tax. A second line of thought revolves around the subnational and intergovernmental distribution of tax responsibilities. And a third reasoning explores whether different tax burdens prompt different levels of economic development. This section will review the technical literature from a political economy approach.

### 2.1. What is a property tax?

*Land and property taxes* are direct charges levied by national or subnational governments on the owners of real estate property. The *tax liability* is calculated by multiplying the appraisal of the property by a *tax rate*. Most commonly, official authorities set the tax rate and the appraisal, however, the latter is sometimes self-assessed by the owner. In any case, the appraisal can be based on land (site value tax), infrastructure (*improvements*) or both. In turn, each of these can be based on the area, the market value, the estimated rental value or a self-assessment within predefined bands.

Given that land and real estate property are immobile assets, meaning they cannot be moved in response to higher or lower taxes, they have been commonly regarded as a suitable tax base for subnational governments. Commentators claim that there is also a political rationale behind this attribution: national-level politicians do not want to assume the political costs of such an unpopular tax. However, countries like Chile and Latvia are deemed successful examples of property taxes that lie in the realm of the central government.

## 2.2. Who pays the property tax?

The politics of taxation in Bogotá is suffused by the debate over who pays for the property tax. As the following chapters will show, the power to elude taxes also reflects the political leverage of economic elites. Theoretical debates on this matter are overwhelmingly grounded on classic economic theory (Aaron 1975; Bird 1975; Zodrow 2006). The traditional way of answering this question is to make a distinction between land and improvements. Land is thought as having a perfectly inelastic supply (thanks to its finite provision), while improvements are deemed perfectly elastic (i.e. buildings can grow up ‘indefinitely’). The limited supply of land implies ever-increasing land prices (thus tax charges). Moreover, the traditional view goes, the owners of commercial land and improvements can always transfer the tax burden to the consumers of their products, while the owners and residents of their own property cannot do the same. Part of this traditional view is contested by the fact that land has shown not to be infinitely costly and that internal territorial boundaries can be modified in order to supply more land<sup>5</sup>.

There is a broader approach to the understanding of the incidence (i.e. who bares the burden) of land and property taxes. According to Bird & Slack (2002), the distributive condition of the tax depends on how the tax is perceived. When taxes are regarded as a charge on residential property, they are regressive, since housing expenses constitute a bigger share of poor people’s consumption habits. But if taxes are considered a charge on capital, they are progressive, given that capital is concentrated on rich people. Finally, when taxes are regarded as user chargers for local public services, there is little room for distributive concerns and there is no point regarding this as a progressive or regressive dichotomy. By tracing the experience of Bogotá, it is possible to see how lawmakers and political commentators are shifting towards considering property taxes as a charge for local public services.

## 2.3. How to get local taxation right?

The question about how to get local taxation right is two-fold. On the one hand it concerns with the mismatch between fiscal revenues and expenditures at the

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<sup>5</sup> This is shown by IGAC, UniAndes y UniAntioquia (2012). From 2000 to 2009 every cadastral survey had registered an increase in private land property in Colombia.

subnational level. On the other hand it refers to intergovernmental fiscal relations: which government level determines the tax base, which level sets the tax rate and which level controls tax administration? The latter is also known as the Tax Assignment Problem<sup>6</sup>.

Bird & Slack (2002) show that developing and transition countries are commonly weak in their capacity to collect land and property taxes, while OECD countries raise a significantly bigger share of their revenue from them<sup>7</sup>. There are at least three interpretations that account for this variance. First, Sokolof and Zolt (2007) claim that the degree of decentralization of a given country explains its appeal to property taxes. In their reasoning, the more autonomous a subnational government is, the more accountable it is, the more it appeals to property taxes to collect revenue<sup>8</sup>. In poorly fiscally decentralized countries, like Colombia, land taxes cannot be expected to be high.

Second, Skinner (1991) uses simulations to argue that it is not capitalization (the exponential increase in the price of land and thus of taxes) or uncertainty (the fact that tax liability is not matched with agricultural yields) what curtails the use of property tax. Instead, it is the administrative costs of land taxes what offsets its efficiency gains in respect to other revenue generating mechanisms. In order to tackle this costs, Bogotá continues to experiment with the self-assessment process for calculating tax liability.

Third, a public choice approach argues that the extreme visibility of property taxes and their subsequently high collection costs explain their decreasing relevance on public finances<sup>9</sup>. Interestingly, important property tax reforms have failed to reach the public agenda at the national level in Colombia at least since the mid 1990s.

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<sup>6</sup> For some examples of these problem, see: Musgrave (1983; 1998); McLure (1994; 2000); Bird, (2000).

<sup>7</sup> See also Bahl, R., & Martinez-Vazquez, J. (2007); World Bank (2011).

<sup>8</sup> This argument is prevalent throughout the literature consulted. See also Burgess and Stern (1993); Tanzi and Zee (2000); Fox and Gurley (2005); Sokolof and Zolt (2007, 24); Bahl and Martinez-Vazquez (2007, 12).

<sup>9</sup> See Hettich & Winer (1984); Howe & Reeb (1997); Bird (1999); Bird & Slack (2002).

## 2.4. Taxation and development

A third building block explores the relation between property taxes and economic development. Most authors consulted tend to argue that increasing reliance on property taxes is positively correlated with higher levels of economic growth. Bahl and Martinez-Vazquez (2007), comply, however, they show that a simple measurement like tax collection over GDP has a numerous set of implicit assumptions that also need to be explored. As shown by the identity below, the ratio of tax collection to GDP is composed of many other relations that, when taken individually, reveal very important nuances about the political economy of tax collection.

$$\frac{T_c}{y} = \left( \frac{T_c}{T_L} \right) \left( \frac{T_L}{AV} \right) \left( \frac{AV}{TMV} \right) \left( \frac{TMV}{MV} \right) \left( \frac{MV}{y} \right)$$

<b>T<sub>c</sub></b>	Property Tax Revenue Collection
<b>y</b>	GDP
<b>T<sub>c</sub>/y</b>	Ratio of property tax revenue to GDP
<b>T<sub>L</sub></b>	Property Tax Liability
<b>T<sub>c</sub>/T<sub>L</sub></b>	Collection ration: the percentage of true liability that is collected
<b>AV</b>	Taxable Assessed Value
<b>T<sub>L</sub>/AV</b>	Tax rate: Ratio of tax liability to assessed value
<b>TMV</b>	Taxable Market Value
<b>AV/TMV</b>	Ratio of Assessed Value to Taxable Market Value: efficiency of valuation process. When ratio is less than 1.0 the tax base is reduced from the potential taxable base.
<b>MV</b>	Full Market Value
<b>TMV/MV</b>	Ratio of taxable market value to total market value: indicator of the impact of the exemptions
<b>MV/y</b>	Ratio of market value of real property to GDP: how property values match total output of the economy

Source: Bahl and Martinez-Vazquez (2006, 18-9).

Núñez (2005) uses a similar identity (in Bird & Slack 2002: 7) to argue that property tax revenues as a percentage of GDP in Colombia are very high in comparison to



other Latin American countries<sup>10</sup>. However, when using a bigger sample to draw the analysis, in this case property tax revenue from all municipalities between 1984 and 2009, the conclusion is that Colombia is below the average of developing countries. This is consistent with the history of land tenure and the incapacity of the state to penetrate its territory (Gutiérrez, Zuluaga, Gómez, *forthcoming*).

Now, from the institutionalist shore, Sokolof and Zolt (2007) are puzzled by the fact that North American countries tend to tax wealth and income (regarded as progressive tax bases) more than South American countries, even though it is in the latter set where inequality is more pressing. In line with the factor endowment theory of economic development (Engerman and Sokolof, 2005), they claim that inequality influences the evolution of tax institutions. According to the causal relation proposed, the uneven distribution of power inhibits accountability between elites and non-elites. Therefore, while in North America local governments had a comprehensive offer of local goods in exchange for rents (i.e. property taxes), in South America there was no need for such transactions, as the elites held a monopoly over political and economic power. Interestingly, Lawson-Remer (2012) challenges the factor endowment view of modern history. For her, it is actually because political elites have been able to break the property rights of non-elites, mainly over the tenure of land, that economic growth has been possible.

To resume, this section has tried to interconnect the debates about the technicalities of property taxes and the political economy of taxation. The rest of this work will rely on this section to convey an understanding of subnational state capacity.

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<sup>10</sup> Gómez-Sabaini & Jiménez (2011: 19), De Cesare (2008 with Lazo; 2010, 2012) and Leibovich (2002) hold the same argument.

### 3. LAND AND PROPERTY TAX INSTITUTIONS

In Colombia land and property taxes are known as *impuesto predial* (henceforth predial). Predial has two institutional components. On the one hand, the power to tax lies in subnational governments: mayors are in charge of tax collection and municipal councils rule over tax rates and tax brakes. This clearly benefits local powers. On the other hand, the cadastral survey is overwhelmingly centralized and it has rapidly evolved to incorporate impartial technologies to assess the value of real property. This hints on how much the state has been able to reach over its territory. This duality has not stopped commentators from arguing that predial is an institution ‘captured by local powers’. However, some say that Colombia is entering a new period of technocratic centralization.

This section will try to engage with the debate by tracing the evolution of predial and establishing how did the current institutional design evolved into such equilibrium. The question that drives the analysis is whether predial is a municipal tax because the central state succumbed to local pressures over the power to tax or whether this is a concession from the centre as a way to attain indirect control (Migdal, 2001)<sup>11</sup>. Although the outcome is the same, the process is telling of subnational state capacity.

#### 3.1. Origins of predial: from creation to oblivion

The evolution of predial can be divided into three different periods: origins as subnational tax (1887-1951), inertia (1952-1982) and modern institutional design (1983-currently). The origins of predial are not entirely clear. The first reference to a property tax is found in law 48 of 1887, when *Asambleas Departamentales*<sup>12</sup> were allowed to create a 0,6% tax on real property and distribute them between departments and municipalities (Agudelo 1948). In the early 20<sup>th</sup> century laws 20 of 1908, 4 of 1913 and 34 of 1920 began the transition of the tax from the department to the municipal jurisdiction (Iregui et al. 2003; Ramos, et al. 2011; Tobón 2011). The motivations behind this transition are not clear. The general consensus in literature is

<sup>11</sup> I am grateful with Paula Zuluaga for inspiring some of the ideas in this chapter.

<sup>12</sup> These are equivalent to federal assemblies, although Colombia is not federal since 1886.

that the municipalisation of predial came with the administrative decree 2185 of 1951 in the very reactionary government of Laureano Gómez (State Council 2007; Piza 2008; Ramos et al. 2011).

The history of predial is intimately related to *el problema de la tierra* or conflicts over land tenure. Although efforts to modify the structure of land tenure in Colombia date back to the 16<sup>th</sup> century when the Spaniards were in control, the most serious attempts to pursue land reform were promoted by the liberal president Alfonso López Pumarejo through his paradigmatic law 200 of 1936. This law provided secure tenure for the squatters who had occupied idle land, increased the bargaining power of rural classes, and buffered the violent tension that was building in the countryside (Hirschman, 1963: 108).

In 1949, the first technical mission ever commanded by the International Bank for Reconstruction and Development (today the World Bank) took place in Colombia. In order to encourage the productive use of land, the head of the Mission, Lauchlin Currie, proposed a progressive land tax that would go from 0,04% up to 4% whenever land yielded zero return. In the end, a committee of liberal and conservative politicians agreed that the proposal was not feasible, but instead chose to strengthen the geographical institute –responsible for providing the cadastral survey- and provided a series of incentives to promote agricultural and livestock development. In an interesting passage, Hirschman (1963: 122) concurs, although for different reasons, with the committee's disregard for Currie's advice:

“Thus, in Colombia, a country with powerful landowners (including not only the *hacendados* but the numerous and politically influential owners of middle-size and small coffee farms), weak local administration, considerable inflation and rapid economic development, the establishment of realistic land values for the whole country through cadastral surveys has long been unattainable. This is a most serious conclusion, for it appears to rule out the use of taxation as means of coaxing landowners into making full use of their land.”

The short dictatorship of Gustavo Rojas Pinilla (1953-1957) brought two important reforms. The value of property was indexed to match inflation accumulated since the date of last assessment; and property was to be self-assessed by the owners and reported to municipal cadastral junta for their approval. The latter was a concession to local elites that supported Rojas' regime. Shortly after Rojas was deposed, both measures were expunged. Interestingly, the same two measures were recycled in the current tax system.

The Military Junta that stirred the country back into democracy issued decree 290 of 1957. This norm created the modern geographical agency (IGAC) and designed a major plan for "the modernization of Colombia's agriculture along capitalistic lines" (Hirschman, 1963: 130). This time, a tax 'penalty' was introduced to enforce a productive use of land. However, paraphrasing Hirschman (1963) and Centeno (2002), 'the thread lacked credibility' or 'the elites were powerful enough to take decisions without consulting the people, but they lacked the infrastructural capacity to enforce them'.

The efforts to induce the productive use of land in the years between the Liberal Republic and the beginning of the National Front were sterile<sup>13</sup>. A plethora of national and international 'expert' advice was produced, but it never materialized into policies. Hirschman attributes this, not to the belligerence of elites against taxes, but to the lack of support that reforms had among non-elite social groups (1963: 138). In other words, the potential beneficiaries of a structural change distrusted the capacity of the state to translate tax reforms into welfare for them.

As a consequence, *el problema de la tierra* was not addressed via taxation, but through the colonization and distribution of idle lands belonging to the state. This policy shift became official with the beginning of the 'Agrarian Reform' (law 135 of 1961) at the dawn of the presidential period of Alberto Lleras.

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<sup>13</sup> The Liberal Republic is the name given to the period between 1930 and 1946, when the Liberal Party regained control over the executive power. The National Front was the consociational government that lasted, officially, between 1958 and 1974, and by which the Liberal and Conservative parties alternated power and equally distributed seats in Congress and in the Cabinet.

### 3.2. Modern institutional design

All students and practitioners of property tax coincide in highlighting the importance of a series of legal reforms that shaped the system since 1983. Before these reforms took place, the 1981 Intergovernmental Public Finance Mission provided a cogent diagnosis of subnational finances, underpinning the future institutional design. The technical mission, headed by Richard Bird and Roberto Weissner, preceded the market-oriented reforms that were to come with the Washington Consensus: instead of focusing on augmenting the sources of subnational revenue, as other missions had done in the past, this mission was aiming to make public spending more efficient.

Heretofore a pre-modern property tax system had prevailed. The first of a series of regulations that modernized predial was law 14 of 1983. This law ordered a yearly indexation of land value as determined by the Ministerial Council for Economic and Social Policy (“CONPES”, by its abbreviation in Spanish); stipulated that land valuation had to be done and revised every 5 years; and allowed municipal councils to set differential tax rates between 0,04% and 0,12% according to different uses of land (i.e. commercial, residential, industrial, etc.). In some cases, when real property was held for speculation purposes, the tax rate could go as high as 0,33%.

Just before the enactment of the new political constitution in 1991, law 44 of 1990 created the unified land and property tax. This tax blends predial, the tax on parks, the tax on social stratification and the service fee on cadastral valuation into one single tax: unified predial (henceforth predial). The new upper tax rate escalated to 0,16%, simply because it added the rates from the unified taxes. The lowest band moved down to 0,01%. The most important change brought by this law was the introduction of self-valuation of property. Since then, every municipality could either continue assessing tax liability and distributing invoices or delegate the assessment role to taxpayers. In case of the latter, and the city of Bogotá was the only one to adhere to this system in the long term, taxpayers could calculate their tax liability based on a given estimation of the value of a square meter in their zone of residence and the tax rate established by the municipal council. Apparently, self-valuation allows the state to rely on its citizens whenever its bureaucratic capacity is not sufficient. However, it was precisely the lack of bureaucratic capacity what compelled

the last secretary of public finances of Bogotá, now director of the National Tax Bureau (“DIAN”, by its abbreviation in Spanish), to present a bill in favour of going back into the invoice system. This law also established that tax liability could not increase more than 100% from one year to another, except if the property was formed (i.e. surveyed for the first time) or reassessed by the cadastral agency.

Recently, the National Development Plan, which is an all-encompassing law that frames the government policies for the whole presidential period, modified the lower band, increasing the new minimum tax rate to 0,05%. This law established that property taxes could not increase more than 25% from one year to another; and it prohibited self-valuation to be less than 60% of the market value.

In order to answer the question posed at the beginning of this section, a series of considerations need to be made. First, the institutional construction of predial never coincided with major tax reforms or those reforms that attempted to modernize the state. This was the effect of local powers lobbying against the use of property taxes as a policy instrument for redistribution (Arias 1960; Fedegán 1975). Second, the final consolidation of predial as a municipal tax coincided with the decentralization push in the mid 1980s. The premise behind granting subnational governments the power to tax is that they will know better on what to spend the money. Third, even with an institutional design in which the central government controls the cadastral agency and determines the annual indexation bands, municipalities are entitled to decide if they want to form or actualize their cadastral survey. Finally, the latest municipal code (law 1551 of 2011) allows IGAC to delegate to municipal administrations the undertaking of cadastral surveys. This almost eliminates the central state’s intervention in regards to property tax.

To resume and answer the question, the decentralization push that promoted the Washington Consensus allowed local elites to delink property tax from debates about the structure of land tenure. As decentralization implied fiscal and political autonomy of subnational governments, debates around predial were now associated with the need to finance the new spending responsibilities that local governments had acquired. From a state building perspective, decentralization consolidates and formalizes the incapacity of the state to have control over local powers. More than a

concession, the ever-increasing power to tax property has been a prerogative of local elites in Colombia.

#### **4. STATE VS. SOCIETY: CURBING THE FISCAL REVOLUTION IN BOGOTÁ**

This section traces how state and society interact around property taxes in Bogotá. The picture depicted will show how the political settlement behaves to produce particular social orders.

The argument goes like this. The local state had set the institutional and political stage for a fiscal revolution to happen. Such revolution intended an infrastructural upgrade of the city as well as a social transformation. Infrastructural change purported the building of highways across the city and a massive public transportation system. Social change revolved around modernizing primary and secondary education institutions and the consolidation of a rural belt that would guarantee food security for Bogotá. The former was to be co-financed by the central government via transfers and loans, while the latter was to be financed by the local state through the enlargement of the tax base and the reduction of tax breaks. In reaction to the latter two strategies were set in motion. First, local elites subverted tax collection with the use of legal mechanisms, first delaying and then stopping the institutional changes envisioned by the local state. Second, a high proportion of council members dedicated their legislative activities to introduce tax brakes for the lower and middle classes, in a classical effort to lure the average voter into voting for them in the following council elections. This dual attack on the system was only partially successful and the local state could manage to pass some of its most important tax reforms. Based on empirical evidence, this chapter further explains the evolution of this political settlement.

##### **4.1. A mild ‘pocket of efficiency’**

In his work on developmental, predatory and hybrid states, Peter Evans (1989; 1995) recycles the concept of ‘pockets of efficiency’. This idea suits him to describe the process by which the Brazilian government of Getúlio Vargas, incapable of reforming the whole state, created an institutional microclimate in order to promote economic growth: the National Development Bank. Inducing economic growth and a strong bureaucratic structure were the key developmental features of this agency. Embracing this idea, this thesis contends that the series of local administrations



(mayorships) of Bogotá lead by Jaime Castro (1992-1994), Antanas Mockus (1995-1997 and 2001-2003) and Enrique Peñalosa (1998-2000) resemble a 'mild pocket of efficiency' that tailored a fiscal revolution in order to modernize the city.

The rise of a developmental local state in Bogotá was made possible by a number of factors. Its political leaders were supported by coalitions from diverse ideological and social backgrounds. But at the same time, they all managed to delink from traditional politics, and set themselves as outsiders or *independientes* against clientelistic politics. Moreover, they appeased industrious economic elites, which supported their push towards modernization (Gutiérrez et al. 2012: 11).

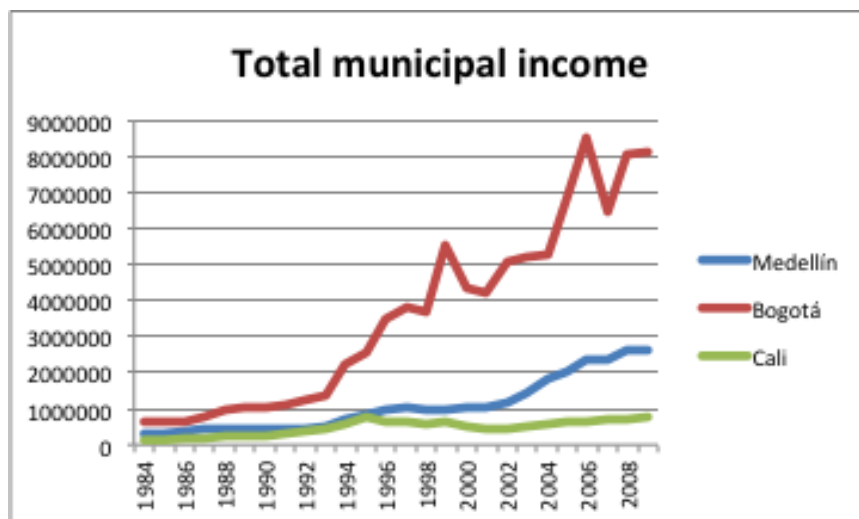
Common to these politicians was their will to engage in long-term urban planning, no manifest interest to use their position as a platform to become potential presidential candidates and closeness with neoliberal technocrats. These politicians were able to vie effectively for tax increases and induced real behavioural changes among the population. During their mayorships Bogotá was highly acclaimed for its use of unorthodox politics to accomplish rapid social change. Among others, petty crime and homicides plummeted, a voluntary tax contribution provided important sources of revenue, people willingly reduced water consumption and pedestrians and private car drivers got used to manifest their disagreements over driving-behaviour with approval-disapproval cards (Elster 2007: 104; Doris Summers (ed) 2005;). Equally important results were the set up of an efficient and low-cost urban transport system and healthy public finances. It is no surprise that Antanas Mockus, one of the precursors of this revolution, still lets a tear or two escape from his eyes when he talks about the impressive effects of this social experiment.

The system of predial, which comprises the independent cadastral agency and the local tax bureau, was one of the keys to the fiscal revolution and provides a good representation of the newly attained efficiency of the local state. These are some of its features. First, the institutional design of the system avoided domination by any single agent. Second, Bogotá's possession of its own cadastral agency allows her to have up-to-date information on the value of land property. Third, unlike the rest of the

country, the appraisal of land in Bogotá resembles market prices<sup>14</sup>. Fourth, the cadastral office has a consolidated bureaucratic muscle: its officials are long-term public servants who find reasonable to spend their entire professional career in the institution<sup>15</sup>. And fifth, the local state has a strong technocratic capacity, which means they tend to produce evidence-based policy. The last four conditions were clearly forged during the local administrations mentioned above. As a result, a *fiscal revolution* took place in the 1990s and allowed Bogotá to commit herself to an infrastructural and social transformation that began in the early 2000s (Gutiérrez et al, 2012). Figures 1 and 2 above show the extent of the revolution as seen by total income and income from predial in comparison with the cities of Medellín and Cali, the other two largest cities in the country.

Probably the most important effect of the fiscal revolution was increasing the tax base. This was done by setting a very efficient task force dedicated to collect unpaid taxes, control tax evasion and promote a taxing culture among citizens (El Tiempo 1998, Semana 2000). This allowed the city to improve tax collection even at times when the council would not approve increases in the nominal tax rates.

**Figure 1.**

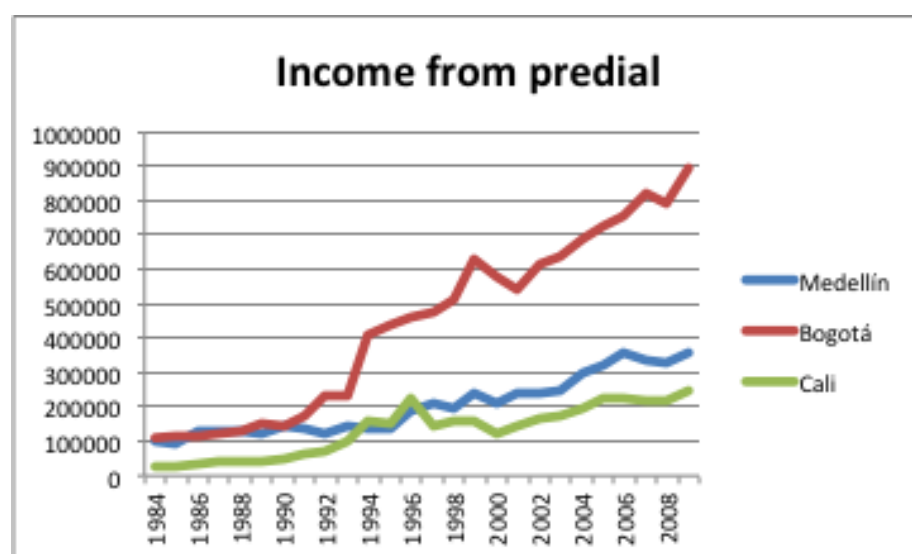


Source: DNP, 2013. Own calculations

<sup>14</sup> The World Bank estimated that the price of land in Bogotá, according to the cadastral survey, amounted to only 70% of its original market value (Guigale et al, 2003). This was considered high in relation to differences in most other cities in Colombia. But this difference has been narrowing and its close to 10% (between cadastral and market value) now days.

<sup>15</sup> Interview with the coordinator for cadastral survey. April 30th, 2013.

**Figure 2.**



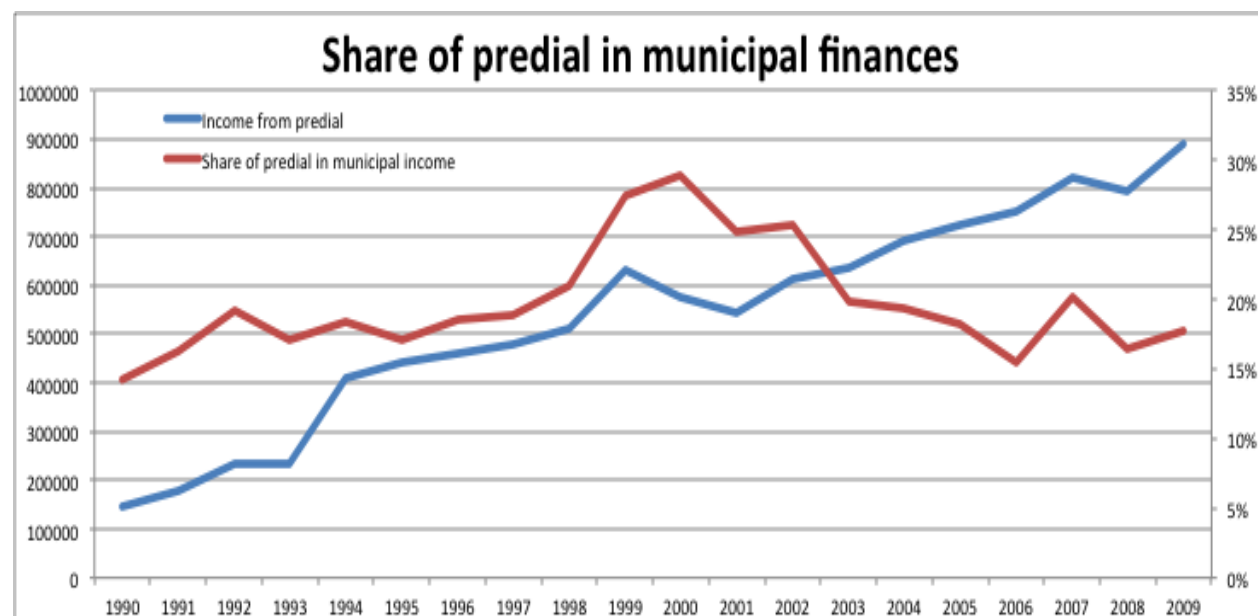
Source: DNP, 2013. Own calculations

Despite the fiscal revolution and the political thrust, the social and infrastructural transformation of Bogotá never reached its full potential. What went wrong? Basically, the local state was not able to subjugate local elites, namely the construction sector and council members. Each of these groups set up a different strategy to hamper the local state in its effort to collect more taxes. Not because they disliked modernizing the city, but because the financial resources required directly affected their flows of income. The construction sector elite pursued a legal strategy that impeded the local state to enforce a more productive use of land, a potential land distribution process and higher revenues from predial. Council members simply flooded the tax code with new tax brakes for lower and middle classes. As a result, the partial social change that took place in Bogotá was very progressive, in the sense that it was high and middle-high income classes who paid for it. But the structure of land tenure remained the same, food security could not be accomplished, and revenues from tax collection could only pay a fraction of the original costs required to modernize the primary and secondary education system.

Figure 3 shows that the share of income from predial in total municipal finances did not increase as expected. This represents the failure to enforce tax penalties for unproductive land or to induce higher productivity of land. Table 1 shows that the effective tax rates in Bogotá were actually not as high as in other capitals and even

tended to decrease in some years. This shows the influence of the increasing tax brakes introduced by the city council.

**Figure 3.**



Source: DNP, 2013. Own calculations

**Table 1. Effective tax rates in 11 big cities in Colombia (selected years)**<sup>16</sup>

Year/City	MED	BAR	Bogotá	CTG	POP	MON	NEI	VILL	PAS	CUC	BUC
<b>2000</b>	7,79	3,09	5,39	4,63	5,57	7,54	4,18	5,23	5,89	3,88	2,48
<b>2003</b>	10,51	5,57	5,95	5,37	5,17	6,66	7,08	6,76	6,91	5,7	3,5
<b>2005</b>	10,9	8,22	3,63	8,21	6,49	10,05	7,29	5,42	5,53	11,97	5,49
<b>2007</b>	9,5	4,29	6,56	3,73	5,51	6,89	7,22	5,8	6,68	9,69	6,19
<b>2009</b>	9,87	7,82	5,79	6,78	5,58	5,28	6,8	5,34	6,42	8,47	6,12

Source: DNP, 2013; IGAC, 2013. Own calculations. Shaded boxes indicate highest effective tax rates.

The following part will show how the construction sector and council members advanced their strategy to avoid baring the burden of tax collection in Bogotá. Together with the local state, the construction sector elite and council members

<sup>16</sup> Headings stand for: MED (Medellín), BAR (Barranquilla), CTG (Cartagena), POP (Popayan), MON (Monteria), NEI (Neiva), PAS (Pasto), CUC (Cucuta), BUC (Bucaramanga).

compose the political settlement that shaped the destiny of Bogotá to a good extent in the last two decades.

#### **4.2. The construction sector strategy**

Taxation will always have economic and political limits. As Di John argues “the nature of elite bargains provides a window into the political limits of expanding tax capacity. The most general case is that increasing taxes and/or enforcing tax collection may become difficult if it substantially reduces the income flows of elite and allied upper-income groups” (2010: 12). When this happens elites react. This is exactly what happened when the local state attempted to change the legislation in order to promote the productive use of land and to assure higher tax revenues.

In principle, one of the key benefits of property tax is that it enhances the productivity of land: yields should be enough to pay for production costs, taxes and make some profit. In line with this, law 44 of 1990 demanded that municipal councils should set progressive tax rates that would vary in accordance to the use of land, economic strata and the year of last formation of the cadastral survey (i.e. the oldest the cadastral survey, the highest the tax rate). Furthermore, this law established that rural lands destined to agricultural activities could have the minimum tax rate set by the council. Finally, a negative selective incentive was created to induce the productive use of land: unutilized land had to pay a 0,33% penalty tax rate (remember the highest non-penalty rate was 0,16%). Unutilized land was defined as *urban non-urbanized land*, and *urban land without constructions*. One important feature of this land is that it had no improvements or constructions built on it.

The congressional debates around law 44 provide no particular insight about the degree to which the penalty tax rate was considered high or low for landowners. The penalty tax was initially suggested to be 0,35%, but the Senate was able to reduce it to 0,33%. In any case, the traditional role of the Congress in regards to taxation has been to reduce in some points any proposal forwarded by the central government (Anales del Congreso Año 1990: 87).

Now, from 1993 onwards the local state in Bogotá has led various attempts to

increase tax collection. The most successful attempts were done by Antanas Mockus, who managed to reduced from 15% to 10% the discounts given for early payment, increased the progressiveness of the system and eliminated property tax exemptions on buildings regarded as national heritage (Acuerdo 105 de 2003). However, there was one particular policy instrument, referred here as 'the concept stretching strategy', which was systematically used but always failed to succeed.

The concept stretching strategy was about changing the definition of what unutilised land was. After law 44 was enacted, Jaime Castro managed to pass through the council the Municipal Agreement 39 of 1993. This Agreement was the first to regulate self-valuation of property. Apart from defining tax rates, the norm redefined what unutilized land meant. Law 44 claimed that unutilized land was that in which no improvements or constructions had been made. The initial amendment pretended by mayor Jaime Castro was more stringent by claiming that unutilized land was the one where the construction area was less than 30% of the total area of land. In the end, the municipal council approved that if less than 20% of the surface area of the plot was used tax liability was to be calculated using the highest tax rate.

This change increased dramatically the amount of properties that could be considered unutilized and which became liable to the penalty tax. Predictably, this change turn on the alarms of big landowners who held land mainly for speculative purposes, waiting to benefit from the expansion of the city, which had been increasingly growing since the early 1980s. And it also affected the owners of big *haciendas* that were paying very few taxes. *Haciendas* are big mansions from the Spanish colonial times that had been resilient to the urbanization process and could be found all across the city.

As represented by Table 2, the justification for stretching the concept about what was meant by unutilized land was based on the fact that very fertile, strategically located and extensive land had constructions in between 0,8% and 2.9% of its usable land, but managed to avoid the penalty tax rate.

**Table 2. Percentage of utilized land in selected plots in Bogotá. Judicial cases**

Date	Instance	Case	Year of the Event	Size of land	Size of improvements	% Of land used
31/5/2012	Fourth section, Administrative Litigation Chamber, State Council	18227	2004	37161,30 m <sup>2</sup>	323,8 m <sup>2</sup>	0,871%
				3,71613 hectares	0,03238 hectares	
8/3/2012	Fourth section, Administrative Tribunal of Cundinamarca	00036	2006	5860,6 m <sup>2</sup>	163,6 m <sup>2</sup>	2,79%
				0,58706 hectares	0,01636 hectares	

Source: Indicated cases in the State Council and the Administrative Tribunal of Cundinamarca

This challenge to the traditional structure of land tenure induced a collective action process among the construction sector elite. In Bogotá, together with the traditional owners of pastures in the outskirts of the city, construction companies are the most important holders of idle land. They have managed to buy land at very low prices from small landholders and then pressure the state to build roads and provide electric and water services. This infrastructure provided by the state increases the prices of land and allows urban development.

The mechanism used to hinder the initiative of the local state was simple: they gathered in small groups and presented the same demand against the norm that changed the definition of unutilized land. In every case the indictments argued that the local state, or the municipal council which approved the bill, had no jurisdiction to enact new taxes or change the existing ones, they claimed this was a constitutional responsibility of the National Congress. Furthermore, they claimed that the application of the norm would imply more than a 100% increase in the value of predial for the next year, an increase that was illegal according to the law.

On its defence, the local state argued that IGAC had defined what *unutilized land* was in their internal resolution 2555 of 1988, therefore, that their definition only clarified the concept without creating further *tax situations*. In 1996, a verdict by the Contentious-Administrative Tribunal of Cundinamarca (with legal jurisdiction over Bogotá) declared illegal the article of the norm that stretched the concept. In the 1997 appeal, Antanas Mockus commanded the local state. The arguments for the

validity of the norm did not change much, but the local state trusted the higher judicial stance would acknowledge their effort to promote a fair and productive distribution of land via taxation. The State Council in the sentence 8126 of 1997 ratified the illegal status of the norm. The unfavorable sentence only continues to prove Hirschman's dictum in the sense that in Colombia land distribution is an impossible enterprise with the use of taxation.

With the very important Municipal Agreement 105 of 2003, the second administration of Antanas Mockus made a second attempt at increasing taxes by using 'the concept stretching strategy'. The constant appeal to this mechanism is telling of the prevalence of high concentration of land and its unproductive use in Bogotá. This time, one article in Agreement 105 instructed that unutilized land was that in which less than 20% of the surface area of the plot was used; and another established that when the cadastral assessment was less than 25% of the total value of the plot, tax liability was to be calculated using the highest tax rate.

This time the construction elite reacted much more resolutely. Nevertheless, the final judicial decision only came in 2011; 8 years after the council approved the norm. The mechanism used was the same, demanding the article of the law. However, this time they issued a plethora of legal suits to force the judicial system to compile them into a single case. By doing this, they assured that the sentence would become jurisprudence, making 'the concept stretching strategy' an ineffective mechanism to pursue tax collection in the future. This is in fact what happened, and the norm was declared unconstitutional, but not because of the concept stretching factor, but because this matter was declared *cosa juzgada* or an already settled issue. This meant that further initiatives towards changing the definition of what unutilized land was could never again be addressed by the local state. This is a prerogative of the National Congress.

There is no evidence that the construction sector co-opted, captured or corrupted the judicial system to attain a favorable decision. However, the lawyers that represented their interests, Alejandro Pardo Posse and Roberto Uribe Pinto, are professionals at suing the state for tax issues (El Tiempo 2012; Actualicece 2008).

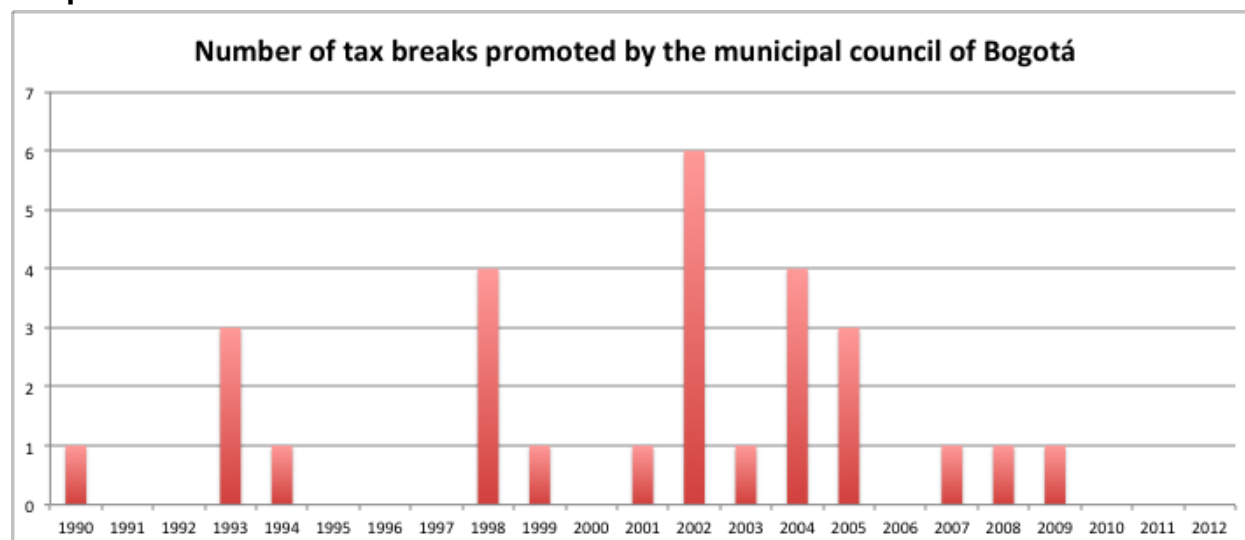


### **4.3. The strategy of low projection politicians**

On the side of the council members, the strategy was much less confrontational. And maybe, it was also less harmful for municipal finances. However, it contributed to mine the institutional design of a progressive but simple tax system. And it also shows the extent to which the local state has failed to make the council relinquish to its ability to control local politics.

The fiscal revolution in Bogotá was all about collecting more taxes. A specific group of council members saw this as an opportunity to get political leverage and based their electoral strategies for re-election on pursuing tax brakes for lower and middle-income classes. This is not necessarily bad when seen from the purview of progressiveness of the tax system, which is actually a constitutional demand in Colombia. However, this hindered the fiscal capacity of the local state in the mists of its most developmental period. Graph 1 shows when the tax brakes were introduced. Interestingly, some peaks seem to coincide with the beginning of the political campaign for next year's election. This only happens in 1993 and 2002, so further analysis needs to be done.

Council members that engaged in this strategy have two things in common. First, they had not been in the council for many years. The Municipal Council in Bogotá is a corporation where many politicians like to remain. This happens because they can have as much power as a Congressman while avoiding the institutional control of the national level, which is much more robust than at the local level. Second, they were not acting in coalition with their parties but as individuals, sometimes even in coalition with politicians from other parties.

**Graph 1.**

Source: Office of the Mayor of Bogotá, 2009.

The first tax brakes appeared around 1993 and they created a ten-year exemption from property taxes for every private institution that worked to provide social services for vulnerable population (Acuerdo 9 de 1993). Once the benefit expired, a new Municipal Agreement was passed in order to extend the tax exemption indefinitely, although in a milder way because these institutions now had to pay taxes with the minimum tax rate and the tax base was reduced to those institutions that served the lowest strata of the population (Acuerdo 196 de 2005). The council members that authored the second norm were all new local legislators and all of them were actually in opposition to the political party of the mayor<sup>17</sup>.

Another tax break pertained to the commercial use of houses. The Municipal Agreement 105 of 2003 established an increase in the tax rate whenever a property destined for living purposes undertakes commercial activities. First and second stratus were exempted from such increase, but the third stratum was not. As low-income families do, middle-income families are used to rent one of the rooms in their house or use part of it as a small supermarket. In this case, a different group of council members promoted to extend the tax exemption to the middle-income classes<sup>18</sup>.

<sup>17</sup> They were Maria Isabel Nieto, Fernando Rojas, Guillermo Cortés, David Luna, Dario Fernando Cepeda y Elvar Emel Castillo.

<sup>18</sup> This time the council members were: José Abel Valoyes Chaverra, Severo Correa Valencia and Alvaro Argote Muñoz.

Finally, the council was also able to stop an exhaustive change in the system of predial in 2002. This was the second administration held by Mockus. On three occasions Mockus and his secretary of finance promoted a comprehensive legislation that would increase tax collection significantly, reduce tax brakes and increase progressiveness. The Council systematically rejected the bill (Proyecto de Acuerdo 180, 184 and 189 form 2002). In practice this impeded the mayor from implementing most of the social spending programme and a more conservative legislation had to be designed to get the council's approval (El Tiempo May 2002; Nov 2002).

To resume, council members curved the fiscal revolution staged by the local state by introducing a series of tax brakes into the code. The motivation had nothing to do with serving the interests of their current constituents, but with increasing their electoral base or winning the loyalty of new constituents. Finally, this process shows the incapacity of the state to impose its rules over competing political and economic elites.

## 5. CONCLUSION

This section concludes this thesis. It has three parts. A first part will recapitulate what has been said and provide some deductions about political elites and resource mobilization patterns. This part will also refer to the limitations of this work. The second part will comment on the stability of the political settlement depicted in the previous chapters. The third part will reflect on the developmental or predatory nature of the local state in Bogotá.

### 5.1. Recapitulation

This thesis addressed the question *what kind of political settlement is revealed by patterns of resource mobilization?* Thanks to a series of *developmental* mayorships, the local state in Bogotá tailored a fiscal revolution. Elite and non-elite sectors endorsed the purpose of modernizing the city. However, because the fiscal revolution relied heavily on taxation, and specifically on property taxes, there were at least two elite groups that hampered its full realization. On the one hand there was the construction sector elite, which managed to rescind the norm that forced a productive use of idle land, or its redistribution. On the other hand there were low profile council members that saw in tax increases an opportunity to win new constituents by advocating for tax brakes that would benefit middle and low-income classes. This is the description of the political settlement that influenced Bogotá in the past two decades.

Some conclusions can be driven from this work. First, pockets of efficiency (well-conceived pro-growth institutions) are vulnerable to the challenges of political and economic elites. Second, Hirschman remains right when saying that taxation is not an efficient mechanism to coax landowners into making a full use of land in Colombia. Third, the construction sector has proven to be very powerful. Surprisingly, it was mentioned in most of the council debates that were consulted in the research stage. On the other hand, the council members mentioned remain being small or unknown political figures. Their strategy proved to be solely opportunistic and damaging for municipal finances. Finally, this research confirms the importance of predial in Bogotá and Colombia. The possibility of tracing an

important social and political trajectory by looking at the patterns of resource mobilization from predial confirms that this tax represents one of the main sources of contentious politics and even violence in the country: the structure of land tenure.

## **5.2. Stability of the political settlement**

The political settlement described throughout this work and summarized in the last part is not stable. On the one hand, in the past years Bogotá has had a series of disastrous administrations and the local state is no longer a symbol of efficient public management and long-term urban planning. On the other hand, the council is experimenting a political turmoil because some of its most traditional members have been finally accused and imprisoned for corruption. This is expected to reduce the leverage of the municipal council towards the mayor. However, this is speculation. Finally, the construction sector elite is one the most stable elites in the country. This is probably because one of the main indicators of economic growth in developing countries comes from construction activity. Thus, the redistribution of land and the struggle for its productivity is not even promised in Colombia. To resume, out of the three actors depicted in this work, only the construction sector elite remains untouched. This means that the current political settlement is in a stage of important and structural reconfiguration.

## **5.3. A brief comment on subnational state capacity in developing contexts**

All of the above proves the symptomatic significance of taxation for depicting social processes. But what does it reveal about state capacity in the context of late development? The following are some ideas that deserve further development.

Subnational states in Colombia lack basic capabilities. They do not hold the monopoly over the means of violence, do not have the administrative structure to support its operation and cannot reach over their territory. The first condition is a shared responsibility with the central government, but the last two are or can be prerogatives of the local state provided the decentralization push of the 1990s.

A look into property taxes is helpful to back this claim. First, tax evasion is so high because taxpayers are not confronted with high penalties in case they decide not to

pay. Moreover, if they manage to hide from the law for five years, their tax liabilities expire! This is changing, but today the evasion culture is still wide spread through all social classes. Second, the state lacks basic technological instruments and codes of conduct, for example to stop tax officials from making the state's money into their personal rents. And third, there are some territories, even within city boundaries, where the local state cannot reach. Think about the *fabellas* in Brazil. In Medellín and Bogotá, there are *fabella-like* regions where the state cannot penetrate and engage in a contractual relation of taking taxes in exchange for basic services (Communa 13, Ciudad Bolivar).

Building on the importance that state-building narratives place on taxation, it is believed that without a full professionalization of the state bureaucracy, a full penetration of the state into its territory and a complete control over the means of violence, mature state organizations and late economic development will not be reached in Latin-American latitudes. The example of BRICS countries is only a limited counterargument, and it is not bold to suggest that the levels of inequality in Brazil will not be further reduced with the economic model in place currently.

The problem with state building narratives is that they suggest a linear genesis of the state that is famously resumed in Tilly's statement: war produced the state. This puts developing countries, central and local states included, in a difficult position, because they long for the results but the cannot commit to the same means. In other words, how to strengthen the state without the inhuman use of force and cruelty that developed and now developed countries used? Think about UK, USA, Germany, South Korea, etc. (and Chang 2002 widely documents this process).

In this respect, the experience of Bogotá with clearly unorthodox policy instruments could be insightful of the COOPERATIVE ways in which state building can be advanced in a society attacked by all the coordination problems imaginable. The use of arguments, instead of force, to compel citizens to pay for taxes, reduce water consumption, respect pedestrian spaces, stop killing each other, is a nonviolent revolution that needs to be explored and practiced outside the laboratories of behavioural economists and need to be put into practice more often.

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