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Colombia's Missing Fiscal Pact: The Political and Cultural Foundations of Weak Taxation

RESEARCH

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ABSTRACT

This paper argues that Colombia's taxation problems reflect a deeper political economy equilibrium shaped by extractive institutions, extreme inequality, and cultural norms that favor individual solutions over collective ones. Historical legacies produced a weak and often distrusted state, which in turn fostered social norms that legitimize rule-bending, low tax morale, and clientelistic exchanges. These institutional and cultural arrangements proved mutually reinforcing for decades. Since the 1990s, however, political openness expanded inclusion and triggered greater demand for public goods. The result has been a more responsive state, yet one constrained by persistent political inequality, clientelism, low trust, and reluctance to fund public spending through broad taxation. The mismatch between rising expectations and limited fiscal capacity has now produced a fragile and increasingly untenable fiscal position. Colombia faces a critical choice: renew its fiscal pact on new, more consensual terms or risk recurring crises and democratic erosion as an expensive but ineffective state structure constrains long-run development.

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1 INTRODUCTION

As an economist who has spent years studying taxation and state capacity in Colombia, I often observe contradictory conversations about taxes, usually ending in a resigned shrug. People complain about corruption and inequality, yet almost in the same breath, they explain why it is only reasonable to evade the value-added tax (VAT) or oppose a progressive tax. Everyone also knows that many goods and services have two prices: one with an invoice and tax, and another in cash. Few experience this as an ethical dilemma. It is understood instead as a pragmatic way of dealing with a state perceived as distant, intrusive, and often illegitimate.

This combination of dissatisfaction with outcomes, distrust of collective solutions, and routine negotiation over whether to pay tax lies at the core of Colombia's missing fiscal pact. It motivates the central question of this paper: why a country that urgently needs a more capable and equitable state has ended up with a tax system that is complex, unstable, and widely evaded.

From a broader perspective, taxation is central to state-building, governance, and economic development. It finances public goods and services and can help reduce inequality and foster social cohesion. In Colombia, however, the tax system is widely seen as a showcase of persistent inefficiency and unfairness. It is complex, riddled with horizontal inequities, and contributes surprisingly little to income redistribution.

In addition to its many shortcomings, the Colombian tax code is remarkable for its instability (Filippini and Zuleta 2016). This volatility is evident in the sheer frequency of tax reforms, as shown in Appendix Figure 1, which traces major tax reforms since 1891. While repeated fiscal reforms have long been a feature of Colombia's fiscal history, the pace has accelerated sharply in recent decades. In the twenty-first century alone (up to 2023), the country has enacted 14 major tax reforms, more than one every two years.

One interpretation of this situation proceeds as follows. First, Colombia has severe taxation problems. As a result, there are constant efforts to improve the tax regime. There are, however, deep political economy constraints that produce only imperfect solutions and, in some cases, even counterproductive short-term ones. Therefore, problems persist, and we are back in the first step of a seemingly unending cycle. Fergusson and Hofstetter (2022) discuss an underlying "paradox of legitimacy" that underpins this persistent and pernicious cycle: the tax system's problems make it profoundly illegitimate; this illegitimacy, in turn, complicates the approval of substantial changes to improve it.

The preceding views are valid, but treat the initial tax problems as fixed constraints. Rather than treating Colombia's tax system as a collection of technical flaws to be fixed, this paper interprets it as the fiscal face of a deeper political and cultural equilibrium. Complexity, instability, low tax morale, budget inflexibility, and pervasive exemptions are not random pathologies. They are the predictable symptoms of broader challenges with historical roots (Acemoglu et al. 2003).

Colombia, like many other Latin American countries, suffers from entrenched political and economic inequalities. These inequalities, together with the highly individualistic values they foster, have cultivated a strong aversion to taxation and have perpetuated the state's inability to raise revenue.[1] At the same time, over the past three decades, Colombia has experienced a marked expansion of political openness and social rights, which has increased demands for public goods and redistribution. Coexisting with old political and cultural features, the resulting increase in public expenditure has been attained without a corresponding strengthening of the fiscal pact. The result is a tension between a historically extractive, low-tax equilibrium and a new pattern of expectations that society has not yet learned to finance sustainably and legitimately.

1 A complementary perspective emphasizes how initial inequality shaped the design of tax institutions, biasing them toward narrow elites and limiting their redistributive potential (Sokoloff and Zolt 2007). In a related contribution (Cárdenas and Fergusson 2025), we explore more broadly the nature of a Latin American institutional and cultural equilibrium marked by low interpersonal trust and a lack of trust in institutions, with implications for persistent inequalities.

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This paper develops these arguments and asks why such a situation has persisted despite its high social costs, and how recent changes have strained it. I argue that Colombia's historically exclusionary political system facilitated a long-standing equilibrium in which limited taxation operated in a highly clientelistic environment, alongside a relatively small state and minimal redistribution. This formula pairing limited taxation with a small state provided macroeconomic stability, but failed to build a strong state. A set of norms and cultural beliefs reinforced by that institutional equilibrium also created a "normative order" that helped entrench these difficulties (Robinson 2025).

Political and constitutional reforms since the early 1990s partially opened the system and expanded social demands, but they have not yet produced a stable fiscal settlement, instead generating mounting pressures on a weak and contested tax system. At stake is not only Colombia's capacity to finance schools, hospitals, and police, but also the quality of its democracy. A tax system perceived as arbitrary, unfair, and easily gamed corrodes civic trust and weakens the reciprocal obligations that sustain a democratic state.

Colombia thus stands at a crossroads. One path leads toward a renegotiated fiscal pact, in which a more inclusive political order and a reformed tax system sustain a capable, legitimate state. The other risks locking the country into high-cost, low-quality statehood, where partial and unstable tax reforms coexist with rising expenditure pressures, the state spends heavily while servicing an ever larger debt, and yet fails to provide the public goods and fairness that citizens increasingly demand. In short, forces for change may lead to a more functional social contract, or to even greater problems in which old and contested ways collide with these forces, producing even greater disorder.

The analysis begins in Section 2 by examining the structural features of the Colombian tax system, highlighting its inefficiencies and inequities. Section 3 explores the historical and political economy underpinnings, addressing the legacies of colonialism and the challenges of building inclusive political institutions. The focus is not merely on explaining the political and economic social arrangements that encourage a dysfunctional tax system, but on understanding the resulting cultural features and social norms that help sustain it despite the high social costs, a matter discussed in Section 4. Section 5 explores the implications of these root causes for tax policy, reframing several of Colombia's tax challenges as manifestations of the larger issue. Section 6 discusses how recent political and social changes have perturbed the old equilibrium and considers the conflicting scenarios they open for Colombia's fiscal future.

2 TAXATION MALADIES?

Colombia's tax problems have been amply diagnosed (and recurrently, given the frequent tax reforms). Building on Fergusson and Hofstetter (2022), this section reviews some of the most salient and persistent ones. Notwithstanding the importance and challenges of local taxation, I focus only on national taxes.

Colombia's tax code is extensive and highly complex, and both characteristics have persisted over time. The country has consistently ranked among the jurisdictions with the most complex tax systems worldwide. As illustrated in Figure 1, which presents the top 30 most complex tax systems globally, Colombia ranked among the three most complex in 2016, 2018, and 2020. Although there was an important improvement in 2022, the country remained firmly within the group of highly complex tax regimes.

In addition to its complexity, compared to the Organisation for Economic Co-operation and Development (OECD) average, the tax code relies heavily on taxing corporate profits while collecting very little from personal income. In the OECD, personal taxes and contributions account for an average of nearly 50% of revenue; in Colombia, this figure is approximately 15%. Conversely, Colombia collects a quarter of its taxes through businesses, more than twice the OECD average (Figure 2).

The tax code also exhibits significant horizontal inequities. Two individuals or businesses with similar incomes may face vastly different tax rates. A study by Fedesarrollo (Lora and Mejía 2021)

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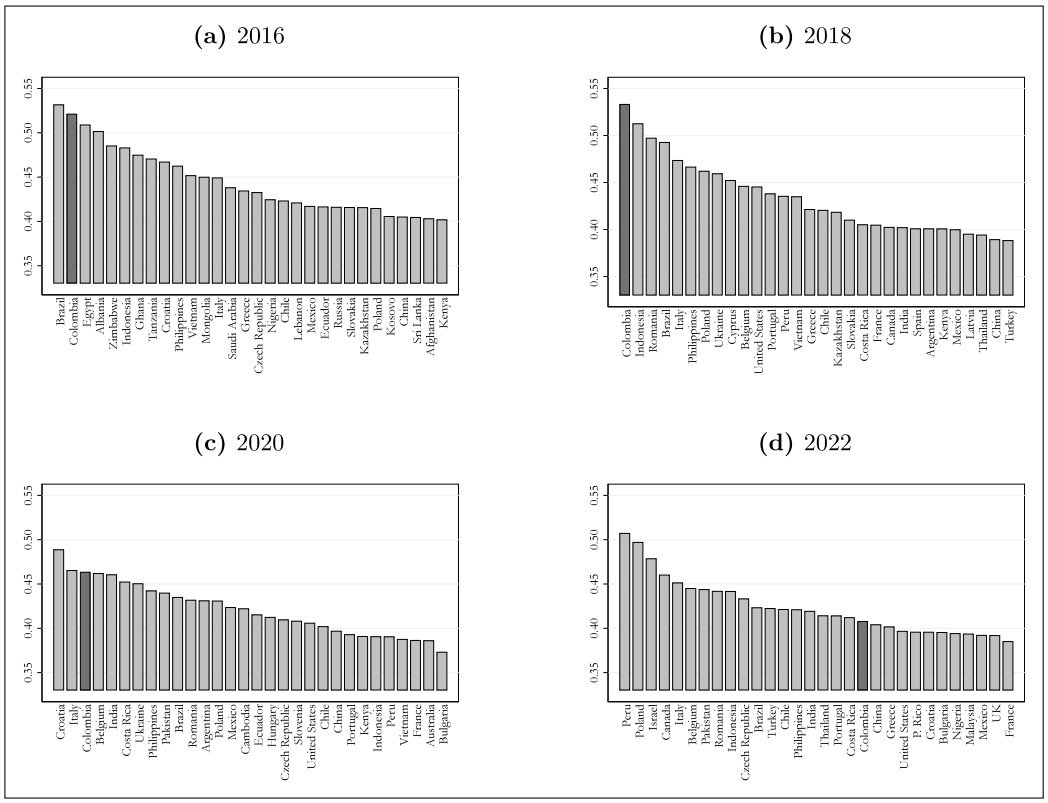


Figure 1 Tax Complexity Index, 2016, 2018, 2020, 2022.

Source: Compiled by the authors based on data from the MNC Tax Complexity Project.

Note: The Tax Complexity Index quantifies the complexity of corporate income tax systems as faced by multinational corporations, on a scale from 0 (least complex) to 1 (most complex). It is based on a comprehensive survey of tax consultants from leading global tax advisory firms. The index incorporates two main components: tax code complexity, which captures the intricacy of statutory tax regulations, and tax framework complexity, which reflects the procedural and structural characteristics of the tax system.

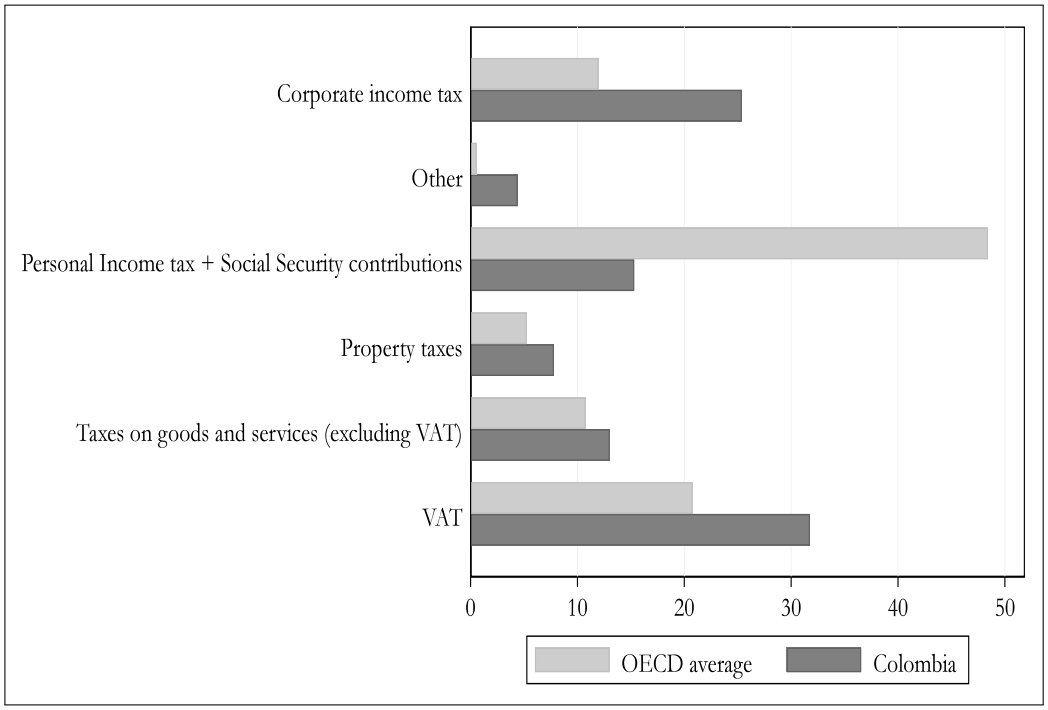


Figure 2 Composition of total tax revenue by type of tax (percentage of total revenue) in Colombia and OECD countries, 2022.

Source: OECD Global Revenue Statistics Database (2025).

Note: The figure shows the composition of total tax revenue by type of tax in Colombia and the OECD average, expressed as a percentage of general government revenues.

calculated the effective tax rates for corporate entities across various production sectors and found that, in 2019, these rates ranged from 33% to nearly 90% (Figure 3). These rates were computed as the ratio of taxes paid to pre-tax profits. Furthermore, effective tax rates do not appear to correlate with firm characteristics, except for a negative correlation with profitability (Carranza et al. 2018). This suggests that each company almost has a specific tax regime and that firms facing difficulties are penalized more heavily.

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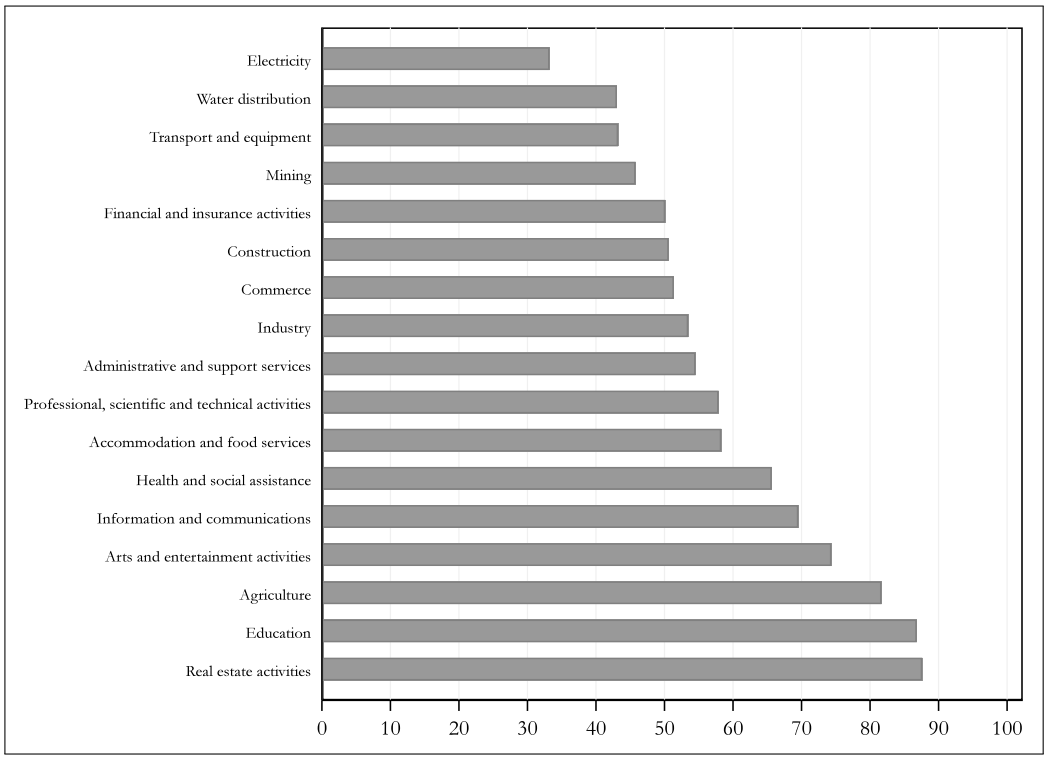


Figure 3 Effective corporate tax rate by sector (percentages) in Colombia, 2019.

Source: Lora and Mejía (2021).

Note: Data were calculated by Fedesarrollo based on information from the National Tax and Customs Directorate (DIAN), the National Planning Department (DNP), the National Administrative Department of Statistics (DANE), and the Superintendency of Companies.

Over time, special treatments have been incorporated into the corporate income tax, VAT, and personal taxes. These exemptions partly explain the system's complexity, the heterogeneity of effective tax rates, the exceptionally high nominal average corporate income tax rates (which compensate for the low rates applied to numerous companies exempt from general rules and those who resort to evasion and elusion, taking advantage of complexity and weak enforcement), and low revenue collection. Compared to 17 key countries in Latin America and the Caribbean, Colombia foregoes the most revenue to tax exemptions, nearing 9% and doubling or more the levels of half of benchmark tax systems (Figure 4). Uruguay, the second on the list, forgoes roughly 20% fewer revenues.

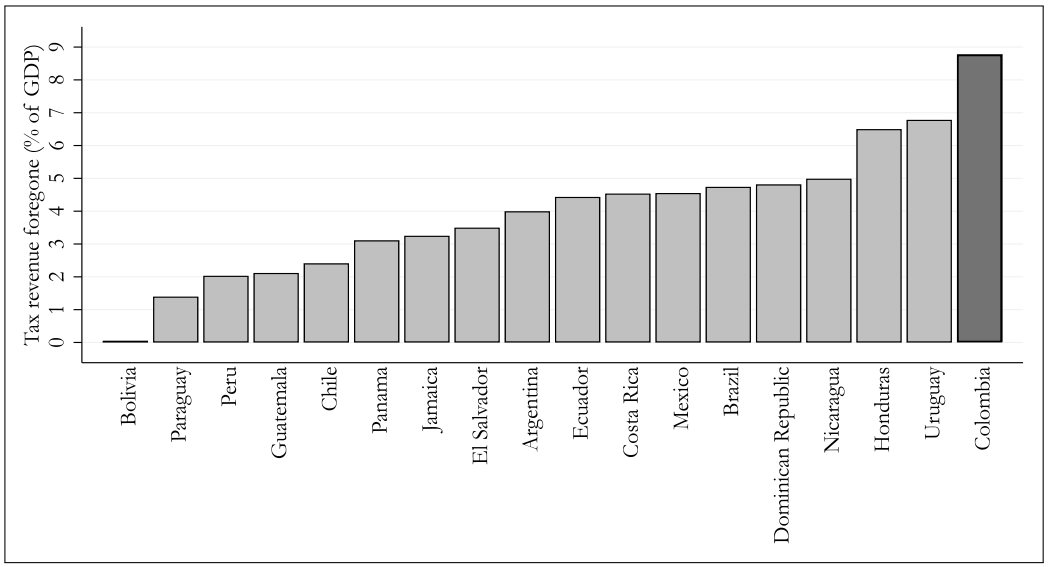


Figure 4 Tax revenue foregone (as a percentage of GDP) in Colombia and Latin American and Caribbean countries.

Source: Global Tax Expenditures Database (GTED), 2025.

Note: The graph shows tax expenditure for different countries in Latin America and the Caribbean. Tax expenditures are defined as deviations from a country-specific tax standard or benchmark. The GTED relies on data published by governmental institutions, adhering to their own benchmark definitions, and does not complement or challenge official figures. The values for each country correspond to the most recent estimates available in the GTED. The latest data corresponds to 2023, except for El Salvador (2017), Costa Rica (2019), and Colombia, Panama, Jamaica, Ecuador, and Nicaragua (2022).

The Colombian tax system, with its low personal income tax revenue and a narrow tax base, plays a marginal role in addressing income inequality. Figure 5 shows the Gini coefficient of income concentration in 2021 for a broad sample of countries, distinguishing between the coefficient

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before taxes and transfers (gross) and after taxes and transfers (net). Colombia is unusual in its highly concentrated income distribution before state intervention; however, its poor income distribution is even more extraordinary when the state's role is taken into account.

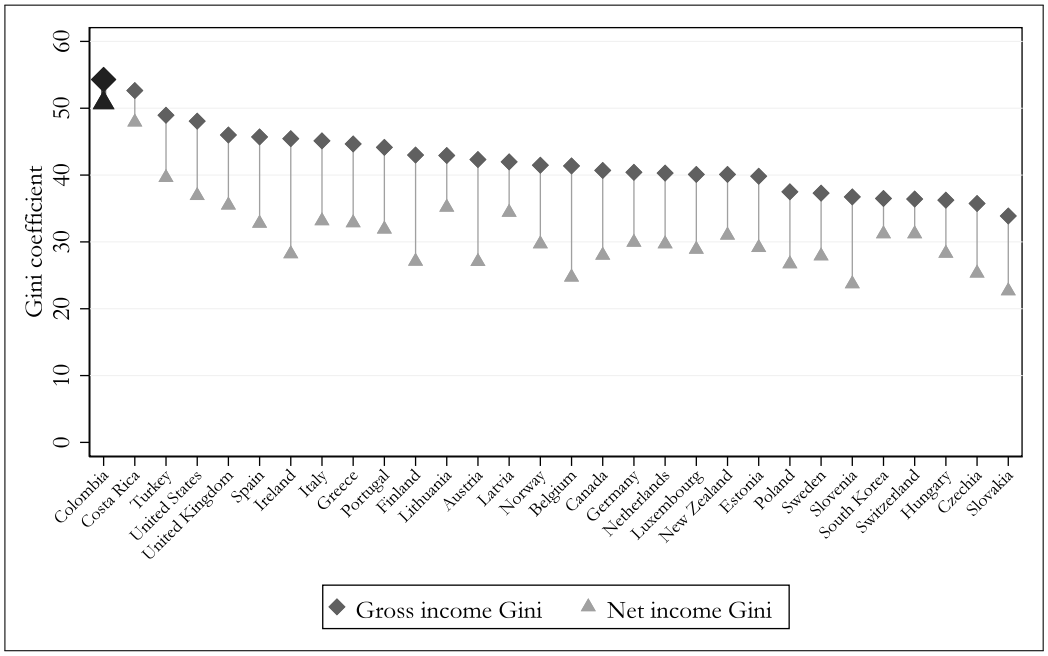


Figure 5 Gross Gini coefficient (before taxes and transfers) and net Gini coefficient (after taxes and transfers) in Colombia and other countries, 2021.

Source: United Nations Statistics Division (2025). Sustainable Development Goals (SDG) Indicators Database.

Note: The graph plots the Gini coefficient of gross income (before taxes and transfers) and net income (after taxes and transfers) for Colombia and a selection of countries in 2021. The data correspond to SDG indicator 10.4.2, Redistributive impact of fiscal policy on the Gini index.

The Colombian state's weak redistributive role is partly due to exemptions on personal income taxes. While income sources such as wages, fees, interest, or dividends are taxed, others, such as mandatory contributions to the pension and health systems, distributions of liquidation profits, profits from the sale of shares, and most pension income (heavily skewed towards more affluent households), are non-taxable.

Relatedly, from the 95th income-level percentile onward, non-labor income, occasional gains, and, to a lesser extent, dividends become the most significant sources of income. Such sources of income are often easier to hide or receive favorable tax treatment. Many other personal income tax deductions disproportionately favor high-income individuals, with no solid economic justification. These include deductions for special savings (e.g., in voluntary pension funds or savings intended for home purchase) and exclusions and deductions defined or capped as a percentage of the taxpayer's income, which benefits wealthier individuals. Finally, some public expenditure is regressive, including higher education and pension spending.

In short, Colombia's tax code violates desirable principles of taxation: it is lengthy and complex, overburdens businesses rather than individuals, introduces significant horizontal inequities, does not meaningfully improve income redistribution, and is subject to high levels of evasion.

While some reforms have partially addressed this set of issues, efforts have been at best incomplete and, in some instances, new special treatments benefiting relatively wealthy contributors reappear in the (clientelistic) process of reform approval in Congress. We will now expand these issues in the next section, when discussing the political economy roots of reform failure in Colombia.

3 THE NATURE OF THE EQUILIBRIUM: EXTRACTIVE AND INDIVIDUALISTIC

In this section and the next, I propose that tax failures are symptomatic of a deeper issue rooted in the political economy of the state. I first explore the nature of the institutional and normative equilibrium that helps explain the emergence of such a dysfunctional tax system. In the next

section, I discuss how political failures, underpinned by a complementary set of norms and cultural features, help explain the persistence of a socially detrimental system.

3.1 STUBBORNLY PERSISTENT HISTORICAL LEGACIES

Deep historical, specifically colonial, legacies play a crucial role in explaining the persistent backwardness and economic and political inequality in much of Latin America, and Colombia is no exception. Engerman and Sokoloff (2000) emphasize how factor endowments, particularly land, labor, and capital in colonial Latin America, shaped institutional frameworks that promoted inequality and backwardness. Acemoglu, Johnson, and Robinson's foundational works (Acemoglu, Johnson and Robinson 2001, 2002; Acemoglu and Robinson 2012) argue that colonial powers established institutions that prioritized extraction over development in much of Latin America. Abundant resources, dense indigenous populations, and an unfavorable disease environment enticed Europeans to establish extractive institutions. These institutions, designed to benefit a small elite, entrenched inequality and hindered long-term growth. Following these seminal contributions, several studies have collectively revealed and unpacked how Latin America's colonial heritage established extractive institutions and practices that perpetuate inequality and hinder economic progress (see, for instance, Acemoglu, García-Jimeno and Robinson 2012; Dell 2010; Gallego and Bruhn 2011 and the survey in Eslava and Valencia-Caicedo 2022).[2]

The stagnation in economic development and persistent inequality, typical of Latin America and emphasized in this institutional literature, are perfectly illustrated in the Colombian case. Figure 6 shows the ratio of Colombia's real GDP per capita to the United States' real GDP per capita in constant 2011 USD over the period 1850–2022. The data reveal several notable trends. Initially, Colombia's GDP per capita hovered around 20% of the US level during the mid-nineteenth century, declining steadily through the late nineteenth century to below 15%. A significant rebound is evident in the early twentieth century, culminating in a sharp peak during the late 1920s, when



Figure 6 Ratio of Colombia's real GDP per capita to the United States' real GDP per capita in constant 2011 USD over the period 1850–2022.

Source: Bolt and van Zanden (2024).

Note: The figure plots the ratio of Colombia's GDP per capita to that of the United States over the period 1850–2022. Both series are expressed in constant 2011 international dollars, Purchasing Power Parity (PPP), following the methodology of the Maddison Project Database. Values before 1990 are extrapolated backward using historical growth rates and benchmarked to 1990 PPPs, while values after 2011 are benchmarked to the 2011 PPP, ensuring comparability across the entire period.

2 These arguments resonate with comparative work on Spanish America that links colonial strategies to divergent post-independence trajectories (Mahoney 2010), as well as syntheses that stress the joint evolution of inequality, institutions, and growth in Latin America (Coatsworth 2008; Haber 2000). At the same time, there is an active debate about the precise weight of colonial legacies relative to nineteenth- and twentieth-century developments, and about the timing of Latin America's "inequality boom," with alternative interpretations stressing later trade shocks, globalization, and domestic political choices (Eslava and Valencia-Caicedo 2022; Prados de la Escosura 2007; Rodríguez Weber 2018; Williamson 2010, 2015).

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the ratio briefly exceeded 30%. This period of relative economic convergence was followed by a pronounced decline during the Great Depression and World War II, with the ratio dropping below 20%. Post-World War II, the ratio stabilized but remained volatile, reflecting periods of relative growth and stagnation. Notably, the ratio showed an upward trend starting in the late twentieth century, approaching levels near 25% by 2010, indicating some (modest) degree of convergence during recent decades. This historical trajectory highlights the long-term challenges and only episodic progress of Colombia's economic development relative to the United States. For as long as data have been available, Colombia has been unable to catch up with successful economies, including prosperous former colonies such as the United States.

Despite some debate among historians about when Latin American countries, including Colombia, became particularly unequal, there is little doubt about the persistence of high inequality in their modern history. Figure 5 already revealed the high levels of inequality in Colombia. Data from the World Inequality Database also underscore the persistence of such disparities, despite some ebbs and flows. When examining the share of pretax income held by the top 10% across Colombia, South Africa, the United States, and the global average between 1980 and 2020, the data highlight significant disparities in income concentration. Colombia exhibits consistently high income concentration, with the top 10% holding approximately 60% of pretax income throughout the period. This aligns closely with South Africa, where the share of pretax income held by the top 10% is similarly high, rising above 65% in the early 2000s before stabilizing slightly below that level in recent years. In contrast, the United States follows a distinct trajectory, showing a steady increase in income concentration, albeit at much lower levels: from around 35% in 1980 to approximately 47% by 2020. The global average of roughly 50% of pretax income is notably lower than the levels observed in countries such as Colombia and South Africa.

These numbers highlight the entrenched inequality in Colombia. More troubling, the best available estimates indicate that roughly 50–60% of these disparities stem from inequality of opportunity, i.e., inherited or predetermined circumstances rather than individual effort (Brunori, Ferreira and Neidhöfer 2025). This makes the distribution of outcomes especially unjust and severely limits prospects for social mobility.[3]

Extractive institutions and high inequality hamper consensus around functional tax systems in many ways, including by favoring individualistic cultural features.

3.2 CULTURAL LEGACIES OF EXTRACTIVE INSTITUTIONS: UNTAMED INDIVIDUALISM

How does this social and political setting affect the ability to raise taxes? The absence of inclusive political institutions can fail to create a common interest and may fuel political opposition. A long tradition in political philosophy emphasizes the importance of consensus and reciprocity for effective state-building, with ideas dating back to classic thinkers such as Locke (1690) and Rousseau (1762). Similar notions have been recently revived and developed by Acemoglu (2005), Acemoglu and Robinson (2020), and Besley and Persson (2020).

Besides extractive institutions, individualistic social norms reflected and reinforced the equilibrium, reaffirming the difficulties of building consensus for effective tax collection. Since Olson (1965), the relation between inequality and collective action has been disputed theoretically and empirically. Yet one thing is empirically clear: the more unequal a society is, the more likely that its citizens are to agree with the following statement, which epitomizes the notion of "untamed individualism" that will be developed in this section, "most people would try to take advantage of you if they got a chance" (Cárdenas and Fergusson 2025).

For centuries, Colombia and much of Latin America developed states in which illegitimate institutions and an individualistic culture mutually reinforced one another. Colonial subjects acknowledged royal authority yet declined to enforce edicts deemed impractical or contrary to

3 Aside from the institutional and cultural mechanisms emphasized in this paper, high inequality feeds back into low productivity and incomes through mutually reinforcing economic channels (Lora 2024).

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custom. This *obedezco pero no cumplo* doctrine allowed officials and elites to interpret mandates loosely and protect rents (García Gallo 1951, 1972; Thompson 1994). Non-elites responded with *malicia indígena*: shrewd ways of reading rules, bending them at the margins, and coping with exclusion (Higuera 2013; Morales 1998; Villegas 2009).

These practices nurtured a form of "untamed" individualism (García Villegas 2017) embodied in the *vivo*, who seeks advantage where formal rules are distrusted. García Villegas (2017) traces this pattern to Spain's rigid stratification, where limited mobility and sharp caste divisions fostered admiration for the *pícaro*. Immortalized in *Lazarillo de Tormes*, the *pícaro* became an inverted hero, using ingenuity and trickery as the only weapons of the unprivileged. Extractive institutions reinforced the cultural heritage: when public bodies operate through favoritism and fail to enforce universal rules, the individualistic strategy of exploitation appears both rational and legitimate.

Examining more directly how individualistic values play out in society, Fergusson, Guerra and Robinson (2024) study the widespread Colombian expression "no sea sapo" ("don't be a toad"), a cultural injunction against intervening in others' affairs or reporting misconduct. This norm, common in several Latin American contexts, discourages third-party enforcement of prosocial behavior and weakens collective mechanisms for cooperation.

The authors use a modified dictator game to evaluate its effects. Participants played one of three versions: a standard Dictator Game (DG), a Third-Party Punishment variant (TP-DG), and a third version (TP-DG-S) in which the sender could invoke the sapo message after being sanctioned. While third-party punishment typically increases fairness, the ability to appeal to the "don't be a sapo" norm significantly reduced enforcement and led to more selfish allocations. As shown in Figure 7, fairness levels in the sapo condition dropped to those in the baseline game without any third-party monitoring. In other words, the norm enables Colombians to live with others as if they were not: a society-less society, which is *not* more than the sum of individuals.

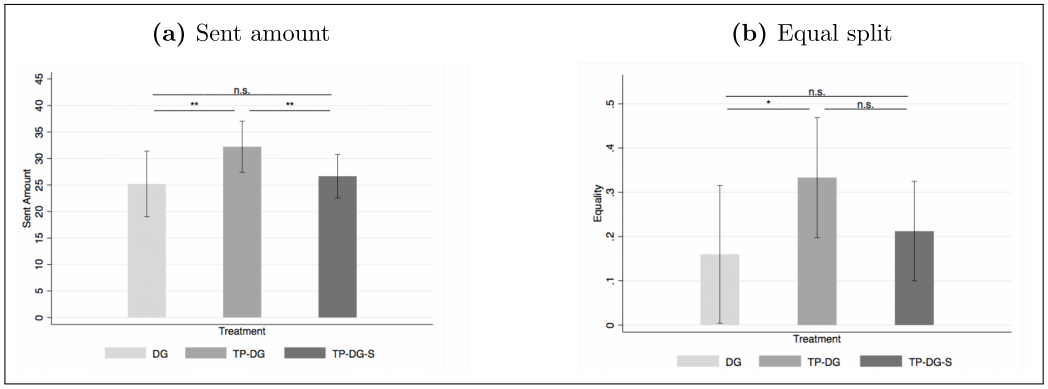


Figure 7 Average transfer from the senders and instances in which senders decide for an equal split to the receivers.

Source: Fergusson, Guerra and Robinson (2024).

Note: The figure depicts (a) the average amount sent by the sender to the receiver, (b) instances in which senders transfer half their endowment to the receiver depending on treatments in the first round. DG: Dictator Game (light gray) is the baseline of the analysis. TP-DG: is the third-party Game (medium gray). TP-DG-S: is the TP-DG plus the *sapo* message "mind your own business" (dark gray). Dark lines show 95% bootstrapped robust confidence intervals. $^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.1$, n.s. $p > 0.1$. Reported significance levels are derived from hypothesis testing a fully saturated linear model in which the dependent variable is the amount sent by the sender to the receiver, and the regressors are dummy variables for the treatments.

The paper also traces the historical roots of this cultural pattern. The "no sea sapo" norm gained traction during La Violencia, when reporting others' political affiliations or behavior could result in deadly reprisals. Silence became a survival strategy, and informing ("ser sapo") was punished harshly. The violence incentivizing these practices did not arise in isolation but reflected the extractive nature of Colombia's institutions. The case illustrates how cultural norms coevolve with institutional arrangements, giving rise to persistent behavioral patterns that hinder cooperation and reinforce individualism.

These norms create a powerful constraint on collective action. They promote disengagement over cooperation, eroding the social foundations required for effective state-building, as we explore next.[4]

4 More broadly, these patterns align with regional analyses that portray policy-making as dominated by particularistic bargains, informal understandings, and low levels of generalized trust (Scartascini, Stein and Tommasi 2014; Keefer and Scartascini 2022).

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3.3 THE STATE–CITIZEN RELATIONSHIP

Increasing tax capacity in the extractive and individualistic settings of Latin America is challenging.[5] One revealing instance is the Bourbon reforms of the late colonial period, studied by Chiovelli et al. (2024). The Bourbon reforms in the Spanish colonial empire introduced an ambitious administrative overhaul that significantly boosted the Crown's fiscal capacity but ultimately alienated local elites, fueling political opposition. A central feature of these reforms was the implementation of the intendant system, which created a new intermediate administrative layer between viceroys and local corregidores. These intendants, equipped with broad powers and indefinite terms, improved tax collection, reduced corruption, and expanded the state's territorial reach.[6]

The fiscal impact was substantial: revenues increased, particularly in regions with previously limited tax collection, and direct taxation mechanisms became more robust. In addition to the increase in tax revenues, efforts to improve information gathering were successful: intendants tasked with mapping the territory produced a notable increase in maps in treated areas.

However, this success came at a political cost. The reforms disrupted local elite privileges not only by increasing tax pressure but also by eroding the economic benefits of the *repartimiento*, leading to widespread elite discontent. To document the political backlash, Chiovelli et al. (2024) collect elite names and reveal that they began to detach from the Crown. An analysis of correspondence content also reveals growing Creole resentment, which eventually contributed to independence movements. Finally, notable people born in reformed areas were more likely to participate in the independence movement, especially those who experienced its impact during key "impressionable" years (Krosnick and Alwin 1989).

In summary, although the Bourbon reforms temporarily bolstered state capacity, their inability to align elite and Crown interests fueled political instability, underscoring the structural difficulties of state-building under extractive colonial institutions. The resulting independence movements emerged in a context marked by deep mistrust of taxation, widely seen as an instrument of foreign imposition. This historical legacy persisted, with the founding of new republics at a moment of intense fiscal aversion, posing lasting obstacles to the development of effective tax systems. Colombia did not implement the Intendant system.[7] Nevertheless, Colombia's resistance toward colonial taxation was equally present, especially in the late colonial period.

The emerging republics, and Colombia in particular, struggled to build a strong state project. In the Colombian case, this reluctance to build a state reached quite extreme levels with the 1863 Constitution.[8] Fergusson et al. (2023b) explore how the Colombian society developed constitutional mechanisms to manage order and rebellion. The authors propose a theoretical framework suggesting that, in contexts with weak institutions, constitutions may need to tolerate some violence to ensure political participation. Through a comparative lens, the study examines the constitutional histories of Colombia and the United States, highlighting why Colombia developed a lenient approach to penalties for rebellion, rooted in its 1863 Constitution, while the United States built a robust, Leviathan-like state.

The theory proposes that lenient rebellion costs arise when political inequality, income inequality, or policy uncertainty prevents the incumbent from credibly redistributing resources to challengers.

5 Complementary comparative work on war, state formation, and taxation underscores how Latin American polities often failed to transform conflict into broad-based fiscal bargains, instead sustaining fragmented and weak state structures (Centeno 2002; Mazzuca 2021).

6 Key changes included appointing peninsular-born intendants, who were less susceptible to elite capture, and paying them higher salaries. Also, replacing previous co-opted local officials (*corregidores*) with new subdelegates under the Intendant's supervision and with performance-based salaries. These reforms addressed chronic governance issues, such as inadequate monitoring of local officials and exploitation of Indigenous populations.

7 The untimely deaths of José de Gálvez, the leader implementing this reform throughout the empire, in 1787, and of Charles III in 1788 stalled the Bourbon reform program and prevented the full adoption of the system, although the ordinance of intendants for New Granada had already been drafted and the viceroy had been instructed to be ready for implementation.

8 These difficulties in forging inclusive bargains are consistent with broader patterns in Latin American constitutional design (Negretto 2013).

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Empirical evidence, particularly from Colombia's constitutional and penal history, supports the theoretical insights. Most notably, the Colombian Constitution's "derecho de gentes" normalized rebellion, prioritizing negotiated solutions over punitive measures. This leniency contributed to Colombia's persistent political disorder and contrasts with the US's stronger state and harsher treatment of rebellion. In short, the underlying differences in institutional and social norms between the two countries fundamentally shaped their constitutional designs, with Colombia's tolerance for disorder serving as a mechanism to manage deep inequality and uncertainty.

The widespread perception of an unequal playing field and an illegitimate state has fostered distrust and defection between citizens and the state. These are precisely the conditions that obstruct reciprocal arrangements around taxation. Rather than a consensually strong state (Acemoglu 2005), a contested and fragmented one emerged—one in which taxation is seen less as a mutual obligation and more as an imposition. Over time, this has fueled a civic culture in which rules are distrusted, evasion is normalized, and public duties become private bargains. The following section examines the collective traps that emerge in such contexts and the resulting symbolic boundaries that help sustain Colombia's tax malaise.

3.4 COLLECTIVE TRAPS AND SYMBOLIC BOUNDARIES

One mechanism creating individualistic tendencies and departure from collective solutions is what Fergusson (2019) refers to as the "Weak Public Goods Trap," illustrated in Figure 8. The weak public goods trap illustrates a self-reinforcing cycle that perpetuates weak public service provision in a society: low public goods supply leads citizens to seek private alternatives, reducing collective demand for public services, which in turn diminishes state capacity and the provision of public goods.

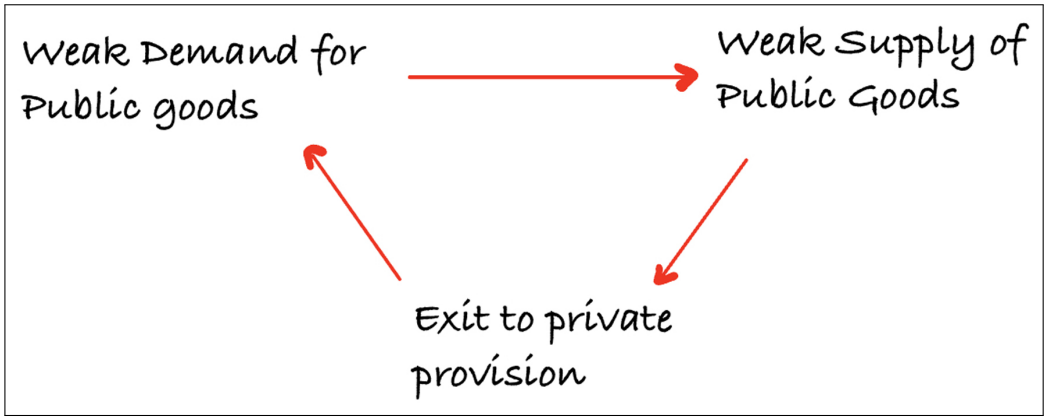


Figure 8 The weak public goods trap.

Source: Fergusson (2019).

Note: A weak provision of public goods and services leads those with resources to exit in search of private alternatives. This, in turn, reduces the demand for public goods, which feeds back into the weak provision of public goods. In the process, economic inequality is reinforced when those with limited resources are forced to rely on subpar public or private alternatives. Political inequality may limit the ability of excluded groups to voice their demands for better public alternatives and break the vicious cycle.

This cycle both emerges from and reinforces contexts in which political and economic inequalities prevail. To begin, when public goods are insufficiently provided, those with resources can privately secure their needs. This leads to a disconnection between the affluent and the public system, eroding pressure on the state to improve the quality of public services.[9] On the other hand, poorer groups, unable to afford private solutions, remain reliant on substandard public provision, deepening existing inequalities.

Economic inequality directly feeds into the trap: wealthier groups seek private solutions for public goods (e.g., private schools or gated communities with private security), especially where inequality has entrenched norms of social segregation. Also, in unequal societies with abundant, cheap labor, wealthier groups can more easily insulate themselves from public-sector deficiencies, leaving poorer groups to bear the brunt of weak state capacity.

9 At the subnational level, natural resource windfalls have been shown to weaken local tax effort and reduce government performance, further discouraging the development of broad-based fiscal capacity (Martínez 2025). These results reinforce the idea that the limitation is not merely a matter of resources, but of functioning reciprocal state–citizen relationships.

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Even more fundamental is the role of political inequality. In a system of perfect political equality, excluded or underserved groups could use their voice to demand better services, thus breaking the trap. However, political inequality implies that marginalized groups lack the power to influence state priorities. Consequently, political exclusion sustains economic disparities, which, in turn, can reinforce political disparities. Other studies in the region reinforce this diagnosis and connect these mechanisms to the legitimacy deficit of the social contract typical of societies with predominantly extractive institutions. As De La O, Rossel and Manzi (2025) notes, Latin Americans' frequent decision not to participate in publicly funded services reflects their poor perception of the social contract.

This aligns with the insight from Hirschman (1970) that the availability of private alternatives to collective solutions can, paradoxically, undermine overall welfare by weakening the incentives to invest in shared institutions.

Security provides one compelling example (Ungar 2007). In wealthier neighborhoods, gated communities and private security guards are commonplace. In contrast, slum residents rely entirely on public security services that are often insufficient, absent, or partially complemented by criminal gangs that resolve disputes or provide security (Blattman et al. 2025). The rise of paramilitary groups in Colombia illustrates an extreme manifestation of this dynamic. Wealthy landowners and drug traffickers created private armies to provide security where the state failed, further marginalizing vulnerable populations and undermining the state's monopoly on legitimate violence. Once in place, the state did not always seek to remove these groups' territorial and even political influence (Acemoglu, Robinson and Santos 2013). Ultimately, the public goods trap underscores the intertwined nature of weak state capacity and persistent inequality.

These circumstances lead to societies that are more *collectively poor* than they are *privately* poor. Again, security provides a compelling example. In Figure 9, the two panels illustrate the relationship between the logged level of GDP per capita (in constant 2015 US dollars) and the number of police officers (panel a) or private security personnel (panel b) per 100,000 inhabitants. Colombia (labeled as COL) is highlighted to show its relative position.

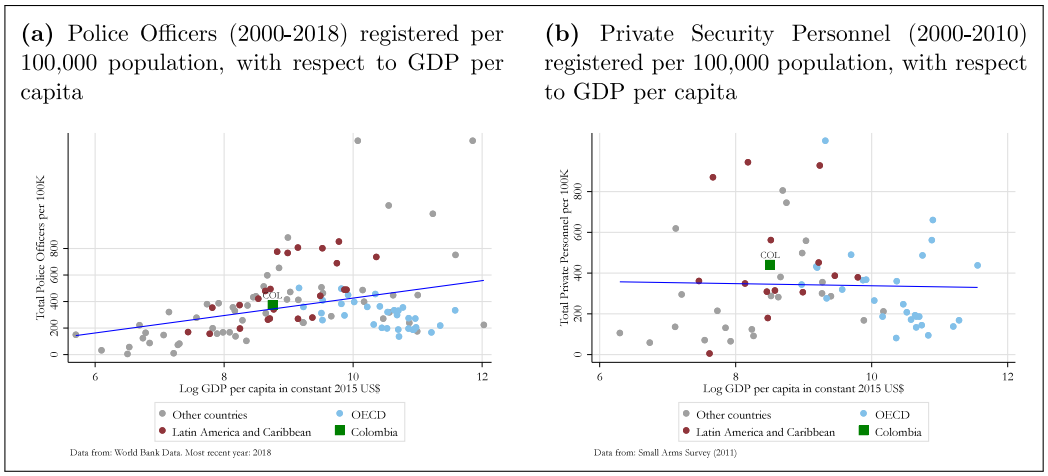


Figure 9 Police and security personnel per cápita (2000–2010).

Source: Small Arms Survey 2011 and World Bank Data.

Note: The figure compares police and private security personnel per 100,000 inhabitants across countries. For police officers, each observation corresponds to the most recent year available in the World Bank data (up to 2018), using the latest population and police personnel figures reported for each country. For private security personnel, the values correspond to the year reported in the Small Arms Survey (2011), which varies across countries. GDP per capita (constant 2015 USD) is taken from the World Bank and matched to the corresponding year for each observation.

Colombia is barely in the trend line in panel a, suggesting its number of police officers is just about at the level expected given its GDP per capita. Coupled with Colombia's high crime figures, this indicates that the public service is underprovided and, indeed, the scarcity of police officers is a frequent matter of political debate. Looking at private security personnel per 100,000 people, panel b shows that Colombia lies above the trend line, employing more private security personnel than the average country in the dataset.

In short, sufficient resources are available, but they are heavily privatized, leading to unequal and often inefficient access to public services. In the case of security, for example, it would be far more efficient to allocate the same total number of people (officers plus guards) as trained police officers

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across the city than to rely on the prevailing private solution, which concentrates guards in affluent neighborhoods, each overseeing a single property.

Colombia has thus developed an individualistic model of private solutions to public problems. These private alternatives often work, at least partially, for those who can afford them. While more efficient collective solutions may be available, many may fail to recognize the opportunity for these better collective outcomes, rooted in broader shared prosperity and stronger social cohesion.

Education provides another stark example of this pattern of segregation. While basic public education is widely available, its quality is often inadequate. As a result, wealthier families exit the public system and enroll their children in private schools. Figure 10 shows that private enrollment rises steadily with household income, while public enrollment declines (Fergusson and Florez 2021). This dynamic reduces political pressure to improve the quality of public education. More troubling, educational segregation by income has cultural repercussions that entrench disparities.

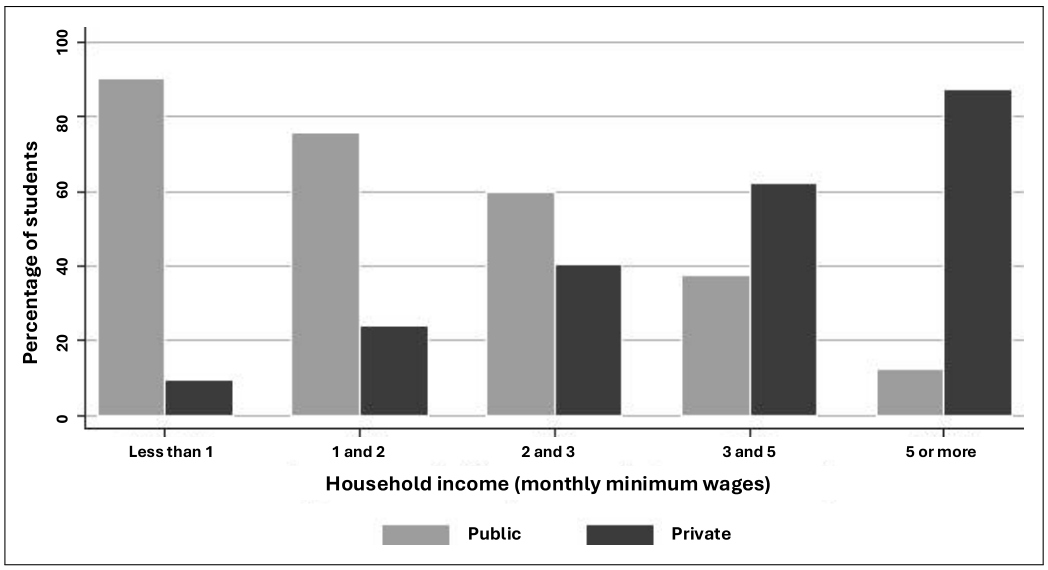


Figure 10 Distribution of public and private school enrollment by household income.

Source: Cárdenas, Fergusson and García Villegas (2021).

Note: The figure shows the percentage of students enrolled in public and private schools by household income level, expressed in monthly minimum wages. Enrollment in private schools increases sharply with household income, while public school attendance dominates among low-income households.

Affluent children grow up surrounded by peers from similar backgrounds, while lower-income students remain concentrated in under-resourced public schools. This early-life segregation fosters not only disparities in academic outcomes but also limits opportunities for social interaction across income groups. It erodes trust, empathy, and shared understanding and, over time, produces stark cultural and relational divides across language, networks, and worldviews.

Interestingly, many families choose private schools even when they offer no clear academic advantage. As shown in Figure 11, only the most expensive schools outperform public ones in standardized test scores (Cárdenas, Fergusson and García Villegas 2021).

Why would families incur these additional costs without guaranteed academic returns? Part of the answer lies in the symbolic value of education. Education signals not just ability but status.

To investigate this, Fergusson and Flórez (2021) use natural language processing to compare school names. They show that more expensive schools are more likely to adopt names resembling elite institutions, and that this naming prestige also correlates with academic performance. They interpret the schools as selling both educational quality and social distinction. Furthermore, the pattern is sharper in more unequal municipalities, where demand for social distinction is expected to be stronger.

This helps explain a peculiar feature of Colombian social life. Asking someone, "What school did you attend?" is not merely small talk. It is a question loaded with meaning, often used to infer an individual's socioeconomic background, network of relationships, cultural references, and even tastes and preferences.

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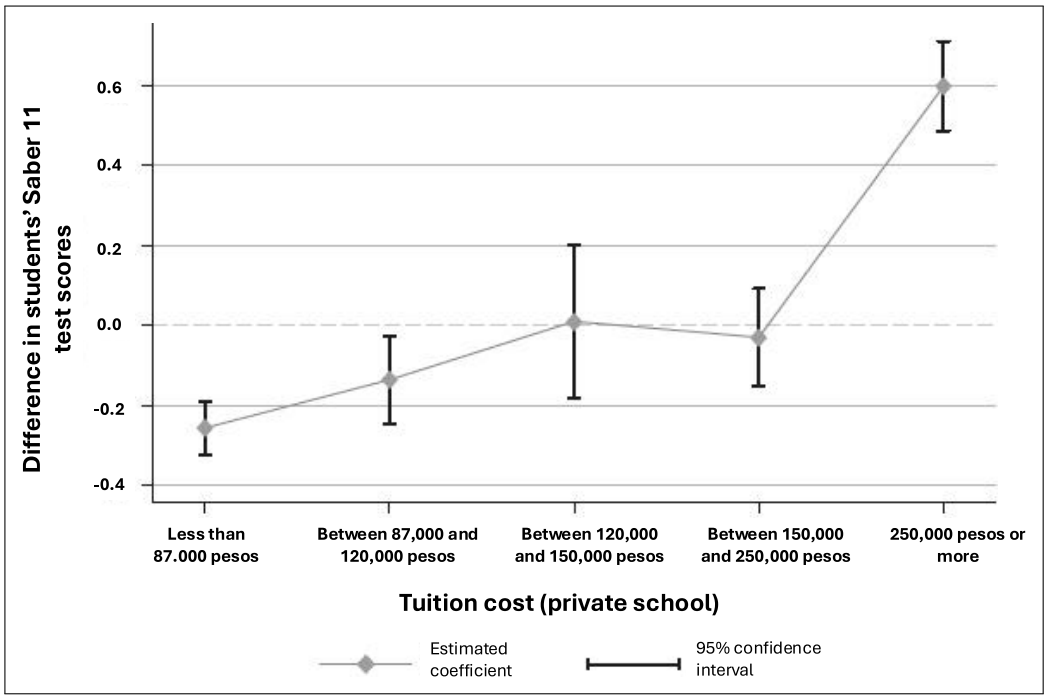


Figure 11 Relationship between private school tuition and Saber 11 test scores.

Source: Cárdenas, Fergusson and García Villegas (2021).

Note: The figure shows the estimated difference in Saber 11 test scores by tuition level among private schools. Only students attending schools with tuition above 250,000 pesos show a clear academic advantage. Error bars indicate 95% confidence intervals.

Further illustrating how cultural cleavages shape socioeconomic outcomes, Fergusson, Diaz and Weintraub (2026) present experimental evidence on accent as a salient social marker in Colombia. Drawing on a large-scale online conjoint experiment in Bogotá, the study identifies strong and persistent social judgments based solely on how people speak. While the setting is specific, the mechanisms plausibly generalize to other unequal and segmented urban contexts in Latin America.

Cultural divides rooted in class stratification are vividly reflected in linguistic practices. In Bogotá, for instance, the upper- and lower-class accents—colloquially known as *gomelo* and *ñero*—are instantly recognizable and filled with social meaning. These cues shape perceptions and behaviors in daily interactions.

The study randomly assigned 6,000 participants to evaluate paired audio profiles that varied in accent (high-class or low-class) and in income, education, personality, and experience. Respondents then chose between the profiles across several social and professional dimensions.

The results are inequivocal (Figure 12). Holding other characteristics constant, profiles with high-class accents were consistently rated more favorably: seen as more empathetic, trustworthy, competent, and likely to succeed. This bias was especially strong among wealthier respondents, consistent with cultural homophily (the tendency to favor those who share one's social signals).

Beyond economic disparities, then, accent-based discrimination highlights how cultural distance can function as a standalone barrier to inclusion and upward mobility. Economic inequality and cultural distance reinforce each other through the individual and collective choices that they incentivize.

This section revealed how the logic of exit leads to the hollowing out of the reciprocity necessary for a functional tax system: public goods are seen as residual rather than universal. The state becomes something to opt out of rather than invest in. The process reinforces symbolic boundaries between groups in society, further entrenching inequality and hindering large-scale cooperation.

4 THE PERSISTENCE OF THE EQUILIBRIUM: POLITICAL FAILURES

How does such an equilibrium endure? Many individuals and communities remain excluded from the "private solution." State weakness, the reluctance to tax for public goods, and deeply individualistic values combine to leave vast inequalities untouched.

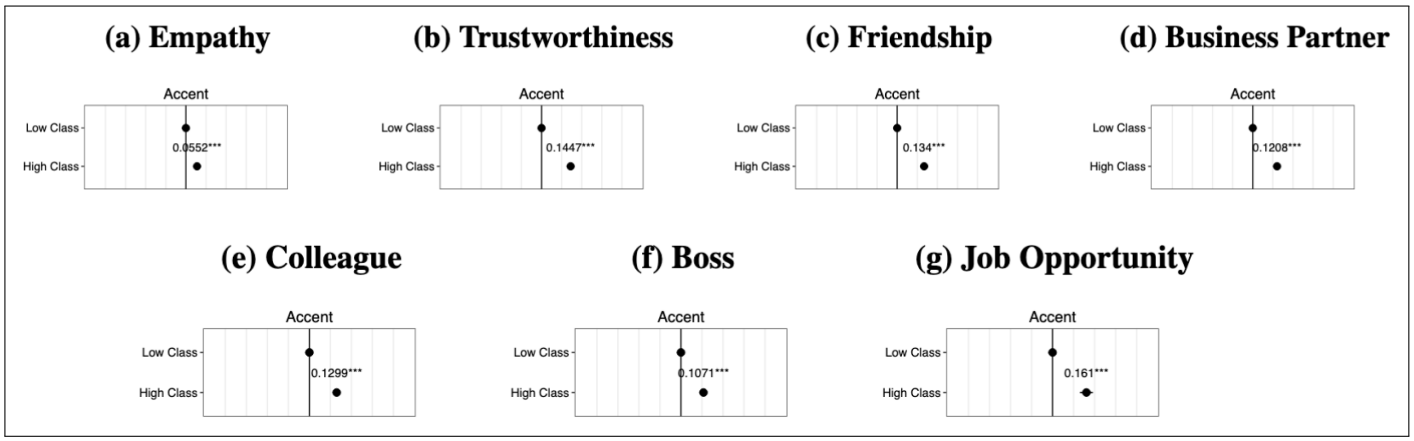


Figure 12 Cultural lines: class accent effects, beyond income and education.

Source: Fergusson, Diaz and Weintraub (2026).

Note: Estimates in this figure correspond to the average marginal component effect of a high-class accent; that is, the marginal impact that a high-class accent has on preferring it over another profile with a low-class accent while averaging over the distribution of all other attributes. The dependent variables are defined as the answer to the question about which of the two individuals: *...seems more capable of stepping into the other's shoes?* (Empathy); *...inspires more trustworthiness?* (Trustworthiness); *...would you prefer to do business with?* (Business partner); *...would you prefer to have a friendship with?* (Friendship); *...would you prefer to share your workplace?* (Colleague); *...is more likely to be your boss?* (Boss); and *...is more likely to receive the letter?* (Job opportunity). All panels include as controls: income, education, sex, experience, and the Big Five personality traits. Confidence intervals are shown at the 95% level. ***$p < 0.01$; **$p < 0.05$; *$p < 0.1$.

At the root of persistence is political inequality. Marginalized groups are underrepresented in the political process, which blunts their ability to demand redistributive policies or adequate service provision. This exclusion compounds the structural divide: policies and resources rarely reach those who need them most.

Yet distributive pressures still surface, even in Colombia's imperfect democracy. Political systems must respond, formally or informally. Across Latin America, this has led to varied responses. Many countries have experienced waves of populism, in which leaders promise redress for the excluded. These waves often offer short-term relief but rarely produce lasting institutional change.

Colombia followed a different path. It developed what Robinson (2011) calls "very efficient clientelism": a system that absorbs distributive demands through personalized political exchange, without transforming the underlying structures. This approach has helped maintain fiscal stability, avoiding the budgetary excesses of populist regimes. However, it also entrenched inequality and undermined the formation of broad-based public goods coalitions.

The logic of the weak public goods trap is central to this stability. Public services such as education and security can be privatized, but macroeconomic stability cannot. Elites, unable to opt out of fiscal or monetary disorder, have stronger incentives to preserve macroeconomic discipline, even while tolerating underfunded public services. The trap helps explain why Colombia has combined relative macroeconomic prudence with enduring social deficits and conflict.

The clientelistic "solution" is well attuned to the highly individualistic values we discussed earlier. Indeed, a clientelistic exchange is a private affair, one where each political encounter is a transaction of support for individual benefits. Clientelism amounts to privatizing politics, which is highly consistent with the "opt-out logic" of the weak public goods trap and the "mind your own business" social norm of the "no sea sapo" injection.

However, this clientelistic "solution" entrenches the equilibrium described in the previous section. First, it consolidates state weakness. Second, it reinforces the economic and political inequality that underpins the equilibrium. We now discuss how these effects stifle the emergence of a genuine fiscal contract rooted in mutual obligation.

4.1 CLIENTELISM AND STATE WEAKNESS

While consistent with the pervasive values and social norms of the equilibrium organization of society, pervasive clientelism leads to persistent state weakness. Fergusson, Molina and Robinson (2022) examine this "weak state trap," exploring the interconnection between state weakness and clientelism. Using original data from Colombia and comparative evidence from African countries, the paper demonstrates that these two phenomena reinforce one another, creating a persistent trap that hinders the development of state capacity and undermines economic and political stability. The authors argue that state weakness, defined as the limited capacity of states to enforce taxes and provide public goods, creates a fertile environment for clientelism. Clientelism, in turn, reinforces state weakness by fostering a political culture that relies on personal exchanges rather than on institutionalized governance.

The paper demonstrates a significant correlation between tax evasion (a proxy for state weakness) and vote-buying (a proxy for clientelism), at the individual level (Figure 13). This is interpreted as evidence of a mutually reinforcing political equilibrium. To address the challenge of obtaining truthful responses to sensitive topics such as tax evasion and vote-buying, the study uses list experiments, which protect respondents' anonymity while allowing indirect measurement of these behaviors.

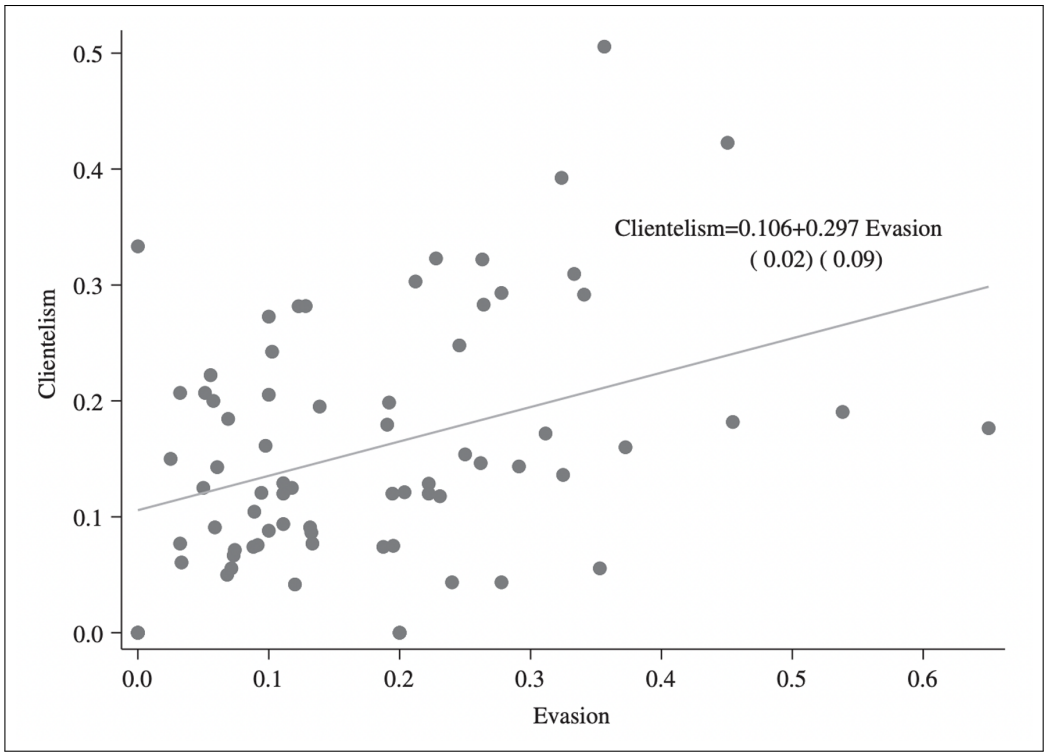


Figure 13 Municipality-level correlation between clientelism and tax evasion—Colombia, 2013.

Source: Fergusson, Molina and Robinson (2022).

Note: Clientelism is a dummy variable that equals one if, when deciding who to vote for, the respondent has taken into account the benefits, gifts, or jobs that a candidate has offered in exchange for the vote. Tax evasion is a dummy variable that equals one if the respondent answers yes to the question: "Could you tell me if you normally accept buying without a receipt, to avoid the VAT?."

Several mechanisms underlie the weak state trap, all of which are supported by correlations in the individual-level data explored in Fergusson, Molina and Robinson (2022). A central one is the preference for particularistic over public goods. Clientelism incentivizes politicians to supply narrowly targeted, private benefits rather than broad public services. This is because public goods, by their nature, cannot be selectively allocated to supporters and withheld from opponents. Fergusson, Molina and Robinson (2022) demonstrate a robust negative correlation between the intensity of clientelism and the provision of essential public services such as water, electricity, and sanitation.

Another mechanism involves replacing institutionalized relationships between citizens and the state with personalized, informal ties. In clientelistic contexts, interactions with politicians often serve as a substitute for formal channels through which citizens demand rights and services. As

a result, the state loses legitimacy and effectiveness as an impersonal provider of public goods. Voters become increasingly dependent on brokers and patrons for access to benefits, perpetuating a cycle in which clientelism erodes institutional foundations while simultaneously making citizens more reliant on personalistic exchanges.

Clientelism also fragments society, weakening its collective capacity to hold the state accountable. Instead of uniting around common objectives and civic institutions, citizens pursue individual, targeted benefits through their links to patrons, leading to an "atomized citizenry."[10]

A final mechanism concerns the erosion of the social contract itself. Fergusson, Molina and Robinson (2022) argue that in contexts of pervasive clientelism, citizens and politicians become mutually justified in "defaulting" on an idealized social contract. Politicians, by offering votes-for-favors exchanges, signal that public office is a means for private gain, undermining expectations of impartial governance. In turn, citizens who evade taxes or condone bribery rationalize their behavior as a reasonable response to a political system that does not serve the collective interest.

Consistent with these ideas, individuals who report higher involvement in clientelism and tax evasion are also more likely to endorse statements justifying bribery, vigilantism, and breaches of the law for expedient ends. This reveals a political culture in which norms of civic duty and public-mindedness have weakened, reinforcing a stable equilibrium of state weakness and clientelism.

Aside from these effects, clientelism also impedes building a democratic fiscal pact by consolidating economic and political inequality.

4.2 CLIENTELISM AND POLITICAL AND ECONOMIC INEQUALITY

A substantial body of political science and economics research shows that clientelistic politics exacerbates political inequality (some voters' voices and interests weigh more than others') and entrenches economic inequality (thriving in unequal contexts and undermining redistributive state capacity).

Clientelism skews political voice and accountability and undermines the equality of the ballot (Stokes 2007). Parties target electorally relevant individuals or small groups with material inducements rather than broad policy platforms, elevating the salience of certain voters. While the poor are typically targeted through vote-buying (e.g., Brusco, Nazareno and Stokes 2004), their political voice becomes salient primarily as clients rather than as full citizens. Since programmatic policies are often ignored, equilibrium policies are frequently ineffective and not pro-poor.[11]

Moreover, corrupt politicians (sometimes captured by special interests) manage to survive in office (Hicken 2011). In Fergusson et al. (2023a), we emphasize that vote-buying is but one link in the network of particularistic exchanges that occur in highly clientelistic environments, involving also the exchange of campaign funds for public contracts, kickbacks, or legislation in exchange for fiscal transfers. Evidence from Colombia suggests that politicians coordinate to implement these exchanges, thereby favoring corruption at the expense of effective public service delivery for less affluent citizens. Finally, since poverty and state absence help clientelism thrive, clientelistic parties have a direct interest in keeping voters poor and the state's capacity to deliver broad-based public goods weak (Fergusson, Larreguy and Riaño 2022), as our discussion of the weak state trap in the previous subsection reveals.

The inability of a clientelistic environment to give effective voice to citizens at large also contributes to a mutually reinforcing relationship between clientelism and economic inequality. Robinson and Verdier (2013) show theoretically that in unequal societies, politicians prefer clientelistic strategies over public goods provision because wealthy elites are willing to finance vote-buying

10 Consistent with this clientelistic logic, recent work documents how central transfers and investment projects are allocated in a "jam barrel" fashion to reward political allies and fragment public spending across many small projects (Bonilla-Mejía and Morales 2024).

11 A large comparative literature documents how clientelism flourishes in contexts of poverty and weak programmatic competition (Stokes et al. 2013; Nichter 2008; Gingerich 2013): clientelism simultaneously exploits and reproduces economic and political inequality.

and poor voters are more willing to exchange votes for short-term gains. Empirical evidence also supports the idea that economic vulnerability entices voters to participate in clientelism (Bobonis et al. 2022).

Furthermore, Kyriacou (2023) documents a robust negative correlation between clientelism and fiscal redistribution across countries. This is not surprising, since clientelism not only weakens the state's capacities but also tends to divert resources from universal policies such as education and healthcare toward targeted benefits, thereby maintaining voters' dependence and perpetuating poverty. Conversely, several studies show that the expansion of programmatically delivered benefits, in particular cash transfers, can help displace clientelistic motivations among voters (De La O 2013; Frey 2019).

In short, clientelism feeds on and reproduces economic and political inequality. Moreover, it maintains a symbiotic relationship with state weakness. Thus, the Colombian "solution" to redistributive pressures in a highly unequal society has largely entrenched the equilibrium characterized by extractive institutions and highly individualistic norms and values, which underpins the difficulty of building a stronger, more legitimate tax system. With this perspective in hand, we can now return to Colombia's tax system and reinterpret some of its key features in light of these political economy dynamics.

5 REINTERPRETING THE TAXATION SYMPTOMS

In this section, I revisit some of Colombia's taxation problems and interpret them in light of the underlying political economy issues presented in the preceding sections.

First, Colombians have a very low tax morale. Evidence comes from the list experiments implemented in Fergusson, Molina and Riaño (2019), which assess tax evasion in a non-invasive manner to avoid biased responses by subjects who may want to appear "doing the right thing" (e.g., "social desirability bias"). Two key findings stand out. First, a significant fraction of Colombian citizens report engaging in tax evasion: approximately 20–25% of respondents indicate a willingness to evade the VAT to reduce expenditures. Second, the practice is socially acceptable: respondents report tax evasion at comparable rates whether asked indirectly through the list experiment or directly, suggesting minimal stigma associated with this behavior and widespread social acceptance. Notably, almost identical patterns emerge for vote-buying behavior: widespread use and little stigma Fergusson, Molina and Riaño (2018).

These behaviors align with the societal equilibrium described in the previous section. The extreme individualism reflected in antisocial norms, such as "no sea sapo," leads individuals to pursue narrowly rational actions at the individual level, such as tax evasion, even when they result in socially detrimental outcomes that render the choices ultimately collectively irrational. These attitudes are also consistent with broader antipathy toward taxation and a legal framework often perceived as imposed and illegitimate. In the clientelistic exchange, effectively, each party minds its own business: voters exchange their ballots for a particularistic benefit, while politicians buy these votes and then use public office to advance their economic and political ambitions.

The mutual justification for opportunistic behavior during elections that we described earlier also spills over to other domains. In particular, citizens readily justify tax evasion by citing a perception (often a self-serving oversimplification) that public revenues would be lost to corruption. Tax evasion is not perceived as stealing public money; it is instead justified as avoiding theft.

A second feature worth examining concerns budget inflexibility. Colombia has long exhibited marked inflexibility in its public budget. The analysis by Echeverry, Fergusson and Querubín (2004) attributes the proliferation of earmarked revenues to a political economy dynamic in which competing interest groups, mistrustful of the state's ability or willingness to allocate resources impartially, seek to secure guaranteed transfers for their own constituencies. These groups not only strive to protect their share of fiscal resources but also impose constraints that limit policymakers' discretion. This interpretation aligns closely with the political-economic equilibrium described in the previous section.

In addition, the analysis in this paper suggests a complementary cultural mechanism. First, the pervasive norm of "minding one's own business" exacerbates inflexibility and the resulting fiscal commons problem by entrenching a logic of fragmentation in which groups pursue narrowly defined interests without regard for collective fiscal sustainability. The consequent accumulation of rigid budgetary commitments imposes substantial aggregate costs, constraining the state's capacity to adapt spending priorities and respond effectively to evolving public needs.

Second, earmarking revenues for specific expenditures aligns with the strongly individualistic culture described in the previous section. It extends the logic of private market transactions to public budgeting: just as a consumer pays *X* for a liter of milk and expects an equivalent return, the goal becomes ensuring that a taxpayer contributing *X* receives *X* in direct public spending. This mindset undermines the very nature of public goods and services, which contradict a *quid pro quo* logic by relying on non-rivalry, economies of scale, or redistribution.[12]

A third and final noteworthy feature that our analysis helps explain is the prevalence of tax exemptions. Tax exemptions constitute an extreme form of fiscal inflexibility: the forgone revenues are effectively earmarked for specific groups.[13] More importantly, the origins of these exemptions are closely tied to the political economy dynamics we have discussed. In practice, tax exemptions often serve as clientelistic tokens in legislative bargaining, which the Executive offers to secure the support of key legislators, particularly during the passage of budget laws and tax reforms. They thus exemplify yet another symptom of the clientelistic character of many political exchanges, further entrenching fiscal fragmentation and undermining the state's ability to construct a coherent and equitable tax system.[14]

The international commission of experts that reviewed Colombia's tax exemptions in 2021 underscored this dynamic, noting the direct connection between repeated tax reforms and the proliferation of exemptions (OECD 2021). Describing the system as dysfunctional, the report observed: "Fragmented reforms have been introduced regularly to try to counter the system's imbalances. These have often led to tax expenditures" (p. 6, own translation).

Despite the endurance of this equilibrium—with its deep roots in inequality, state weakness, and individualistic norms—Colombia has not stood still. Recent decades have seen increasing demands for a more responsive and inclusive state. Yet the political and cultural foundations of the old order remain largely intact, creating a mismatch: the push for transformation is real, but it collides with entrenched patterns of political and cultural inertia. Whether this tension becomes an opening for meaningful reform or the source of deeper dysfunction is a central challenge Colombia now faces.

6 PERTURBING THE EQUILIBRIUM: THE STRUGGLE FOR POLITICAL AND POLICY CHANGE

The preceding sections argued that Colombia's tax maladies are symptoms of a deeper equilibrium built on extractive institutions, weak state capacity, and highly individualistic social norms. Yet this equilibrium has not remained untouched. Over the past three decades, Colombia has experienced profound political and institutional change, most notably with the 1991 Constitution. These

12 A clear illustration is Colombia's wealth tax, repeatedly enacted and repeatedly contested. An exception came in 2002, when its revenues were earmarked to finance Alvaro Uribe's security policy (*Seguridad Democrática*). Although not free of controversy, opposition was notably milder—and some key business associations even expressed support—reflecting the perception of a direct exchange in this case.

13 Not all exemptions serve organized interests. Some, such as VAT exemptions, likely reflect good intentions to achieve greater progressivity. Yet their persistence, despite their high cost and relative ineffectiveness, is intertwined with the broader clientelistic equilibrium that erodes the legitimacy of the fiscal bargain. Indeed, it is politically difficult to defend a more uniform VAT when many groups are allowed to opt out of other taxes.

14 As I write this article, Colombia is debating yet another tax reform. Almost as soon as the discussion begins, legislators introduce new exemptions. For example, one group has proposed a VAT exemption for tourist services in small municipalities (adding to the many benefits already secured by this sector over the years of reform debates). See "Proponen eliminar el IVA en servicios turísticos para impulsar municipios pequeños de Colombia," *Infobae*, March 20, 2025. Available at https://www.infobae.com/colombia/2025/03/20/proponen-eliminar-el-iva-en-servicios-turisticos-para-impulsar-municipios-pequenos-de-colombia/.

changes opened the political system, expanded social rights, and increased the demand for public goods. At the same time, many of the "old habits" of clientelism, mistrust, untamed individualism, and fiscal avoidance have persisted, generating a growing mismatch between a more demanding citizenry and a state that still collects relatively little and spends in fragmented, inefficient ways. This section examines how this perturbation of the old equilibrium has unfolded and why it has led to both significant gains and mounting fiscal and political tensions.

The 1991 Constitution marked a critical turning point in Colombia's political development. Drafted amid armed conflict, social mobilization, and the delegitimation of the traditional bipartisan order, it sought to construct a more inclusive and participatory state. The new charter defined Colombia as a "social state of law," strengthened judicial review, and greatly expanded the catalogue of fundamental rights, including social and economic rights such as health, education, and social security.

The 1991 reform also deepened political decentralization.[15] It consolidated popular elections of mayors (introduced in 1988) and governors, increased the fiscal autonomy of subnational governments, and opened the party system to new political forces. These changes facilitated the entry of groups historically excluded from national decision-making into politics, including left-wing parties, women, Indigenous and Afro-descendant organizations, and local civic movements. This broadening of representation made the state more responsive to previously neglected demands, especially in a society marked by stark inequality.

The opening, however, was not free of conflict. The arrival of new actors into electoral competition often triggered violent responses from incumbents and armed groups. Fergusson et al. (2021), for instance, show that the introduction of local executive elections in the 1980s and 1990s, and the subsequent success of left-wing candidates, led to targeted violence against these new politicians.

More broadly, although new groups entered politics with distinct priorities, their influence on policy outcomes has been modest. Fergusson, Robinson and Torres (2025) show that this limitation is especially pronounced in highly unequal places: policies that could reduce inequality are less likely to be adopted or implemented precisely where inequality is highest. The evidence points to two mechanisms. First, new politicians are often captured or obstructed by local power structures. Second, candidates committed to redistribution face lower electoral chances in unequal areas. As a result, inequality has persisted despite a more open political landscape.

In short, the 1991 settlement increased formal political openness and made the state more permeable to social demands, but it did so atop a long-standing clientelistic and unequal structure. The result was not a clean break with the past but rather a hybrid arrangement in which new rights and forms of participation coexist with old practices of patronage, weak enforcement, and selective responsiveness. This is not to suggest that old practices remained unchanged. Instead, political actors adapted to the new environment in diverse ways, often preserving limited political representation and concentrated power. A key shift was the move from a bipartisan system to a fragmented landscape of weak parties (Lupu 2025), frequently dominated by atomistic clientelistic brokers who reconfigured their strategies while retaining much of their influence (Ocampo 2014). This fragmentation has also complicated executive–legislative bargaining, making fiscal agreements more difficult to reach.

One of the clearest manifestations of this hybrid outcome is the expansion of social policy after 1991 with no corresponding expansion in tax revenues. While tax revenues have increased since 1991, the revenue response has lagged the rise in expenditure. Constitutional recognition of social rights, together with decentralization and citizens' demands, led to significant increases in public spending, particularly in health and education.

15 Empirical work on Latin American decentralization shows that, under the right conditions, local elections can increase responsiveness and investment in public goods (Faguet 2004), but also that decentralization may empower armed or clientelistic actors where national institutions are weak (Eaton 2006). Colombia's experience reflects both sides of this trade-off.

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In health, the 1993 reform (Law 100) created a unified health insurance system with contributory and subsidized regimes. Coverage expanded dramatically, from roughly one-fifth of the population before the reform to more than 90% by the early 2010s, approaching universal coverage (Angulo, Gaviria and Morales 2013). Importantly, the expansion reduced income gaps, as poorer households entered the subsidized regime and gained access to healthcare previously unavailable to them. In education, public spending increased, and school attendance rose. Net enrollment for primary education approached universality, and secondary enrollment climbed steadily.

Thus, the political opening delivered tangible improvements in the provision of public goods. The state became more present in citizens' lives, not only as a regulator but also as a provider of services and rights. This represents a substantial perturbation of the old equilibrium, in which elites relied predominantly on private solutions while large segments of the population were excluded from meaningful public provision.

The current path, however, is economically and politically unsustainable. Economically, this expansion occurred without a commensurate increase in the tax base. Fergusson and Hofstetter (2022) document that Colombia's central government collects less in taxes than other countries with similar income levels, while its primary spending is slightly higher than the peer-country average. The country, therefore, behaves like a middle-income state in terms of expenditure but like a significantly poorer one in terms of revenue generation.[16]

That this situation is unsustainable and has worsened since 1991 is evident in Figure 14. Colombia has struggled to sustain a viable budget deficit. Since 1991, with ebbs and flows, the central government has operated in deficit, and the abundant tax reforms we discussed in the introduction have only partially and in the short term matched expenditures. Unlike the temporary worsening of fiscal accounts in the 1980s during the Latin American debt crisis, deficits have gradually worsened since the 1990s to a point where they can no longer be ignored. Although Colombia adopted a fiscal rule in 2011 to contain debt dynamics, the rule has been modified several times and temporarily suspended or relaxed with controversial appeals to its escape clause.[17] The current critical juncture has the central government facing a projected primary deficit of nearly 3% of GDP in 2025, an overall deficit of around 7%, and a rising and expensive debt burden approaching 60% of GDP.

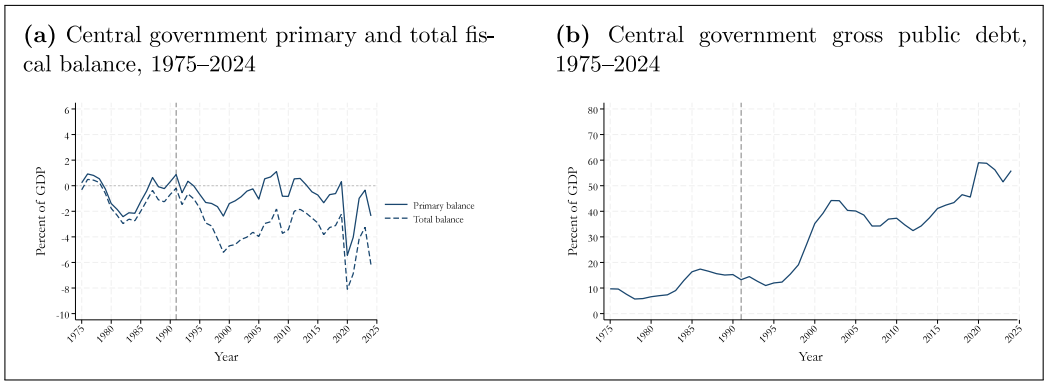


Figure 14 Fiscal balance and debt, Central National Government, 1975–2024.

Source: Junguito and Rincón (2004) and Colombian Ministry of Finance (various years).

Note: The vertical line marks the enactment of the 1991 Constitution. GDP series correspond to nominal GDP in billions (miles de millones) COP, published by DANE (various years).

This trajectory is not purely a technical imbalance between revenues and expenditures. It is tightly connected to the disrupted equilibrium. Indeed, as Pardo Reinoso (2025) notes, the most significant pressures on the budget are health and pension expenses, reflecting the push for a more responsive state. On the revenue side, this essay has shown that old ways have prevailed, impeding fair and efficient tax increases.

16 From a regional perspective, Colombia's trajectory mirrors broader concerns about "high-spending, low-tax" states in Latin America, where social demands have expanded faster than fiscal capacity and efficiency gains (Izquierdo, Pessino and Vuletin 2018; Lora 2012).

17 Recent evidence from a natural experiment in Colombia shows that tighter fiscal rules can induce austerity in public administration and shape electoral accountability, illustrating how macro-level constraints interact with local political incentives (Carreri and Martínez 2025).

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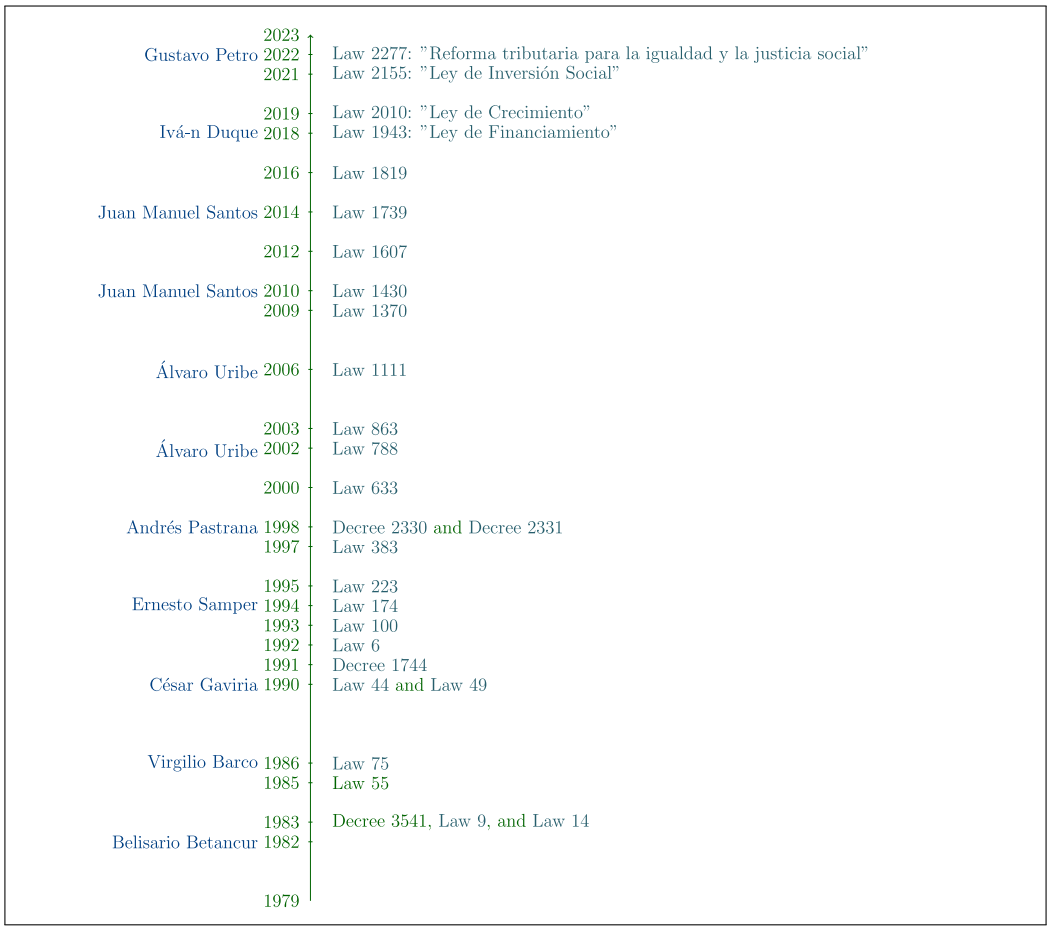
The result is a fiscally and politically fragile arrangement. Thus, the old solution with a small state and minimal redistribution is not simply in peril. It is long gone. The question is what will come next. Political openness has unlocked new claims on the state, but the tax system continues to reflect, to a large extent, the older pattern of weak capacity, clientelistic negotiation, and distrust.

Colombia now faces a critical juncture. On the one hand, the expansion of rights, social policies, and political participation has created the foundations for a more inclusive social contract. Citizens expect the state to provide health, education, security, and social protection, and they increasingly demand accountability for failures. On the other hand, the persistence of low tax morale, strong clientelistic linkages, and elite resistance to comprehensive reform has prevented the emergence of a robust, reciprocal fiscal pact.

In principle, the current moment could be an opportunity to move toward a consensually strong state that commands broad legitimacy, collects taxes through reciprocity, and delivers public goods effectively. Achieving such an outcome would require not only technical tax reform but also more profound shifts in the political and cultural underpinnings of the system, including reductions in clientelistic practices, greater transparency in the use of public funds, and changes in social norms that normalize evasion and particularism.

There is also a darker scenario. The combination of high expectations, persistent inequality, and chronic fiscal stress could lead to recurrent crises and growing disenchantment with democratic institutions. If tax reforms remain partial and unstable, and if expenditure pressures remain unaddressed, the country could be trapped in a pattern of low-quality, high-cost statehood: a state that spends heavily but inequitably, services a large debt, and struggles to deliver the public goods that would underpin long-run development.

APPENDIX



Appendix Figure 1 Timeline of tax reforms in Colombia, latest to earliest.

Sources: Author's compilation based on information from González and Calderón (2020), Lewin (2008), and La República (2021, 2022).

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	1979	Law 20: "Ley de alivio tributario"
Julio César Turbay	1978	
	1977	Law 52 and Law 54
	1975	Decree 2247 and Law 49
Alfónso López	1974	Decree 2053 and Decree 2348
	1973	Decree 1366, Law 4, Law 5 and Law 6
	1971	Decree 435
Misael Pastrana	1970	
	1969	Law 38
	1967	Decree Law 444, Law 64, and Law 63
Carlo Lleras	1966	Decree 1366, Decree 2049 and Decree 2933
	1963	Decree Law 3190 and Law 21
Guillermo León	1962	
	1961	Decree 1651
	1960	Law 81
Alberto Lleras	1958	
Junta Militar	1957	
	1956	Surcharge of 20% income tax.
Gustavo Rojas Pinilla	1953	Decree 270, Decree 2317, and 2615
Roberto Urdaneta	1951	
Laureano Gómez	1950	
	1948	Decree Law 1961
Mariano Ospina	1946	
Alberto Lleras	1945	
	1944	Law 35
Alfónso López Pumarejo	1942	Law 45
Eduardo Santos	1938	
	1936	Law 63
	1935	
	1935	Law 78
Alfónso López Pumarejo	1934	
	1931	Law 81
Enrrique Olaya Herrera	1930	
	1928	Law 88
	1927	Law 64 and Law 106
Miguel Abadía	1926	
	1923	Law 88
Pedro Nel Ospina	1922	Law 83
Jorge Olguín	1921	
Marco Fidel Suárez	1918	Law 56
	1917	Law 69
José Vicente Concha	1914	Decree 2089 and Law 26
Carlos Eugenio Restrepo	1910	
Ramón González	1909	
	1905	Law 59
Rafael Reyes Prieto	1904	
Jose Manuel Marroquín	1900	
Manuel Antonio Sanclemente	1898	
	1897	Increase in taxes on tobacco, matches and cigarettes.
Miguel Antonio Caro	1894	
Rafael Núñez	1892	
	1891	

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PUBLISHER'S NOTE

A minor edit has been made in footnote 12 on 19/11/2026. In the example described in this footnote, the year was originally given as '2016', but has now been corrected to '2002'.

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