Chapter 4
Taxation and Elites in Central America: A Historical Approach

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ABSTRACT
The discussion of taxes in Central America has been based in economic and social crises. Because of these efforts, it is imperative to understand the history in order to understand the impact an economic crisis can have on taxes. Therefore, the study presents a research based on a historical approach with the purpose of understanding the different concepts concerning the elites and the evolution of the economic circumstances around it. Also, the discussion concerning inequality and development that evidence that not much has changed.

INTRODUCTION
Discussing taxes in Central America is a complex task, mainly because Central America has been dominated by different types of elites since its conception. Vilfredo Pareto (1935 [1848]) defined that elites could be divided into two concepts from a classical perspective that resembled the animal kingdom. The first concept was labeled as a lion, whereby the elites gained power by force. The second concept was the fox, symbolizing the fact that individuals gained access to the elitist arena by persuasion and skill. He also stated that for an elite to be created, there had to be restrictions in social mobility, knowledge, wealth and political inclusion. The last of these restrictions, political inclusion, stated the argument proposed by Weber (2012 [1922]) that elites, in search for a status quo, focus on power and domination.

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According to Hirschman (1991), the consequences of power and domination in the political arena will lead to three reactive scenarios: perversity, futility and risk. Considering the perversity scenario, elites will deliberately act against any social, political and economic progress. In a futile scenario, the elite will advocate for small or inexistent social changes, and if there would be a social change, the elites would try to transform it into an unattainable aspect. Finally, in the third scenario, the elites will weigh the risk of social change and aim to reduce it with the purpose of maintaining the status quo, or gaining more advantages for society in general. In modern elite theory, the futile scenario is usually not considered because the elites use social change to gain advantages and improve their condition (Highley, 2001). Considering the history of Central America, the Spanish elite became an important factor in taxation since their colonization.

The First Elites: Spanish Colonization

To the Spaniards during the colonization period, specifically in the sixteen century, one of the most important interests was Indian labor. This led to the term encomienda, a Spanish system that gave control over a group of Indian labor and lands, with the purpose of maintaining the feudal system (Yeager, 1995). The encomienda was a payment to the Peninsulares or ladinos, in which they received as payment a group of indios with the purpose of having workforce. The “owner” of the ones that were encomended had to evangelize them and also could charge tax.

The encomiendas led to a complicated discussion between the new elite that was being created because they “owned” labor and land, and the Spanish Crown was against this system because it would lead to a loss of power. The Spanish Crown tried to take control of the situation but the distance, the empowerment of the new Spanish elite, led by Pedro de Alvarado, Pedro Arias Dávila and Contreras, utilized encomiendas as a way to benefit friends, family and allies (Helps, 1868). The encomiendas system changed the taxation dynamics in Central America, specifically for the Indian population because they were charged if they could not provide items that the Spanish needed. This forced the Indians to travel to other locations for work, thus creating another form of slavery: an economic slavery (MacLeod, 2007).

The Spanish elite and the new tax implementation (encomiendas) on Indians founded on the encomiendas concept blended in the conception of castas, a Spanish term for hierarchy. The castas were divided into four categories by race: Peninsular, Criollo, Indio and Negro. Being part of an upper casta, such as the Peninsulares, led to a control of taxes and tribute payments which burdened the lower classes (Jestes, 2013). This social and economic blend helped the Spaniards in the development of two economic production lines: agricultural products and mining, which were very important concerning Central America.
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