

Article

A tale of two taxes: The diverging fates of the federal property and income tax decrees in post-revolutionary Mexico



Mónica Unda Gutiérrez

Instituto Tecnológico y de Estudios Superiores de Occidente, Periférico Sur #8585, C.P. 45604 Tlaquepaque, Jalisco, Mexico

ARTICLE INFO

Article history:

Received 3 June 2015

Accepted 4 February 2016

Available online 8 April 2016

JEL classification:

H.20

N.00

Keywords:

Tax politics

Interest groups

México

Tax reform

ABSTRACT

The Mexican tax system in the 1800s was almost entirely composed of indirect taxes. However, the Revolution opened a window for change. In the early 1920s, President Alvaro Obregón created two direct taxes by decree: the federal property tax and the income tax. It was a clear disruption of the status quo, naturally raising opposition from those affected by the new taxes. Yet the attempt to establish the federal property tax failed, while the income tax was a relative success. This paper explains the divergent fates of these two tax decrees. In order to explain the divergent outcomes I focus on the political struggles behind both decrees. I argue that the roles played by both the opposition groups and the government in the two struggles differed greatly and help explain the fates of these taxes. The political and ideological background behind both tax struggles also help to explain the failure of the federal property tax and the implementation of the income tax.

© 2016 Asociación Española de Historia Económica. Published by Elsevier España, S.L.U. All rights reserved.

Historia de dos impuestos: suertes divergentes de los Decretos sobre el Impuesto Federal a la Propiedad y el Impuesto sobre la Renta en el México de la post-revolución

RESUMEN

El sistema tributario mexicano en el siglo XIX era predominantemente indirecto. Sin embargo, la Revolución abrió una ventana al cambio. A inicios de la década de 1920 el presidente Álvaro Obregón creó, por decreto, dos impuestos directos: el impuesto federal a la propiedad y el impuesto sobre la renta. Ello significó una clara alteración del status quo y la oposición franca de quienes se verían afectados por los nuevos impuestos. El IP fracasó y el IRPF supuso un éxito relativo. Este artículo explica la divergencia de las suertes de los dos decretos centrándose en analizar la lucha política que se produjo tras ambos decretos. El papel que jugaron los grupos opositores y el gobierno, en ambos procesos de lucha, fue muy distinto y ello explica la suerte entre uno y otro impuesto. El contexto político e ideológico de la época tras ambas luchas impositivas contribuye también a explicar el fracaso del impuesto federal a la propiedad y la introducción del impuesto sobre la renta.

© 2016 Asociación Española de Historia Económica. Publicado por Elsevier España, S.L.U. Todos los derechos reservados.

Clasificación JEL:

H.20

N.00

Palabras clave:

Política impositiva

Grupos de interés

México

Reforma fiscal

E-mail address: munda@iteso.mx

<http://dx.doi.org/10.1016/j.ihe.2016.02.002>

1698-6989/© 2016 Asociación Española de Historia Económica. Published by Elsevier España, S.L.U. All rights reserved.

1. Introduction

The Mexican tax system of the 1800s was almost entirely composed of indirect taxes despite the many attempts to introduce direct taxes throughout the century. Post-independence governments praised direct taxes as the best way to finance the State; the

liberal ideology of the time considered the preponderance of indirect taxes unfair and economically inefficient. Nevertheless, direct taxes during the 19th century never contributed more than 5.5% of the total fiscal revenue (Servín, 1939b, p. 8).

However, the Revolution opened a window for change. In the early 1920s, a period of economic and political reconstruction, the issue of direct taxes reappeared on the fiscal agenda. Post-revolutionary governments needed money and had to fulfil social justice demands, which called for redistribution and greater social spending; direct taxes made sense as the best fiscal response to both.

It took some years after the adoption of the 1917 constitution for the 'revolutionary change' to take place in the fiscal domain. The aftermath of the Revolution was characterized by a state not yet in control of the territory and in a precarious financial situation. President Venustiano Carranza and his minister of finance, Rafael Nieto, took the first steps to stabilize public finances and to establish order in the financial system, creating a commission 'for the financial and administrative reorganization of Mexico' in August 1917.¹ The members of the commission, in turn, invited the American economists Henry Alfred E. Chandler and Edward Kemmerer to produce an analysis of the fiscal system and to advise on monetary policy, respectively.² Supported by these experts' views, the commission concluded that balancing the budget was a priority, which entailed the renegotiation of the external debt, the reduction of defence spending and reforming the tax structure mainly by introducing direct taxes (Lomelí, 2002, p. 313). However, it was not until Alvaro Obregón's presidency that the federal government was in position to address these challenges. With these changes there would be better grounds to reform the regressive and low-revenue generating tax system.

The tax system of the early 1920s depended a great deal on the tariff system, the stamp tax and the federal contribution tax;³ which together constituted about 77% of total fiscal revenue. In other words, the tax system was still mostly composed of regressive taxes, which was dissonant not only with the social justice demands that emanated from the Revolution, but also with the transformation of tax systems that had taken place in more advanced countries at the turn of the 20th century (Steinmo, 1993).

In this context, Obregón in his first address to the nation in 1921, stated the need to reform the tax system in order to bring it into line with the "economic rebirth of the country" and "the new tendencies of social organization which entail(ed) a growing State's responsibility for the masses' wellbeing" (Obregón, 1922, p. 31). The tax burden had to be distributed according to taxpayers' ability to pay and the masses had to be relieved from the onerous taxes on consumption. Obregón considered the tax reform "an act of justice that will not only increase the treasury's revenue but will also give the State a better chance to peacefully intervene by regulating in a more equitable way the distribution of wealth and assuring the collective good."

Obregón, using his emergency powers, decreed two direct taxes: the federal property tax (FPT) (*impuesto del uno al millar*) in 1922 and the income tax (*impuesto sobre la renta*) in 1924.⁴ The former

¹ The commission consisted of Luis Cabrera, Alberto Pani, M. Rodríguez Gutiérrez and Henry Bruere (Uhthoff, 2005, p. 162).

² The Mexican government with the inclusion of these two American experts aimed to send a clear message to the international financial community that a deep economic reform was to take place (Lomelí, 2002, p. 327). After all, Carranza's government had to smooth relations with foreign investors since it needed to renegotiate its external debt.

³ This estimation is based on Uhthoff (2005, pp. 174, 183) and Márquez (2005, pp. 146–147).

⁴ Obregón had previously decreed in February 1921 the Centenary tax, which was based on progressive rates and on income. The tax was designed and implemented

was only the most recent in a series of attempts by the national government to tax property, a tax commonly in the hands of local governments. The latter was a tax on income and constituted a more novel proposal that promised to modernize the tax system if adopted.

The two decrees responded to three goals: the federal government's need for greater revenue to fund investments in education and other social expenditures; the commitment by revolutionary leaders to remedy the regressive tax composition inherited from the 19th century; and the centralization of fiscal power in the federal government. More importantly the enactment of the FPT and the income tax, as direct taxes, meant that resources to finance the state would be extracted from a social base that had previously been untaxed or tax-privileged.

However, the FPT failed to be put into practice while the income tax was a relative success. Why is it then that these two very similar new federal direct taxes decreed during a period of economic reconstruction in post-revolutionary Mexico and facing similar political opposition present different outcomes?

This paper explains the divergent fates of these two tax decrees. I focus on the political struggles triggered by the promulgation of both decrees and I analyze these processes in light of prevailing theory in the tax policy literature that seeks to explain the success of new tax initiatives. The analysis is based on a careful observation of the roles played by both the government and the opposition groups throughout the struggles to introduce these taxes.

First, the type of measures taken by the government to aid the introduction of a new tax varied in the two cases. The government was more effective at introducing the income tax. In contrast the government was not as skilful at the time of the FPT introduction. The FPT struggle shows a government incapable of implementing basic strategies to introduce coercive measures, such as a new tax.

I argue that the government, in order to put in place taxes such as the FPT and the income tax, had to gain credibility in the eyes of taxpayers, be able to minimize opposition, and to portray and justify the new taxes on fairness grounds. According to Levi, those imposing a tax have to be able to convince taxpayers' to comply, for which it is important to create confidence in the government's credibility. Revenue extraction will be difficult if '(rulers) are not credible in regard to their own commitments' (Levi, 1989, p. 60). Similarly, Hansen posits that in tax politics the government's strategy should be 'to minimize opposition rather than maximize votes' (Hansen, 1983, p. 49). She suggests this can be done through two ways: using side-payments to persuade taxpayers to cooperate; and limiting the participation of popular opposition, which helps create an environment more conducive to introduce new taxes (Hansen, 1983, pp. 16–18, 47). Fairness arguments are always present in tax debates. It is crucial that taxpayers perceive the tax deal as fair in order to achieve compliance. In Levi's perspective taxpayers will find it fair to pay when others are paying as well (Levi, 1989, pp. 52–55). Likewise, Hansen (1983, p. 17) argues that it is necessary to make the taxpayer feel that she is bearing a fair share of the burden if the government aims to introduce a coercive policy such as taxation.

Second, the opposition groups' strategy and resources (instrumental power) used to resist tax implementation differed in the case of the FPT and the income tax. The FPT opposition was cohesive and highly organized; it was a strong opposition. In contrast the income tax opposition was fragmented and poorly organized; there was no clear and united strategy to block the passage of the income tax, as was the case during the FPT struggle.

as a test to measure public reaction and the actual functioning of a direct tax (Servín, 1939a, p. 18).

According to Lieberman, all taxes entail a different political opposition depending mainly on whom bears the highest cost (incidence), how visible the tax is (transparency) and the extent to which the tax revenue is earmarked to a particular type of spending (connectedness to expenditure). Direct taxes have the attribute of being “among the most progressive, most difficult to administer, most transparent, and least required of any government revenue stream” (Lieberman, 2002, pp. 98–99); making the upper income groups the most affected. The FPT and the income tax, both direct and progressive taxes, shared a similar opposition: capital holders. In the case of the property tax, however, the most affected group was landlords and proprietors and in the case of the income tax, it was business owners in the commercial and industrial sectors.

The idea that interest groups matter in explaining policy outcomes is hardly new. The notion that the system is biased in favour of those who control economic resources has been widely argued by scholars from different fields and times. Theories may vary in the conceptualization of such interest groups and in the mechanisms and strategies used by them to promote bias, but the main argument on their influencing capacity and relevance has not changed (Witte, 1986, p. 14). In sum, the role of capital holders is commonly recognized as a key explanation for tax-policy outcomes.

This leads us to make a differentiation between the structural and instrumental power of capital holders. The former is a function that depends on the crucial role of firms in the production of wealth and wages. In a market economy ‘the consequences of investment decisions give firms structural power’ (Hacker and Pierson, 2002, p. 281). Any public policy maker fears the economic deterioration that can result from disinvestment. Instrumental power, in contrast, implies deliberate action; it is exerted by explicit political action to affect policy. Structural power is most influential during the agenda-setting stage—defining whether tax innovations are proposed, while instrumental power is more important in later stages, defining how these tax innovations will be shaped (Hacker and Pierson, 2002, pp. 279–286). In other words, once low levels of structural power permit tax policymaking to proceed, the details of the tax bill are shaped by the influence that business groups can exert through their instrumental power.

In the cases of the FPT and the income tax the structural power of landowners, proprietors and business groups was considerably weak in the early 1920s. In the aftermath of the Revolution, the privileged groups of the old regime (*porfirismo*) were diminished and popular movements and reformist liberals were prevalent (Knight, 1985, p. 9). This scenario was propitious for President Obregón to decree, after a century of failed attempts, two direct and progressive taxes. However, I argue that the implementation of these taxes in good part depended on the instrumental power exerted by each tax’s opposition.

Nevertheless, the successful implementation of the income tax and the failure of the FPT cannot be explained solely by the roles played by the government and the opposition at the time of the taxes’ implementation. The political and ideological background in each of the cases lends further insight in explaining the fate of these two taxes. On the one hand, the political instability of late 1923 contributes to the failure to implement the FPT. On the other hand, the ideological support enjoyed by the income tax has no comparison to the ideas argued in support of the FPT. The income tax was seen and portrayed as a new, fair and modern tax; in the eyes of the general public, it was considered an instrument to put in practice the Revolution’s ideals in the fiscal domain. This standing certainly facilitated its introduction.

Along these lines, it is worth acknowledging that the implementation of a tax might not only be determined by political factors; economic and administrative restrictions may also affect its adoption and development. However, in the case of the FPT and the income tax the economic limitations of the time and the

administrative capacity of the State were factors that presented similar challenges to the introduction of both taxes and thus do not offer explanations for their divergent fates. As shown in the following sections, the appalling economic situation of the early 1920s was always argued to prevent the implementation of both taxes. Likewise, the administrative obstacles to putting these taxes in play were equally challenging. The FPT and the income tax required complex institutional infrastructures for their functioning; these taxes were designed to rely on either cadastral commissions (for the FPT) or assessments boards (for the income tax) to assure their implementation. The two taxes also required a good level of enforcement since both depended on the taxpayers’ voluntary declaration of property or income to start the extraction cycle. In sum, economic and administrative limitations were not determinant factors in the explanation of the FPT failure and the income tax success.

Sections two and three will recount the political struggles unleashed by the FPT and the income tax decrees respectively. The reconstruction of the facts behind the property and income tax opposition campaigns is based mostly on archival research. This evidence helps fill a gap in the literature on Mexican fiscal history and permits the close analysis of the strategies and resources used by the opposition groups and by the government during these two tax struggles. By doing so, this study contributes to a growing field of study. Broadly, political economy studies on taxation have two common subjects; they either explain tax innovations or tax trajectories (or tax system trajectories). The former type implies a short-time period of analysis, which is triggered from an event such as a tax reform proposal, and tends to concentrate on interests groups’ structure, balance and uses of power in order to explain the outcome. The latter is about understanding long-term processes or tax developments; it questions, for instance, the determinants of tax systems’ revenue levels and composition. This work enriches the former type. Finally, section four concludes.

2. The tale of the federal property tax

The post-independence governments, backed by the liberal ideology of the time, were convinced of both the need to reduce indirect taxes, which were unfair and economically inefficient, and the convenience of introducing direct taxes. However, all of the attempts to create direct taxes failed, showing how difficult it was to establish direct taxation right from the beginning, and how failure to “[reform] the tax system was a constant in Mexican fiscal history” (Aboites and Jáuregui, 2005, p. 32). The indirect composition of the 1800s tax system was due to several reasons including: the political instability of the time, the constant conflict between national and local governments over direct taxes, and the lack of a cadastre that allowed a well-functioning system of property taxes. The attempts to create cadastres or to permit the functioning of those already in existence failed, owing largely to the opposition of landowners (Jáuregui, 2005; Serrano, 2007, p. 183; Serrano, 2006; Torres, 2006; Sánchez, 2006). This account of fiscal failure is congruent with the propositions made by Sokoloff and Zolt (2007). For them, the Latin American tax institutions are the result of societies that began with extreme inequality, which elites have exploited to shape the evolution of such institutions to advantage themselves.

With these antecedents in the background president Obregón decreed⁵ the federal property tax in October 1922, a renewed attempt by the national government to extract resources out of property and a means to create a national cadastre.

⁵ The executive was endowed with emergency powers to decide on treasury issues by a congressional decree passed on May 18, 1917.

The regulations of the FPT were published months later in May 1923. There were two previous initiatives in 1914 (Iturriaga, 1976, p. 37) and 1919 to make a national cadastre and that both of them failed.⁶ The 1922 decree established a tax on owners of land and real estate. It exempted landowners with less than 10 ha. The rate was extremely low—only 0.1% of the value of land, which was to be paid yearly; the value of any construction, if existent, was not considered part of the tax base. More importantly, the decree determined that land and property owners had to present a declaration (*manifestación*) to the tax authorities (in the stamp tax offices) of their properties and their characteristics before July 1923. Thus, the first steps of creating the national cadastre were subject to the property owners' cooperation.

But the FPT and the national cadastre were not welcomed by the public. On the contrary, those affected by the tax reacted immediately organizing in opposition to the reform.

2.1. An overview of the opposition and its strategy

The actions taken by groups against the FPT went on from October 1922 to December 1923 and were ultimately effective. Prior to the reform, landowners were already organized in the farmers' unions (*sindicatos de agricultores*) or agricultural chambers (*cámaras agrícolas*) at the national and state level. Farmers' unions and agricultural chambers were connected and worked in coordination. Similarly, real estate owners were organized by city-based proprietors' chambers (*cámaras de propietarios*), which during the opposition struggle were united and coordinated by the league of property owners (*liga de propietarios*).⁷ By July 1923 the different opposition groups had created an umbrella organization to coordinate the campaign against the property tax: the Property Alliance (*la alianza de la propiedad*).

Landowners and property owners used different strategies and resources to exert pressure on the state to repeal the FPT decree. Opposition groups began the campaign by calling three massive national assemblies to organize. One of their strategies was the use of media and communications to exert pressure. They published their views and the conventions' conclusions in newspapers, in which they invariably demanded the repeal of the federal property tax.

Along with their media and communications strategy, farmers' unions and agricultural and proprietors' chambers also addressed the president directly through letters and telegrams. Throughout the struggle the opposition worked to make the movement stronger by constantly integrating new opposition groups. Later in the process, as the deadline to present the property-declarations approached, the next step taken by these opposition groups was to threaten the government, for instance, with the *amparo*⁸ or by asking the United States representatives in Mexico to mediate in the process.

Lastly, opposition groups exerted pressure through local congresses. As a result some state congresses asked the national congress to repeal the FPT as well. Some state governments opposed the FPT, which was seen as a threat to the state's property tax and one more attempt by the federal government to undermine their taxing authority.

The ability to unite diverse interest groups and to utilize subnational governments explains the successful mobilization of opposition to the FPT. Opposition groups, such as unions of

agricultural producers and urban landowners, were able to unite so successfully because they had done it before. This was not the first time the federal government had tried to take the authority over the property tax. There were many attempts to do so in the 19th century. It is then, very likely that these opposition groups had already worked together to block the government from taxing them. At the same time, the federal government failed to follow basic principles to enhance the probability of success for new taxes. The next section highlights the role of the federal government in this struggle.

2.2. The opposition campaign step by step

Shortly after the FPT decree was published, the farmers' union of Puebla proposed to its national counterpart to call a general assembly to organize the opposition.⁹ The national farmers' union contacted its local counterparts and invited them to take part in an assembly on October 28, 1922.¹⁰ The assembly resulted in a letter addressed to the president and published in national newspapers, requesting the annulment of the decree and providing a list of reasons for opposing the tax.¹¹

Newspaper articles reflected the different points of view concerning the new tax. Some articles highlighted the gains of having a national property registry, particularly the acquiring of more accurate property values.¹² This was considered beneficial in two ways: states would have better data on which to base their property tax and the compensations to landowners in the context of the land reform could be based on more realistic calculations.¹³ Other articles, in contrast, disapproved of the decree arguing that the precarious situation of the agricultural sector made it difficult for landowners to comply.¹⁴

Land and property owners constantly tried to put pressure on the executive with letter-writing campaigns. An example of this is the missive of the agricultural chamber of Jalisco in mid-December 1922.¹⁵ It acknowledged that the amount of the new tax was not onerous and that it opened the possibility of having a more accurate cadastre. However, it emphasized two concerns of opposition groups: landowners were doubtful of the government's capacity to manage the land compensation process fairly and they feared the government would not keep the tax rate as initially set. They worried the FPT would follow the pattern of taxes on industry, which started at low rates and were later increased.¹⁶ In a nutshell, the government had not much credibility on the eyes of the opposition groups.

The government's lack of credibility is an obstacle in the process of establishing a tax. In Levi's (1989, pp. 60–62) view rulers can gain credibility by providing reassurance that they will deliver the promised goods and services and by promoting conditional cooperation between rulers and constituents. Nevertheless, the executive power in the case of the property tax did not perform any of these tasks to gain credibility.

After the tax regulations were published and the property-declarations deadline was approaching (July 11, 1923) the opposition groups resumed activities to block implementation. The league of property owners¹⁷ called a convention in early June

⁹ AHJ/FH/RImp.Box.152, File: 26814/1.

¹⁰ AHJ/FH/RImp.Box.152, File: 26814/3&4.

¹¹ *El Universal*, 28/10/1922.

¹² *El Universal*, 19/11/1922.

¹³ *El Universal*, 14/10/1922.

¹⁴ *El Universal*, 28/10/1922.

¹⁵ AHJ/FH/RImp.Box.152, File: 26814/11.

¹⁶ AHJ/FH/RImp.Box.152, File: 26814/25.

¹⁷ The participating property owners' chambers identified through correspondence and newspapers were those of: Puebla, Nuevo León, Pachuca, Cd. De México, Torreón, Tacubaya and Orizaba.

⁶ AGN/FACHCP/SPS/AJP. Box 7, File:101-110-16.

⁷ *El Universal*, 15/07/1923.

⁸ The *amparo* is an order for protection against the action of authorities, a very powerful provision in Mexican law. For an analysis on the evolution of the fiscal *amparo* see Elizondo and Perez de Acha (2005).

in Mexico City.¹⁸ The meetings were not public and aimed to define the strategy to achieve the repeal of the tax. The convention resulted in the founding of the league for the defence of capital, which was characterized as the most aggressive of the leagues that opposed the tax (Collado, 1996, p. 141).

Landowners also called a convention, which gathered the heads of 180 farmers' unions.¹⁹ It resulted in two key things: the foundation of the Property Alliance and a letter addressed to the president signed by all of the alliance members.²⁰ The former resulted in the strengthening of the opposition movement by including broader interests²¹ and was conceived as "an institution to resist taxes".²² The letter was sent in late June²³ to which the president, as he always did in response to such calls,²⁴ replied there was no convincing reason to oppose the property tax.²⁵

The *memorial* stated why the opposition thought that the repeal of the tax was called for. They argued: (i) that the FPT was unconstitutional for two reasons—first, the president had no right to exercise extraordinary powers by decreeing the tax, and second, direct taxation was the domain of local, not federal government; (ii) that the property tax was unfair since a local tax on property already existed, and moreover, having two taxes on the same asset would affect agricultural production, which was already in a critical situation; (iii) that the FPT decree and regulations were unclear and confusing; (iv) that the new tax established unfair privileges by exempting owners of less than 10 ha of real estate.²⁶

The Ministry of Finance (MF) conceded to these protests by deferring the deadline for property declarations by one month.²⁷ At that point, the opposition concentrated on highlighting the defects of the law and regulations of the federal property tax, arguing that it was complicated, confusing and contradictory.²⁸ Moreover, they argued that the regulations were strict and severely penalized landowners. As consequence some agricultural chambers asked for another deferral on the property-declaration deadline.²⁹ The government granted it for a second time.³⁰

The MF then published the reforms³¹ explaining both how to present property declarations and pay the tax. The process of declaring property entailed evaluation and approval by 'cadastral commissions'.³² The commissions existed at the three levels of government, including many at the municipal level, one per state and one at the national level. They were made up of government and taxpayer representatives. The commissions were in fact a key institution on which both the functioning of the cadastre formation and the consequent tax payments relied.³³

Opposition to the property tax had achieved the postponement of the deadlines to present the property declarations, but the opposition groups had still not yet annulled the decree and cadastre. Thus, landowners and proprietors started to use harsher means; they threatened to use the *amparo* and to ask United States

representatives in Mexico to intervene in the matter.³⁴ It was clear from the beginning of the struggle that the FPT opposition's main fear was the cadastre, an institution that the proprietor class had opposed effectively throughout the 19th century. As put by the governor of Durango:

The true motive generating much opposition (...) is that the intervention of the federal government through the creation of the property tax and the more accurate valuation of real estate would help local governments set a fiscal value closer to the truth.³⁵

Land and property owners were averse to the cadastre, which reflects one of their main fears: having a government capable of measuring their wealth.³⁶ Once having accurate information about taxpayers' wealth, the state is in a position to tax them accordingly. That is why, in general, elite groups are averse to a government improving its instruments of assessing tax liabilities.

Landowners strengthened their pressure by adding more members to the cause and using the local congresses as another method of influence. As result many local chambers of commerce, industry and mining, previously not involved in the process, joined and signed a *letter* in which they asked the president to repeal the tax.³⁷

In tax politics the government's strategy should be 'to minimize opposition rather than maximize votes' (Hansen, 1983, p. 49). The Obregón government did not apply this basic rule to promote the enactment of the tax. Archival research reveals no attempts on the part of the Obregón administration to divide the Property Alliance or to offer inducements to persuade these actors to accede to the FPT. Neither the president nor the MF acted to curtail the opposition, and the Property Alliance kept growing.

This campaign triggered a new stream of missives addressed directly to the president and representing the interests of proprietors, commerce, industry and agricultural sectors.³⁸ These letters emphasized that people across the country considered the decree unfair, anti-constitutional and inopportune.

Fairness arguments are always present in tax debates. Taxpayers' perception of the fairness of the tax is important for the tax's survival. As Levi points out "(tax) compliance will increase when rulers demonstrate the tax system is fair and when taxpayers get some benefits out of the trade" (Levi, 1989, p. 53). Thus, in order to change the taxpayers' perception when deciding to comply it is necessary to lead them to believe that they are bearing a fair share of the burden. The government did not attempt to justify the FPT decree on fairness grounds as it did in the case of the income tax. Adolfo De la Huerta, the minister of finance, unlike the next minister, Alberto Pani, did not try to convince taxpayers that the property tax was a way to make the tax system fairer.

Opposition groups decided to put pressure on the federal government through local congresses. Chambers of commerce and agriculture in Jalisco³⁹ and other parts of the country asked their local congresses to oppose the executive's decree. They argued that creating the cadastre was too difficult and that the new tax trespassed on the states' sovereignty.⁴⁰

As mentioned above, local governments across the country represented a great threat to the FPT, and the federal executive failed to 'bring on board' or co-opt these figures, as it did in the case

¹⁸ *El Universal*, 11/06/1923.

¹⁹ *El Universal*, 15/06/1923.

²⁰ *El Universal*, 8/07/1923.

²¹ The alliance was made up of several groups: industrial firms; commercial firms and individuals; as well as organizations representing interests of property owners and different economic sectors such as agriculture, commerce and industry.

²² *El Universal*, 14/06/1923.

²³ AHJ/FH/RImp. Box. 152, File: 26814/7.

²⁴ AGN/FP/O-C. Box: 228, File: 731-N-2.

²⁵ *El Universal*, 17/06/1923.

²⁶ *El Universal*, 28/06/1923.

²⁷ *El Universal*, 11/07/1923.

²⁸ *El Universal*, 15/07/1923 and 25/07/1923.

²⁹ AHJ/FH/RImp. Box. 152, File: 26814/7.

³⁰ *El Universal*, 11/07/1923.

³¹ *El Universal*, 13/08/1923.

³² The cadastral commissions were a reminiscence of the 'assessment boards' (*juntas calificadoras*) used in the 19th century with similar tax purposes.

³³ *El Universal*, 8/08/1923.

³⁴ *El Universal*, 20/07/1923 & *El Universal*, 26/07/1923. Nevertheless, no further evidence in correspondence or newspapers was found on the role actually played by United States representatives.

³⁵ AGN/FP/O-C. Box: 228, File: 713-N-2.

³⁶ *El Universal*, 13/08/1923.

³⁷ AHJ/FH/RImp.Box.152, File: 26814/22.

³⁸ AHJ/FH/RImp.Box.152, File: 26814/27. File: 26814/28. File: 26814/231.

³⁹ AHJ/FH/RImp.Box.152, File: 26814/30. File: 26814/32.

⁴⁰ AHJ/FH/RImp.Box.152, File: 26814/40. File: 26814/42. File: 26814/45.

of the income tax. Local governments thought the federal government was trying, once more, to centralize the property tax. Instead of working on convincing discontent governors by offering them some profits out of the new tax or by emphasizing the gains of creating or improving cadastres, Obregón's government took no such action. In other words, side payments, which are used to persuade participants to cooperate with a coercive policy (Hansen, 1983, p. 17) was a tactic not applied by Obregón.

Late in September the Property Alliance again threatened the government with the *amparo*.⁴¹ Some farmers stated they were definitively not going to comply with the tax despite the all the risks and costs that would potentially follow.⁴²

Amidst this impasse in September 1923, the minister of finance, Adolfo de la Huerta, quit and a few days after, Alberto J. Pani replaced him. There was enmity between the two characters (Collado, 2002, p. 363; Gómez-Galvarriato, 2002, p. 381). They disagreed about who deserved credit for the successful debt renegotiation process, the recognition of Obregón's government by the US and the efforts to create the central bank. Pani, in a report, blamed de la Huerta for the financial situation he inherited in September 1923 and Obregón made the conflict public (Iturriaga, 1976, p. 43). This event certainly had negative repercussions for the fate of the property tax. Given that the initial proponent of the property tax had resigned, the defence of the new tax was left to Pani, whose commitment was in question.

Pani decided to push the issue of the FPT later yet on the agenda. He granted a 3rd deferral of the deadline for property declarations to the end of December and called a cadastral convention to discuss the creation of the national cadastre with state representatives. The opposition groups celebrated the minister of finance's decision. They appreciated that the new minister of finance had a 'different attitude and listened to public opinion'⁴³ and predicted that the cadastral convention, if it happened, would just be a dignified exit for the federal government in the face of the failure to introduce the property tax.

The cadastral convention took place in Mexico City from the 1st to the 10th of December 1923; its purported aim was to define the plan for the federal and local government to work together in creating the national cadastre. The convention had originally only included governors and personnel of the MF. But due to pressure exerted by the Property Alliance some of its members were also eventually included.⁴⁴ The executive, by accepting their participation, had failed to apply another basic principle: limiting the participation of popular opposition, creating an environment more conducive to adopting new taxes (Hansen, 1983, p. 47). In this case, Pani decided the opposite, demonstrating that under his leadership, the government was perhaps no longer interested in the success of the property tax.

The pressure of members of the Property Alliance and governors against the 1922 decree changed the cadastral convention programme. There initially had been no plan to discuss the federal property tax; however a panel on the topic was included. The cadastral convention report points out some of the conclusions reached by the panels (SHCP, 1924, pp. 238–250). This document reflects an agreement on the need to align the property registries and the property taxes across states given that the tax base and rates widely varied. The cadastral convention concluded that the cadastre had to be initially based on the taxpayer's value statements and that the commercial value of property would be the tax base on which to extract progressive rates (Pani, 1926, pp. 16–18).

Nevertheless, the FPT was left in stand-by and subject to the creation of the national cadastre. This in turn, was never created, initially due to the political instability of the time⁴⁵: de la Huerta led an armed revolt against Obregón that began December 5, 1923. The ex-minister of finance had the support of a large segment of the army; however, he lost the battle by mid-1924. As result of this instability, the FPT was not included in the '*Ley de Ingresos of 1924*', which meant that it was effectively repealed. Pani did not follow up on the national cadastre project as he chose instead to pursue a different project: the income tax, decreed in February 1924.

3. The tale of the income tax

Obregón had, at the beginning of his term, shown the intention of reforming the tax system since its regressive nature still reflected the unfair conditions held during Porfirio Díaz's dictatorship. The first attempt to introduce a national direct tax had failed. The FPT was never put into practice. However, Obregón, again making use of his emergency powers on treasury matters, decreed in February 1924 the tax on wages, salaries and profits, the initial version of the income tax, which was to follow a year later.

The income tax promised a fairer tax arrangement and more resources to the state than the prevailing system. It was also a crucial piece in the fiscal reform pushed by Pani. For him, the establishment of institutions conducive to economic growth involved four major prerequisites: balancing public finances; reorganizing the fiscal system; reactivating the banking system; and restoring domestic and foreign credit (Pani, 1926, p. 16).

Reorganizing the fiscal system, in particular, implied fixing two problems: the prevailing fiscal anarchy (Obregón, 1924, p. 282) and the composition of the tax structure. The former referred to the tax system complexity and the unclear delimitation of tax powers between the different levels of government and the latter referred to the preponderance of indirect taxes in the tax system, which was, in the words of Pani, a source of injustice (Pani, 1926, p. 39).

The income tax was projected to be the core of the tax system. The new tax offered many advantages and aligned with the liberal and progressive ideology of the time. Unlike the FPT, the income tax was seen and cleverly presented by the government as a modern, new and fair tax. On the one hand, income constituted an effective measure of individuals' ability to pay. On the other, the political notion of taxes stressed that citizens had to make equal sacrifices in contributing to financing the state. This principle was represented by the progressive nature of the income tax, which allowed charging higher tax rates for individuals in higher income brackets.

Adopting the income tax also went hand-in-hand with the emergence of modern states at the turn of the 20th century. Such was the case of advanced countries in Western Europe and the United States and to some extent, the case of the post-revolutionary Mexican state, which taking advantage of the 1917-constitutional foundations became more interventionist. The role played by modern states in society was enhanced. States needed more resources to promote economic growth, provide welfare and redistribute income. In this context, the income tax was the perfect fiscal tool to aid the state.

Nevertheless, the income tax awoke opposition as the new tax aimed to extract resources from previously untaxed income and taxpayers. Moreover, it required individuals and businesses to declare their financial information. Such changes implied a clear disruption of the *status quo*. Elite groups had never paid a direct tax, not to mention one that implied progressive rates. Business groups

⁴¹ AHJ/FH/RImp.Box.152. File: 26814/36.

⁴² *El Universal*, 26/09/1923. *El Universal*, 29/09/1923.

⁴³ AHJ/FH/RImp.Box.152. File: 26814/38. File: 26814/39.

⁴⁴ *El Universal*, 5/12/1923.

⁴⁵ *El Universal*, 14/12/1923.

and particularly those already organized were the main opposition. The National Confederation of Chambers of Commerce (*Concanaco*) and the National Confederation of the Chambers of Industry (*Concamin*) led the resistance.

In spite of this opposition the income tax was put into practice and remains to this day. In contrast to the proprietors and landowners that opposed the property tax, the business groups were not cohesive in resisting the income tax. There were divisions within the *Concanaco* and between *Concanaco* and *Concamin*. A few months after the income tax decree, some of the industrialists 'gave up' and started to comply with the new tax. The government proved to be skilful in counteracting the arguments and means used by the opposition. But above all, the government put in practice different measures to make the income tax introduction 'more palatable' to the taxpayers. Some of these measures included tax concessions, in the form of special treatment, which ultimately reduced the tax base from which to extract resources from taxpayers. But giving tax concessions was not the only tactic used to smooth the tax implementation. The government, led by the figure of Pani, a pro-business treasurer, offered financial inducements to the business sector in exchange for acquiescing to the new tax. All the above constituted a solid and effective strategy on the party of the government that facilitated the adoption of the new tax. The next section provides evidence for these claims.

3.1. *The struggle behind the income tax: successful introduction of a coercive measure*

The decree of the tax on wages, salaries and profits (ISSU)⁴⁶ established the law and regulations that were to guide its implementation. The ISSU established four groups of earners that were subject to the income tax: public-sector employees, private-sector employees, professionals, and corporations. The four different sources of income exempted low-income taxpayers and had progressive rates. Tax rates for individuals and corporations went from 1 to 2% and from 2 to 4% respectively.

There are a few points to highlight from the ISSU law and its regulations.⁴⁷ Taxpayers themselves had to declare their income and profits, with the exception of employees, since it was the responsibility of their employer to declare, withhold and pay the tax for them. If taxpayers' income came from more than one source, it was their responsibility to aggregate their income and pay the according rate. Some forms of income were exempt under the ISSU, including the income of the president, congresspersons, Supreme Court justices and all elected politicians. Agricultural companies were also exempted from paying. State and municipal governments were each entitled to take 10% of the tax revenue extracted in their territory.

Lastly, the ISSU relied on 'assessment boards'⁴⁸ made up of representatives of the MF and the taxpayers. These boards' function was to assess and sanction the taxpayers' declaration of income and these bodies had the legal authority and means to assure taxpayer compliance. The assessment boards' structure was complex. There were several municipal and state boards that were subject to the federal-level board. This required the recruitment of taxpayers' representatives in each local board across the country.

Business groups started their opposition complaining about the new capacity of the state to audit businesses' accounts. Businesses and individuals had never been subject to such scrutiny before; in the past their taxes had mostly been indirect. As one editorial put it 'the ISSU law establishes auditing to which we are not used

and contradicts our customs and psychology'.⁴⁹ Actors in the business sector referred to the assessment boards as the 'inquisitorial boards' and argued that these violated the principle of secrecy for commerce (*Collado, 1996, p. 176*). Taxpayers, just as in the case of the cadastre, were fearful of a state capable of measuring their wealth.

The business sector also used the tactic of pressing the executive to repeal the tax through correspondence. They first argued that the economic situation was not favourable to the introduction of a tax on income and that the tax regulations were complex and difficult to comply with.⁵⁰

Of all the different arguments used by the private sector in the press or correspondence, two were most common: that the new tax was illegal and that its progressiveness implied several disadvantages. First, business representatives argued that the emergency powers given by the legislative to the executive were attributed only to Carranza in 1917 and these could not be extended to following executives. This argument echoed complaints voiced by the Property Alliance in opposition to the property tax. The second claim had to do with the threat implied by a redistributive tax. *Concanaco* put it clearly in the following statement:

The MF should only fulfil the public administration's needs, it should not try to correct the supposed injustices of the social state, particularly those derived from the unequal distribution of wealth, which after all are beyond correction given the inherent inequality of human capabilities (As quoted in *Collado, 1996, p. 189*).

Moreover, business groups claimed that the tax's progressive rates were damaging to the individualist spirit on which the capitalist system is based, in turn negatively impacting economic dynamism. In other words, the business groups were using a neo-classical type of argument. Specifically, neoclassical ideas posit that taxes adversely affect savings and in consequence reduce investment.

Obrigón replied personally to each of these calls for appeal. He assured claimants that the tax had many positive attributes. It was based on the ability-to-pay principle, its rates were not so onerous as to discourage investment and the new tax would replace the stamp tax, which was considered unfair and onerous. Moreover, in order to counter the argument that the tax was illegal, Pani asked two eminent lawyers to conduct a study that evaluated the legality of the ISSU. The report concluded that the tax was legal and fiscally recommendable (*Collado, 1996, p. 184*). Clearly, the executive was handling the opposition to this tax in a different fashion than it had handled the opposition to the property tax. The federal government had probably learned an important lesson from the FPT experience about the importance of allaying concerns of opposition groups.

The opposition unity did not last for long. Some industrialists, mainly oil companies, started to comply with the ISSU regulations and made their first declarations in August 1924 (*Aboites, 2003, p. 138*). The industrialists started to cooperate with the tax under the credible threat of being sanctioned by the treasury. The number of industrial firms was small compared to commercial businesses and their profits were larger on average. Thus, being fewer and promising higher tax revenue made them 'more attractive' to tax and easier to control and coerce if necessary (*Aboites, 2003, p. 137*).

In addition, the divisions between the two most prominent business organizations, *Concanaco* and *Concamin*, were exacerbated. National industries, for instance, were adversely affected by the massive sale of imports by commercial firms, most of whom were members of the *Concanaco* (*Puga, 1978, p. 112*). In later

⁴⁶ *Impuesto sobre sueldos, salarios y utilidades*, ISSU.

⁴⁷ DOF, February 25 and 28 1924.

⁴⁸ *Juntas Calificadoras*.

⁴⁹ *El Universal*, 22/04/1922.

⁵⁰ AGN/FP/O-C. Box: 57, file: 121-HS.

years, the cohesion of business groups' interests increased as labour unions became stronger and revolutionary governments pursued pro-labour policies (Collado, 1996, pp. 154–155). However, in 1924, such threats were not as present, and the commercial and industrial chambers had not yet established a united front. Moreover, Concanaco itself had internal divisions dating back to its foundation in 1917. The business groups of Nuevo León objected that the business sector of Mexico City held too much power within the confederation. In sum, business interests were not unified, either within or between sectors. As a result, their power to oppose the new tax was reduced. The fragmented opposition to the ISSU represents a clear contrast with the well organized and cohesive front mobilized against the FPT.

The fact that industrialists began to comply with the income tax did not reduce the belligerent attitude of Concanaco. The local chambers of commerce threatened to declare the *amparo* against the executive's decree, as opponents to the property tax had previously threatened. However, the government this time responded with measures to counter the dissidents. The provision of public services, for instance, was made subject to the ISSU payment. More importantly and given that some of the dissident voices against the ISSU were foreign business men, Obregón threatened to expel them under Article 33 of the Constitution, which allows the president to expel foreigners if they get involved in domestic politics (Collado, 1996, p. 197). The tactics used by the executive this time were more effective, in contrast with the way the Obregón and de la Huerta managed the property tax struggle, marked by disorganization, ignoring the opposition and failing to argue for the legitimacy of the reform.

Plutarco E. Calles took the presidency in December 1924. He was appointed by Obregón as his own replacement. In fact, the naming of Calles was the main reason that the ex-minister of finance, de la Huerta, had launched a revolt a year earlier. Despite the change in the presidency there was continuity in the overall aims of balancing the budget and correcting the regressive composition of the tax system with the introduction of direct taxes. To this end, Calles decreed the income tax in March 1925 replacing the tax on wages, salaries and profits (ISSU) that Obregón had decreed. The two taxes were in essence the same: direct taxes on income with progressive rates; however the income tax was structured in a different manner, taxed at higher rates, but above all, included some concessions for specific taxpayers. The latter helped reduce taxpayers' resistance to the new income tax.

The income tax law established a new structure for the tax.⁵¹ It was organized around schedules, which represented different sources of income. The income tax had four distinctive characteristics, which in the words of Pani made it modern and fair. It exempted those receiving lower incomes; it imposed specific treatments on the different sources of income; it set graduated (progressive) rates; and it granted households tax reductions (Pani, 1926, pp. 46–47).

The campaign against the income tax continued after it was decreed. Business groups continued to resist. However, the MF, used very effective tactics that made the income tax more 'palatable.' These measures, I argue, allowed the tax to ultimately succeed. According to Hansen (1983, pp. 16–18), side payments constitute an effective strategy to stymie opposition to new tax measures in democracies. Such side payments may take the form of exemptions, deductions, or any other provisions that have the appearance of reducing the tax burden. In short, the point is to implement measures that make the introduction of coercive policies, like taxation, more palatable to societal groups that otherwise

would put up significant opposition. The MF, under Pani, pursued this strategy for the income tax.

Business groups, throughout the ISSU struggle, complained about the complexity of the tax code and the discrepancies between the tax law and the actions taken by institutions charged with enforcing it. In response to these complaints, the MF improved the law and regulations of the income tax; these were clearer and no longer contradictory.⁵²

In addition, the ISSU law established that states and municipalities would each receive 10% of the tax revenue generated in their territories. In other words, the MF shared the gains with potential dissidents. In this way, the executive power was building more favourable political circumstances by minimizing opposition, a tactic identified by Hansen (1983, pp. 49–51). For her, minimizing opposition and constraining it by limiting their participation is part of the political context that is conducive to successful tax innovation.

None of these tactics were used during the FPT struggle, helping explain its demise. On the contrary, the MF enhanced the participation of the FPT dissidents when they were allowed to have voice and vote in the cadastral convention.

Another way in which the MF favoured the introduction of the income tax was by not requiring taxpayers to pay rates corresponding to their total income accumulated from different income schedules. Individuals and firms with diverse sources of income benefited from not paying taxes based on their aggregated income. This aspect of the law clearly inhibited the accurate observation of a taxpayers' ability to pay. Thus, although the income tax rate structure became more progressive relative to the ISSU structure of rates, its progressiveness was reduced through the exclusion of the requirement to pay rates that correspond to consolidated income. This trait is in fact one of the major original flaws of the income tax in the view of those who pushed for income tax reforms decades later, in 1953 and 1961 in particular (Unda Gutiérrez, 2010).

More importantly, the income tax included exemptions that made it more palatable and silenced part of the business groups' opposition. Indeed, the income tax taxed capital revenue in schedule four, which was before not taxed and it did not exempt elected officials nor agricultural revenue as the ISSU did. However, the income tax exempted some kinds of revenue and was 'generous' with others, like the banking sector.⁵³

For instance, shipping and insurance foreign companies received 'special treatment.' They had to pay 2% income tax on only some of their revenue flows. Profits coming from leasing real estate, interests gained from credit unions and banks, and the revenue of banks resulting from any of the concepts taxed by schedule four were tax-free. In fact, the banking sector and insurance companies were subject to schedule one and not to schedule four as would have been more correct, given the nature of their business. Such treatment was in practice a privilege given that it was more convenient for financial institutions to pay under schedule one (Beteta, 1951, p. 177). Given these provisions, the financial sector put up little opposition to the income tax.

It seems realistic to conclude then that an important faction of the business sector was not exerting pressure in opposition to the income tax. They were silenced and brought on board through the special tax treatment offered by Calles' government. However, this also contributed to the formation of a porous tax system, which has characterized Mexican taxation and has resulted in persistently low tax collection.

In the year after its adoption, the income tax began to show results and more taxpayers decided to comply. In the first seven

⁵¹ DOF, March 18, 1925.

⁵² *El Universal*, March 28, 1925.

⁵³ Articles, 9 and 24 of the Income tax law published in the DOF of March 18, 1925.

months of 1925, the income tax revenue had exceeded the annual collection of ISSU by 3.5 times (Calles, 1925, p. 34). Industrialists were among the first to pay the tax. Besides the reasons explained before, it is also likely that the industrialists did not resist the payment as much as the members of the property alliance because of two issues. The “special” relationship between Concamin and Pani and the progressive attitude of some industrialists. Concamin was created in 1917 by Pani when he was the head of the Ministry of Industry and Commerce. This ministry originally had the objective of smoothing the deteriorated relationship between government and businessmen after the Revolution. Pani achieved this task, as he was an excellent intermediary given his ‘natural inclination to business men’ and ‘clear capitalistic rationale’ (Puga, 1978, p. 108). Concamin was created under the spirit of cooperation between government and industrialists, ‘to coordinate industrial activity and guide both private and public activities towards the greater national welfare’ (Puga, 1978, p. 108). Along this line, Collado (1996, p. 192) makes a differentiation between the industrial and commercial sectors in the 1920s. In her view the former was characterized by a conciliatory attitude in contrast to the more belligerent position of commercial interests.

Moreover, some leaders in the manufacturing sector considered the income tax fair and morally legitimate.⁵⁴ As many scholars acknowledge, fairness concerns are always present in tax debates; fairness perception matters. In Levi’s perspective, for instance, it is crucial that taxpayers perceive the tax deal as fair in order to achieve the voluntary side of compliance. Levi (1989, pp. 52–55) implies that taxpayers will find it fair to pay when others are paying as well. Similarly, Hansen argues that it is necessary to make the taxpayer feel that she is bearing a fair share of the burden if the government aims to introduce a coercive policy such as taxation (Hansen, 1983, p. 17). Thus, the fact that there were progressive people at least within the faction of the industrialists⁵⁵ that appreciated the income tax as fair, most likely contributed to a more cooperative attitude towards compliance.

However, the fact that some taxpayers started to comply with the income tax was not wholly attributable to perceptions of fairness. Business leaders, I argue, were also motivated by other incentives, such as compensation offered by the state in exchange for compliance with the tax. The introduction of the ISSU-income tax was one of many fiscal measures of the MF but not the only one. Credit policy and the inclusion of business groups in consulting boards were two main measures taken by Pani that benefitted the business interests represented by Concamin and Concanaco. The lack of credit had previously been one of the business sector’s main complaints to the government. It was Pani who actively put in motion the activation of the financial system, which had previously been inhibited due to the lack of a central bank. By 1925, at the same time the law of the income tax was put in practice, the *Banco de México* was created and with it ‘one of the main obstacles for the industry’s productivity was removed’ (Puga, 1978, p. 124).

It is likely that in an effort to persuade the reticent chambers of commerce to accede to the income tax, the Pani administration eventually granted these chambers membership in the tariffs commission. In March 1925, the chambers had requested to have voice and vote in this mixed board that was in charge of proposing changes to tariff policies.⁵⁶ A month later it was decided that a mixed commission representing the Ministries of Finance,

Industry and Commerce and the representatives of both sectors would present a general report on tariffs.⁵⁷ The report was to determine the kind of changes had to be undertaken in order to make such taxes less onerous and complicated to the taxpayer. This concession to organized commercial interests coincided with the decision on the part of Concanaco to withhold opposition to the income tax, likely because membership in the tariffs commission was granted on the condition of acquiescence.

In sum, business groups, by receiving favourable financial policies and by being included in consulting boards, most likely perceived they were getting something valuable from the government, which could have been seen as a direct exchange for their going along with the new taxes. The income tax, thus, was put into practice and persists until today.

Conclusions

This paper explained the divergent outcomes of the federal property tax and the income tax decrees. I argued that the overall weakness of capital holders in the aftermath of the Revolution permitted the Executive to decree these two direct taxes. I further claim that successful introduction of these two new taxes would depend on the government’s ability to implement three strategies oriented to compel the compliance of potential key tax-payers (property and land holders, and business organizations). The government had to convince capital holders to comply by (1) gaining credibility, particularly by convincing these groups that the MF would not raise tax rates heavily and would maintain the terms on which the taxes were decreed; (2) minimizing opposition through two tactics: limiting the political opposition’s participation in tax debates and discussions, and offering side payments to reduce opposition; and (3) successfully portraying and justifying the FPT and the income tax on fairness grounds.

In the case of the FPT, the government was not effective in introducing the tax because it did not conduct any of these three strategies successfully. In addition, de la Huerta’s revolt at the end of 1923 created a context of political instability, which was not conducive to the introduction of the tax. Furthermore, political opposition to the FPT was unified and highly organized in its strategy against the tax. This paper described and analyzed the FPT opposition campaign step by step, identifying the different resources and strategies used by the opposition, led by chambers of landowners and agriculturalists. They called three assemblies to organize a united front; created an umbrella organization to coordinate, represent and act on behalf of their interests; exerted pressure through media; they constantly addressed the president through letters and telegrams asking for the repeal of the tax; they threatened the government with both, the use of the *amparo* and by asking United States representatives in Mexico to mediate the process; and, finally, the opposition worked together with local governors and congresses to ask the federal congress to repeal the FPT.

The income tax struggle differed in all these variables, accounting for its successful adoption. The federal government proved to be skilful in its strategy, applying basic principles, which have been shown to facilitate the introduction of coercive measures, such as taxation. Obregón and Calles’ governments counteracted each of the opposition’s moves; they took many measures to make the tax introduction ‘more palatable’ and to change taxpayers’ perception of the tax’s fairness. The Minister of Finance strove to gain credibility for the income tax in the eyes of the business sector and to incentivise compliance by offering side payments in the form of tax concessions and special treatments to key opposition figures.

⁵⁴ Among the progressive characters were: Alberto Henkel, Aldolfo Prieto and Jaime Gurza (Puga, 1978, p. 114).

⁵⁵ It is to note that Concamin presented the first initiatives on the Federal Labour Law and on the creation of a social security system for workers (Puga, 1978, pp. 114–115).

⁵⁶ *El Universal*, March 28, 1925.

⁵⁷ *El Universal*, April 20, 1925.

Unlike the case of the Property Alliance, the income tax opposition was divided within and between the industrial and commercial sectors, which limited their effectiveness in attempting to block the tax implementation. The income tax resistance was fragmented and included some progressive industrialists who soon after the decree began to comply. In addition, the income tax was amply supported by the ideology of the time and the revolutionary ideals. The income tax was presented as a modern and fair tax. It was portrayed as the way to activate the Revolution in the fiscal domain.

Sources

AGN: Archivo General de la Nación. FP/OC: Fondo Presidentes/Obregón Calles. FACHCP/SPS: Fondo Archivo Central de Hacienda y Crédito Público/Sección Secretaria Particular del Secretario. FACHCP/SPS/AJP: Alberto J. Pani. AHJ: Archivo Histórico de Jalisco. FH/RImp: Fondo Histórico/Registro Impuestos. HNM: Hemeroteca Nacional de México. HNM/FC: Fondo Contemporáneo. DOF: Diario Oficial de la Federación.

Acknowledgements

I am grateful to the following people for their insightful comments and suggestions: Brian Palmer-Rubin, Alfonso Hernández Valdez, Francisco Núñez De la Peña, Luz María Uthoff López, and two anonymous reviewers at this journal. I also thank José Manuel De Alba for excellent research assistance.

References

- Aboites, A.L., 2003. *Excepciones y privilegios: modernización tributaria y centralización política 1922–1972*. El Colegio de México, Mexico City.
- Aboites, A.L., Jáuregui, L., 2005. *Penuria sin fin, historia de los impuestos en México siglos XVIII–XX*. Instituto Mora, Mexico City.
- Beteta, R., 1951. *Pensamiento y dinámica de la Revolución Mexicana Antología de documentos político sociales*. Editorial México Nuevo, Mexico City.
- Calles, P.E., [1925–1928] (2006). *Informes Presidenciales*. Plutarco Elías Calles. Dirección de Servicio de Investigación y Análisis, Cámara de Diputados LX Legislatura. <http://www.diputados.gob.mx/sedia/sia/re/RE-ISS-09-06-04.pdf>
- Collado, M. del C., 1996. *Empresarios y políticos, entre la restauración y la revolución 1920–1924*. Instituto nacional de estudios históricos de la revolución mexicana, Mexico City.
- Collado, M. del C., 2002. *La gestión hacendaria de Adolfo de la Huerta*. In: Ludlow, L. (Ed.), *Los secretarios de hacienda y sus proyectos (1821–1933)*. Universidad Nacional Autónoma de México, Mexico City, pp. 357–380.
- Elizondo, C., Perez de Acha, L., 2005. *Separación de poderes y garantías individuales: La suprema corte y los derechos de los contribuyentes*. CIDE (Centro de Investigación y Docencia Económica), Law Studies Division Working Papers 13.
- Gómez-Galvarriato, A., 2002. *La política económica del nuevo régimen*. Alberto J. Pani 1923–1927, 1931–1933. In: Ludlow, L. (Ed.), *Los secretarios de hacienda y sus proyectos (1821–1933)*. UNAM, Mexico City, pp. 381–413.
- Hacker, J., Pierson, P., 2002. *Business power and social policy: employers and the formation of the American Welfare State*. *Politics and Society* 30, 277–325.
- Hansen, S.B., 1983. *The politics of taxation, revenue without representation*. Praeger Publishers, New York.
- Iturriga, J.F., 1976. *La revolución hacendaria. La hacienda Pública con el presidente Calles*. Secretaria de Educación Pública, Sepsetentas, México.
- Jáuregui, L., 2005. *Los orígenes de un malestar crónico. Los ingresos y los gastos públicos de México, 1821–1855*. In: Aboites, L., Jáuregui, L. (Eds.), *Penuria sin fin, historia de los impuestos en México siglos XVIII–XX*. Instituto Mora, Mexico City, pp. 79–114.
- Knight, Alan, 1985. *The Mexican revolution: bourgeois? Nationalist? Or just a "great rebellion"?* *Bulletin of Latin American Studies* 4, 1–37.
- Lieberman, E.S., 2002. *Taxation data as indicators of state society relations: possibilities and pitfalls in cross-national research*. *Studies in Comparative International Development* 36, 89–115.
- Levi, M., 1989. *Of Rule and Revenue*. University of California Press, Berkeley.
- Lomelí, V.L., 2002. *La reconstrucción de la hacienda pública: la gestión de Luis Cabrera y Rafael Nieto en el gobierno de Venustiano Carranza*. In: Ludlow, L. (Ed.), *Los secretarios de hacienda y sus proyectos (1821–1933)*. UNAM, Mexico City, pp. 305–334.
- Márquez, G., 2005. *Aranceles a la importación y finanzas públicas: del Porfiriato a la crisis de 1929*. In: Aboites, L., Jáuregui, L. (Eds.), *Penuria sin fin, historia de los impuestos en México siglos XVIII–XX*. Instituto Mora, Mexico City, pp. 141–160.
- Obregón, Á., (2006). [1921–1924] *Informes Presidenciales*. Álvaro Obregón, Dirección de Servicio de Investigación y Análisis, Cámara de Diputados LX Legislatura. <http://www.diputados.gob.mx/sedia/sia/re/RE-ISS-09-06-03.pdf>
- Pani, J.A., 1926. *La política hacendaria de la revolución*. Cultura, México.
- Puga, C., 1978. *La confederación de cámaras industriales*. *Trimestre Político* 3, 103–131.
- Sánchez, S.E., 2006. *La fiscalidad directa en el México decimonónico: el caso de la contribución rústica 1835–1846*. In: Jáuregui, L. (Ed.), *De riqueza e inequidad, el problema de las contribuciones directas en América Latina, siglo XIX*. Instituto Mora, Mexico City, pp. 225–249.
- Serrano, O.J.A., 2006. *Contribuciones directas y reformas fiscales en las regiones de México, 1820–1836*. In: Jáuregui, L. (Ed.), *De riqueza e inequidad, el problema de las contribuciones directas en América Latina, siglo XIX*. Instituto Mora, Mexico City, pp. 225–249.
- Serrano, O.J.A., 2007. *Igualdad, uniformidad, proporcionalidad: contribuciones directas y reformas fiscales en México, 1810–1846*. Instituto Mora and Colegio de Michoacán, Mexico City.
- Servín, G.A., 1939a. *Apuntes históricos del impuesto sobre la renta*. *Revista de Hacienda* 2, 3–21.
- Servín, G.A., 1939b. *Antecedentes históricos de nuestra política tributaria*. *Revista de Hacienda* 3, 7–25.
- SHCP, Secretaria de Hacienda y Crédito Público, 1924. *Memoria Convención Nacional Catastral 1923*. Cultura, Mexico City.
- Steinmo, S., 1993. *Taxation and Democracy: Swedish, British and American Approaches to Financing the Modern State*. Yale University Press, New Haven/London.
- Sokoloff, K., Zolt, E., 2007. *Inequality and the evolution of institutions of taxation, evidence from the economic history of the Americas*. In: Edwards, S., Esquivel, G., Márquez, G. (Eds.), *The Decline of Latin American Economies: Growth, Institutions and Crises*. University of Chicago Press, Chicago, pp. 83–136.
- Torres, M.J., 2006. *Centralismo y reorganización hacendaria: el paquete fiscal de 1842*. In: Jáuregui, L. (Ed.), *De riqueza e inequidad, el problema de las contribuciones directas en América Latina, Siglo XIX*. México, D.F. Siglo XIX. Instituto Mora, pp. 251–277.
- Uthoff, L.M., 2005. *La fiscalidad y la revolución constitucionalista*. In: Aboites, L., Jáuregui, L. (Eds.), *Penuria sin fin, historia de los impuestos en México siglos XVIII–XX*. Instituto Mora, Mexico City, pp. 161–188.
- Unda Gutiérrez, M., (Ph.D. Thesis) 2010. *The Building of a Poor Tax State: The Political Economy of Income Tax in Mexico 1925–1964*. University of London, London.
- Witte, J., 1986. *The Politics and Development of the Federal Income Tax*. The University of Wisconsin Press.