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Blowing the Institutional Gridlock: Informal Institutions and Symbolic Action in the Reform of Sunat

ABSTRACT

This paper lays the basis for an analysis of institutional transformations based on the mechanics of symbolic reconstruction. The latter are conceptualized as the infusion of values into a social body by means of the performance of a transformative narrative. Unless such “work” is undertaken, institutional reforms are bound to remain formal or derail. Theoretical claims are bolstered by the analysis of the mechanisms that led to the uprooting of the informal institutional legacy in the Peruvian tax administration during its reform in the early 1990s. The paper flushes out the political effects of the profound socioeconomic crisis that struck Peru at the time, arguing that they opened a window for reform. More significantly, the analysis focuses on the struggle for supplanting old and enforcing new institutional values led by the reform taskforce under the leadership of Manuel Estela.

Where informal patterns of corrupt administration have become entrenched in the culture and power structure of a state agency, the analytic tools of historical institutionalism help unveil the roots of the problem and the prospects for change. Indeed, the focus laid by historical institutionalism (HI) on incremental, time-shaped constraints has allowed for a sharper understanding of the factors hindering drastic policy and institutional reforms (Hacker 1998; Thelen and Steinmo 1992; Pierson 1995). By the same token, this focus has made apparent the limits of otherwise insightful analyses that do not pay systematic attention to the impact of historical conditions and informal institutional arrangements on the prospects of “building state capacity in Latin America” – as the subtitle of Geddes’s influential work goes (Geddes 1994). At a time when scholars, in the region and elsewhere, call for “enforcing the rule of law” (Peruzzotti and Smulovitz 2006; O’Donnell 1994), the surreptitious yet decisive influence of informal institutions, illuminated by HI, deserves special attention.

The useful tools of HI, however, fall somewhat short when it comes to making sense of the tumultuous and hazardous process whereby change is enacted in practice. As Battilana, Leca, and Boxenbaum (2009) suggest, the problem of implementation seems to call for new

tools, more germane to social movements theory. Mobilization, motivation and framing, for instance, constitute key activities of institutional entrepreneurship (Battilana et al. 2009).

In tune with this perspective, the concept of symbolic reconstruction refers to the process of formulating, performing, and enforcing new interpretations of an organization's place and role among its members. By vesting bureaucratic activity with new meanings, effective reform carriers can foster institutional values which, in turn, play a critical role in breaking informal paths of institutional development. Because symbolic reconstruction underlies successful reforms, theories of institutional change should pay deeper attention to the subjective dynamics of agent-driven institutional transformations. The stakes are bigger than some insights at organizational engineering; the practical uses and organizational crystallizations of symbolic resources such as values and narratives come into relief from this perspective, together with their relevance for the theorization of institutional change.

THE NEW INSTITUTIONAL TURN

Since the state and, in its wake, a broader range of institutional variables were "brought back" into social analysis, the accounting for social processes has undergone an epistemological transition, at least within the currents that sprang out from this movement. While the behaviorist and neoclassical paradigms operate within the field of methodological individualism, where the primary drives of social action emanate from the individual, NI currents recognize the autonomous causal influence of the context.

Hence, new historical institutionalism (HI) and its rational-choice (RC) counterpart have built their distinctive theoretical identities upon the disclosure of specific constraints ignored by previously dominant paradigms. In the HI perspective, constraints stem from structural properties of institutions, which consolidate over time (Pierson 2004). Institutions have in-

built tendencies toward inertia – the micro- foundations of which have been unraveled primarily by institutional economists – which reduce the range of possible outcomes and account for unintended consequences (i.e., shortfalls) in reform endeavors. But, while the cognitive implications of path-dependence are acknowledged by leading HI proponents (Thelen and Steinmo 1992), the comparative and “macro” process- tracing approach typically used in these studies tends to cast the cognitive aspects of institutionalization as epiphenomenal, if they are surveyed at all (Pierson 1995; Hacker 1998). These theoretical and methodological premises have logical implications for the theorization of change. Systemic factors might jeopardize the structures wherein events had hitherto unfolded. In a view more recently developed, these same institutional structures bestow margins of action which, strategically worked out by agents over time, allow for incremental changes to take place (Mahoney and Thelen 2009). As a result, the institutionally informed, *subjective* experience of change is sidelined. With some notable exceptions (see Hall 1992), the built-in meanings of institutional arrangements and their attendant values have less often been treated as the problem, the site of the “lock”, than other institutional corollaries such as interests and power.

Given their economic filiation, RC institutionalists – many of whom are, in fact, economists – can be expected to pay even less attention to the symbolic elements underlying institutional arrangements and processes. Indeed, Williamson’s (1999) analysis of public bureaucracies focuses on the relative efficiency of different types of governance structures, assessed by their capacity for reducing specific public sector- related transaction costs. Little room is left in this perspective for the consideration of representational phenomena. Douglass North (1990), however, does recognize the impact of “subjective models” upon the agents “economic decisions.” Culture, ideology, and habits, as his argument goes, restrict the actors notions of what is possible and what is better, thus precluding the adoption of more efficient forms of economic organization (North 1990, 22-6). But North (1990, 42) also acknowledges the pains

at which economic theory finds itself when dealing with the ideological determinants of economic behavior. Cognitive constraints are thus introduced into the analytic framework but no positive theory of how they evolve – that is, taking cognitive constraints as the dependent variable – is provided.

The third major current within the field of new institutionalism, the so-called sociological approach, could be expected to fill the gap. Indeed, its stated goal is to explain the uniformity and diffusion of institutional forms conceived as cognitive constructs (DiMaggio and Powell 1991). But the nature of the task calls for a field-level perspective which sidelines the question of how these institutions are built into the cognitive frames of the actors involved, and how these actors' established worldviews and affective dispositions filter and potentially subvert the reception of the institutional framework adopted by a given organization. Indeed, while symbolic forms are central to the sociological variant of new institutionalism, these constitute “preconscious assumptions”, “taken-for-granted” conceptions rather than explicit visions purposefully constructed and diffused by social actors (DiMaggio 1985). It follows that the “rationalized myths” evoked by Meyer and Rowan are, in their own words, “highly institutionalized and thus in some measure beyond the discretion of any individual participant or organization” (Meyer and Rowan 1977, 344).

Hence, symbols are introduced at the expenses of agency. This explains DiMaggio's (1988, 10) criticism that, in the language of most institutional studies, grammatical subjects are often abstract entities without practical purposefulness – as in: “the organization incorporates....” Conversely, Fligstein's (Fligstein 2001) efforts to factor agent-specific attributes, as expressed in his concept of “social skill,” into the analysis of institutional development leads to an approach centered on tactical moves by players who “are prepared to take what the system will give” (Fligstein 2001,113). There again, the symbolic universes motivating the actors are

dismissed, as are the possibilities of understanding far-reaching transformative action.

In a review of the theoretical development of new institutionalism, DiMaggio and Powell (1991) provide a fair explanation for this relative blindness to concrete, actor-carried symbolic meanings. The old model of institutionalization, they claim, based on the “values → socialization → internalization → commitment” sequence, was replaced by a somewhat thinner conceptualization of institutions as “scripts, classifications, rationalizations and impersonal prescriptions” (*ibid*, 140). This reconceptualization has cast light on some mechanisms of institutional evolution while leaving others in the shadows. Echoing Arthur Stinchcombe’s (1997) vindication of “the virtues of old institutionalism”, this paper draws on Selznick (1957) to flush out the “guts” of institutional action, that is, the concrete feelings and representations of those involved in effecting change.

RECASTING CHANGE: THE ROLE OF MEANINGFUL VALUES

In a critique of how institutions have been incorporated into economic analysis, Alejandro Portes (2010) signals the embeddedness of social norms in “deeper” cultural values. Values are, in Selznick’s words ([1957] 1984, 121), “objects of desire”, that is material or immaterial goods pursued for their own sake. By contrast, values also define what is wrong and morally repugnant. As Portes writes:

The importance of values can range, in turn, from fundamental moral imperatives of a society to traditions prized mostly out of custom. In every instance, values point toward a clear continuum between the good and desirable and the bad and abhorrent (Portes 2006, 238).

As a result, values have important affective implications, expressed in individual and collective reactions to what is considered right – e.g., poignant ovations to war heroes – and wrong – e.g., a public outcry in the face of a corruption scandal. A norm can be said to be institutionalized to the extent that it rests on a social value or, correspondingly, to the extent

that the members of a collective feel bound by it, beyond the rational consideration of the sanctions attached to non-compliance. Hence Selznick's famous sentence: "to institutionalize is to infuse with value" (1957, 17).

The idea that norms are embedded in values, which themselves have affective ramifications, is not new; it represents a core tenet of structural-functionalism *a la* Talcott Parsons. In what DiMaggio and Powell (1991) refer to as the classical "socialization" model, the affective dispositions underlying norm-compliance result from the internalization of behavioral models within formative social settings – e.g., the family, the school, the army, etc.

The state is, or can be, one such socializing context. For the proper functioning of modern bureaucracies, as Weber (1978) famously argued, requires its own set of distinctive values: a bureaucratic ethos. Among its constitutive features are technical expertise, professionalism, separation of public and private means, and so on. But these values, as the institutional norms they underpin, are historical products that evolved concurrently over long periods of time (Evans and Rueschemeyer 1985).

Sunat did not undergo this institutionalization process. Instead, the tax administration in Peru followed what might be called an informal path of institutional development. Even though the organizational framework proclaimed basic principles of bureaucratic administration, these were loosely applied, and sometimes blatantly transgressed, in the absence of their attendant social values. In lieu of a bureaucratic ethos self-reinforcing itself over time by means of in-group transmission and customary practice, an informal culture of job-rigging, bribe-taking, rent-seeking and coercive hoarding of public resources had become entrenched in many of the agents "action and perception models." Quite unexpectedly, the reform under study would manage to successfully uproot the latter principles and *build* "bureaucratic" values, as Philip Selznick puts it, *into* the social body of the organization.

THE LOGIC OF SYMBOLIC RECONSTRUCTION

Before delving into the empirical analysis of the mechanics of the value-infusion process, it is worth drawing one of the implications of this hiatus between the formal legal framework and the actual, informal set of norms regulating in practice bureaucratic activities (Portes and Centeno 2006). As the “imported” institutional template was already in place – that is, legally enacted – the enterprise of institution- building overlapped, to a large extent, that of “enforcing the rule of law”. However, inasmuch as it involves reframing the deep moral propensities of a large social body, that enforcement endeavor is by no means a smooth or, worst, a mechanical task.

Another implication, tangential to the central argument of this paper, stems from the entwinement of the political and bureaucratic spheres. This structural trait of Latin American states has been flushed out by Touraine (1988), among others (see O'Donnell 1994). It explains why Geddes's (1994) analysis of building state capacity focuses on the incentives confronting the executive and legislative powers, and pays particular attention to the presidential “dilemma” between patronage politics and state-building. As she points out, a necessary condition for strengthening Latin American bureaucracies resides in their “insulation” from clientelistic pressures stemming from the head of state and other influential political actors. It takes, according to Geddes's model, a strong presidential commitment to neutralize such pressures. The analysis of Sunat's reform confirms the significance of this factor. Some insights on the circumstances underlying Fujimori's commitment are provided below.

But the intensive, disruptive work of reframing institutional values calls for another type of actors and activities. One first step observable in the case under study consists in establishing

criteria for personnel selection that involve non-technical considerations, such as commitment to the reform project, “ethical credentials”, and so on. But a predisposed staff doesn’t make a “committed polity”. The vital thrust must come from a *meaningful account* of the reasons to engage in one’s task and endorse organizational values. That, in Selznick’s work (1957), constitutes one basic function of leadership.

The analysis of Sunat’s experience teaches us about the logic of the driving narrative; it enlightens its intellectual foundations and core tenets as well as the performative tools used by the policy carriers. For a narrative to be effective in reframing and sustaining new institutional values, it must establish a credible link between a general mission and overarching ideals, on the one hand, and the concrete, day-to-day tasks and goals that define each agent’s organizational role, on the other. All these activities – i.e., the construction of such narrative, its grounding on ordinary experience, and its performance as a set of achievable and worth-fighting-for mandates – form what this paper refers to as the symbolic crafting of institutional structures.

In the dramatic social and political context of Peru in the early 1990s, Sunat’s director Manuel Estela succeeded with his team in framing the enterprise of reorganizing the tax administration as a matter of national salvation and a bridge toward economic prosperity. By their statements and actions, the reform’s leading actors managed to enforce the belief that the reform was possible, that public order and social justice were at stake, and that strict compliance to institutional norms was both a value in itself and a necessary step to achieve the reform’s larger goals. A value of public service appears to have emerged in the process as a driving force of administrative work, adding to standard motivations of personal recognition and career ascension, for which the new- found organization provided opportunities theretofore inexistent.

Symbolic reconstruction, however, does not unfold over a blank piece of paper. Any restructuring of existing organizations faces the challenge of turning around established patterns of behavior with their attendant perception schemes and social values: the legacy of informal institutions. Hence, the challenge of leadership is not only to bring in new meanings and values, but to weed out and replace ingrained ones. Key to the reform success in this regard was the thorough reevaluation and investigation procedures undertaken, as well as the rigorous screening of external candidates applied thereafter. Yet these measures would not have been possible to implement, and they would not have yielded the results they did, had they not been bolstered by a powerful narrative at once put forth and, to a large extent, genuinely subscribed to by the leading actors. In short, discontinuous, far-reaching institutional transformations of bureaucratic bodies require symbolic action whereby the legitimating principles of the previous arrangement are repelled in favor of value commitments to the replacing institutions. Without this accompanying movement, reforms are doomed to fail. The more rapidly change is to occur, the more explicit, purposeful, and persuasive symbolic work must be.

THE CASE OF SUNAT

Drawing on a case study of the reform of the Peruvian tax agency (Sunat) in the early 1990s, I argue that the transformation of institutional characteristics derived from a century-long path of informal administrative practice and political interference was made possible by the breakdown of political, economic, and bureaucratic structures. This multi-level crisis at once elicited then-president Alberto Fujimori's interest in undertaking reform and opened an opportunity window for such reform to be enacted.

Yet executive commitment, even when it entails a redrawing of the formal institutional framework and the appointment of efficient technocrats,¹ does not warrant by itself effective administrative revival. Reform legislation still needs to be enforced, and the competent

technocrats, once put in charge, have to deal with a mass of institutional legacies that can easily turn their efforts into dust. In other words, the “sticky” patterns of informal institutions can foil the plans of the most powerful reformers.

As opposed to all previous attempts at reform, however, the reform of Sunat in the early 1990s was conducive to a total revamping of the organization upon a new and surprisingly efficient public management model. Change is reflected in the ratio of collected taxes to GDP (i.e., effective fiscal pressure) which grows for four consecutive years following the launching of the reform in 1991 (Figure1). The dramatic upward turn was further translated into public opinion polls, which casted Sunat’s reform as the third biggest achievement of the Fujimori government (Durand and Thorp 1998, 221). Along with the church and the army, Sunat stood as one of the most trusted public institutions in the country. Last but not least, the culture and climate of the organization underwent a revolutionary transformation: values of abnegated labor and commitment to public service became ingrained features of administrative work. What brought about such fundamental change in an ineffective and informally run organization, overtaken by corruption and powerful mafia-like cliques? And how do the mechanisms of change challenge established theoretical conceptions of institutional evolution?

METHODOLOGY

Fieldwork took place in Lima, where Sunat’s headquarters are located, during the winter of 2009. Twenty in-depth interviews were then conducted. The interviews involved present and former high and middle-ranking public officials who participated in the reform, including three former directors and one vice-director. I also interviewed an historian, an economist, and a former congressman who took part in the voting of the reform laws. In parallel, I conducted documentary analysis on journalistic archives as well as institutional papers,

reports, and public communications of the time. About 150 such documents were reviewed.

The theoretical propositions developed on these grounds face the limitations inherent to single case analysis. However, methodological elaborations on qualitative research support both the design and conclusions of this work. First, Sunat stands out as an extreme example of a least-likely outcome. Many reforms had been launched before to enforce tax collection and raise tax revenues, all consistently failed. By helping to identify the distinctive forces at play in the successful instance, the analysis provides theoretical insights on what makes reform effective in general. The experience further serves the production of knowledge as a nonconforming case (Ragin 2004); its analysis enlightens conditions under which general theoretical predictions of path-dependence and opportunistic behavior do not obtain.

The argument unravels in two broad stages. The first stage is threefold and focuses on theoretical issues. It begins with a brief review of the understanding of institutions and institutional processes from the standpoint of the three main NI currents, then introduces meaningful values as a distinctive and important missing element in this framework, and finally outlines the logic of symbolic reconstruction upon such grounds. The second stage applies these concepts to the analysis of the empirical process of reform in its political, administrative, and symbolic dimensions. Because of this particular single- case, process-tracing design, the theoretical argument is thus conveyed in the form of an analytic narrative. I close with a discussion of the theoretical gains and remaining issues.

THE INSTITUTIONAL LANDSCAPE BEFORE REFORM

Political patronage, based on the clientelistic distribution of public sector jobs during the first administration of Garcia (1985-1990), had bloated the state bureaucracy with a mass of poorly trained and scarcely committed civil servants (Klaren 2004, 467). Under these unpropitious circumstances, the economic crisis that struck Peru toward the end of the 1980s ravaged the

public administration system. As public wages shrunk amidst hyperinflation, corruption ran rampant at all levels of the state, leading to a virtual “collapse of all public services” (Contreras and Cueto 1999, 359; see also Degregori 2000, 28).

Sunat was no exception. In June 1990, according to a See newspaper article, employees staged a strike to protest against the hiring of “hundreds” of people affiliated to the governing party upon mere presentation of their party card.⁴ Another press article indicates that some workers were being investigated for their presumed involvement in a multimillion dollar tax evasion scheme with multinational firms.⁵ More relevant to this analysis was, however, the large-scale, discrete, and routine practices of corruption that, according to various accounts, plagued administrative life. Francisco Durand (2002, 17) has compiled some testimonies of such illicit transactions, like the slippage of banknotes in the folds of administrative paperwork. Another common practice was the unlawful provision of services to private firms by tax auditors, for which they received monetary compensations.⁶

In the middle of this gloomy landscape, one notable exception was the Central Bank of Reserve (BCR) – from which the bulk of the Sunat’s reform team would be drawn – which still held a reputation of technical expertise and professional seriousness. The roots of its distinctive status can be traced to the first half of the 20th century. Antonio Zapata (2000) provides a comparative historical account of the development of the BCR and the tax administration. While the BCR was created in the aftermaths of the Kemmerer mission in 1931, and its independence was enacted in the 1933 constitution, tax collection was executed by a private banking entity, the *Caja de Depósitos y Consignaciones*, until as late as 1966 (Zapata 2000,10). A small administrative unit within the ministry of the economy – then called *Ministerio de Hacienda* – exerted mere oversight functions. Though the responsibilities of the latter were enlarged as the collection of taxes and related administrative functions were centralized and brought under

state command in 1966, tax administration remained under the helm of the ministry of the economy, that is under direct control by the executive, for more than two decades thereafter.

Some consequences follow from these divergent paths that are relevant to the argument of this paper. Drawing on its constitutionally embedded autonomy, the BCR was able to develop an institutional policy of personnel management based on expertise and seniority. In the 1950s, a competitive entrance examination was introduced. As of the 1980s, applicants were high-performing university graduates in economics. To join the bank staff, they had to participate in a three months-long training program held each year during the summer, at the end of which applicants took the entrance test. Only the five best-scoring candidates were hired and given tenure. Using its own funds, the bank would send its employees for Master and PhD training programs to high-standing universities in the United States and Europe.

The contrast is sharp with the tax administration, whose formal autonomy from the all-controlling executive power only obtained after the creation of the *Superintendencia Nacional de Administración Tributaria* (Sunat) by means of law 24892 in June 1988. This was a desperate measure prompted by the Garcia administration to remediate the steady fall in revenues amid straining financial problems. Not only was the new agency overridden by the crisis and unable to enforce its autonomy against the MEF, it lacked a qualified body of bureaucrats committed to the task.

These diverging stories explain the aura of prestige and professionalism that the BCR still held in the midst of the general collapse of the Peruvian state at the beginning of the 1990s decade. For all this, the bank did not stand aloof from the grip of Garcia's administration. Indeed, the hyperinflationary waves were, to a large extent, a consequence of the president's ability to ply the BCR direction board to his policy designs.⁷ Even so, the bank boasted a body of highly competent officials socialized to the exercise of public service, on which Estela would later

tap. Besides, the BCR model inspired the team of Sunat reformers, the majority of whom had been recruited and trained by the bank, to which they frequently referred as their common “school”.

Sunat, in turn, bred a culture of clientelistic relations, rent-seeking practices, graft, and, for those who rejected or resisted corruption, profound despondency.⁸ The values of civil service, given its historical trajectory, had never been institutionalized. To make things worse, some services had fallen prey to mafia-like cliques who used intimidation and coercion in the defense of parochial interests, sometimes going as far as using taxpayer extortion (Durand 1997, 10).

THE CRITICAL JUNCTURE

Between February 1988 and May 1990, the Peruvian economy contracted by 23.4 percent (Weyland 2000, 485). Since 1985, Peru had been declared ineligible for loans from international financial institutions, following President Garcia’s decision to limit debt service to 10% of export revenue. As tax revenue plummeted (see Figure 1) and the state lacked funding sources to fulfill its financial obligations, the government resorted to fiat currency emission. Thus, the economic breakdown was stirred by skyrocketing inflation, which reached unprecedented annual rates of 2,774% in 1989 and 7,335% in 1990. During the four last months of 1988, consumer prices soared by a staggering 14,900% (Sachs and Paredes 1991).

Under these circumstances, increasing tax revenues seemed not only desirable, but vital. A desperate attempt was made to redress the dysfunctional tax administration in June 1988. At the president’s behest, the legislature voted the creation of the (*Superintendencia Nacional de Administración Tributaria* (Sunat), an “autonomous” tax agency with a “patrimony of its own”).⁹ The administration’s prerogatives were restated in a legislative decree issued by the president in December 1988, which specified the organizational structure of the newly created

agency.¹⁰ This measure, however, brought scant practical change into the workings of the tax authority, and the reform attempt withered in the midst of economic turmoil and administrative chaos.

Pressure was thus high on Alberto Fujimori to take up the mantle after his inauguration in July 28th 1990. Peruvian foreign debt was then estimated at more than \$19 billion (Stokes 1997, 221). Furthermore, the new administration's willingness to restore relations with the International Monetary Fund (IMF) imposed a balancing of public sector accounts and providing warrants of future solvency. In fact, the reform in the legal tax system, the rise in tax revenues, and the restructuring of public sector organizations along New Public Management lines were constitutive items of the IMF- sponsored structural adjustment agenda (Teichman 2001). Under these circumstances, Fujimori had both a fiscal urgency and a strategic interest to support the tax administration reform and boost tax revenues. Efficient reform rather than patronage politics – which he later lavishly practiced – was the rational response to Geddes's (1994) "politician's dilemma" at that point.

Manuel Estela, an economist from the central bank of reserve (BCR), was appointed by the president as director of the tax authority in March 1991. According to an insider directly involved in the process, when called upon by the president to command the tax administration reform, Estela raised three conditions: autonomous decision-making, the ability to build a team of collaborators drawn from any public institution, and the authority to turn down demands for favors from congressmen.¹¹ Not only did Fujimori agree to these conditions but, according to Durand and Thorp (1998, 215), Fujimori pledged to get "personally involved" in the enterprise and emphasized his independence from powerful pressure groups whose interests the project was bound to confront (see also Durand 1997, 20).

Under the circumstances, Fujimori's intervention proved far-reaching. On top of the economic

breakdown, the social fabric was torn apart by a war between the state the Maoist guerilla Shining Path. During the twenty-one months that followed Fujimori's inauguration, 1214 terrorist attacks took place, killing more than 2000 people (Bowen, 2000, 100). Sunat itself fell victim to two terrorist attacks during the reform implementation: a rocket aimed at the director's office and a parcel bomb set at the basement of Sunat's new headquarters in March 1992. John Crabtree described the social atmosphere of the time as "a psychosis of insecurity which undermined the credibility [of formal democratic institutions]" (Crabtree 1998, 17).

This scenario fits, in a dramatic way, the type of crisis situations instrumental to the adoption of far-reaching reform legislation, for it creates a sense of fear and urgency that weakens institutional resistance to, and bolsters popular support for, bold initiatives on the part of the executive (Keeler 1993). In Peru, normal legislative procedures were initially pressed, then disrupted. Both under Garcia and under Fujimori, congress granted the executive power special legislative prerogatives. On behalf of such powers, Fujimori issued what were dubbed "waves" (*oleadas*) of legislative decrees (DL), by which he implemented, in a stark contradiction to his campaign promises, the drastic structural adjustment program popularly referred to as *fujishock*. (Degregori 2000).

Some of these decrees directly concerned the implementation of the tax administration reform. A landmark text was DL 639, issued on May 16th 1991. This decree announced the launching of the "reorganization" process and laid the legal basis for a thorough reevaluation of the personnel. By the same token, it empowered the new administration to investigate evidence of corruption and dismiss any civil servants displaying "ostensible" signs of having engaged in illicit transactions.¹² Four months later, DL 673 granted Sunat a special legal framework for personnel management modeled after private sector regulations.¹³

In the political arena, the disruptive trend reached its peak in the *autogolpe* ("self- coup") of

April 5th 1992, when Fujimori, backed by the chairman of the Joint Chiefs of Staff, suspended the constitution and ordered the shutdown of both legislative houses. From then on, Fujimori governed pretty much single-handedly, with the constituent congress elected in October 1992 serving as a mere rubber stamp (Kay 1996, 82).

In a view echoed by other reform actors, a member of Estela's team and director of human resources claims that, during the time Sunat still enjoyed presidential protection, the coup "made things easier" since the adoption of tax legislation no longer required political bargaining.¹⁴ Critical tax policy measures were adopted during this period, like the compulsory use of customer receipts (*comprobantes de pago*), the creation of a centralized taxpayer identification system, the enactment of a tax code (*código tributario*), and the drastic simplification of the tax system, which brought the number of taxes from more than 200 to six.*

Presidential support proved crucial for the reform in yet another way. In a regime where mediating and representative political institutions such as parties or congress fell into popular discredit and political ineffectiveness, public polls and electoral results became the fulcrum of a highly personalistic form of political authority (Degregori 2000; Kay 1996; Weyland 2000). In the first years of his presidency, Fujimori enjoyed, on average, high approval rates, which oscillated between 58 and 80 percent from late 1992 to mid- 1996 (Weyland 2000, 484). A share of his crisis-derived political capital was invested in Sunat in the form of presidential appearances at spectacular events such as the *operativos de fiscalización* (tax campaign operation) conducted by the tax agency at informal marketplaces.¹⁶ In another occasion, the president attended in person a press conference where Sunat announced a crackdown on big tax evadors and praised in his speech the "extraordinary and relentless (*tesonero*)" labor of Estela and his team.¹⁷ Fujimori also made use of his authority behind the scenes, intervening

to curb attempts by one of his ministers to undermine the prerogatives of the autonomous tax agency by limiting its financial resources in a draft of the 1992 budget law.¹⁸ Hence, the socioeconomic crisis created an opportunity within the political system for the adoption of far-reaching institutional reforms while stressing the urgency of an overhaul in the structure and administration of taxes.

THE IMPLEMENTATION PROCESS

It takes more than a strong presidential commitment to reverse the result of a century-long history of political interference and informal institutionalization. Reversing the state of affairs brushed out earlier in this paper required substantial changes at various organizational levels. Indeed, the reform legislation adopted under presidential auspices needed to be translated into administrative practice; the culture of informal transactions had to be uprooted; and commitment to the new institutional project had to be kindled and kept alive. The first two steps involved a series of administrative measures which redrew the rules of the game – and, in fact, replaced a substantial portion of the players. Enforcement of these measures, however, proved a highly conflictual process which opposed the reform task-force to established organizational constituencies.

The team assembled by Estela comprised, at the outset, eighteen expert collaborators, mostly economists and public administrators. Most of them had civil service backgrounds. As the majority of them came from the BCR, the group was usually referred to as “the team from the BCR.” Few, with the exception of Luis Arias, an economist with an MA from the London School of Economics who was appointed vice-director of Sunat by Estela, had expertise in taxes.¹⁹

The decrees issued under the Garcia administration, though barely implemented, had laid the formal organizational framework upon which reformers would build. However, the DL 639, whose draft was written by members the reform team itself, later asserted the founding values of the institutional project: “a solid and permanent institution, in which the exercise of civil service should be technically and morally exemplary”.²⁰ By the same token, it laid down the legal framework to undertake a thorough personnel examination and selection.

On the eve of the reform, Sunat had 3025 employees, two thirds of which were technicians and clerical workers (*técnicos*) and one third of which were professionals (*profesionales*). Those believed to hold valuable in-house expertise were individually targeted and persuaded to remain in the organization.²¹ Then, except for a few *cargos de confianza* – positions “of trust” where the director could personally appoint collaborators – all offices were made vacant and the selection process was launched anew. Sunat employees were free to apply for the position of their choice. Those who refused to undergo the selection process were given the alternative of “voluntary resignation” under a special incentives program. A ten days period was accorded to the workers to make their decision.

The plan came close to failing. Two days before the deadline, workers remained expectant while unions called for boycott. In the end, contingent incentives (i.e. a fifty dollar bonus for those who took the test), extensive dialogue between reformers and employees, and, according to one testimony, the appraisal of the reformers’ moral determination, spurred cooperation in snowball.

Incumbents to each position were then selected through a scrutiny of the candidate’s professional, technical, and “ethical” credentials. A multilevel test, which probed technical knowledge as well as psychosocial characteristics, was applied to all postulants. Though the official version of a “test of ethics” was dismissed by key informants as a cover story, a

whistle-blowing mechanism was used to pinpoint corrupt or ethically dubious agents.

In addition, probes were conducted at the migration and property register offices: individuals discovered to own goods or lead lifestyles out of proportion with their official income (e.g., making oversea trips) were dismissed and forbidden from reentering Sunat under any circumstance, in application of DL 639.

In the end, only 991 out of the more than three thousand employees were retained, and the ratio of professionals to clerical/technicians occupations was reversed. Around 2.3 million dollars were distributed in the form of incentives and compensations. Drawing on DL 673, bonuses were introduced and wages were raised to “competitive” levels. Salaries increased from an average of \$50 in 1990 to \$600 in 1991 and to almost 1000\$ in 1992.

After the reevaluation process, however, more hands (and brains) were needed. A new and quite peculiar policy for external recruitment was designed. One of its crafters recalls to have asked himself the question: “Where are those fools (*sonsos*) who believe they can change the world?”²² Only bachelors under 28 from three elite universities in Lima were admitted to take the entrance test. Applicants who passed the test underwent extensive interviews in which executive officials were frequently sitting among the jury. What they were looking for was “potential and attitude to undertake the project”.²³

Those recruited would attend a compulsory five-weeks training program (the *Curso de Administración Tributaria*) and remain on probation for six months. Another peculiarity of the new organizational blueprint were the seminars of “ethical strengthening” all employees were required to follow; 900 such seminars took place in 1993 and 850 in 1994 (Cortázar 1995, 17).

An aggressive campaign to expand the tax basis, both geographically and across socioeconomic categories, fueled the quest for more talented and committed professionals. In

fact, Sunat became an attraction pole for ambitious young graduates given its dynamism, career opportunities, appealing salaries, and positive public image.²⁴ Yet selection criteria were not relaxed. Out of 9,340 job candidates in 1993, only 341 were hired, all of which underwent the examination and training processes described above.²⁵

The theoretical framework guiding this recruitment policy was laid out by Juan Carlos Cortázar, a human resources expert who participated in the reform as a foreign advisor. In a paper presented in Lima in 1995, Cortázar (1995) points out the two major problems a tax administration reform must address: political interference and corruption. In response to the first, the author stresses the need to found the bureaucratic apparatus on the “competences, aptitudes, and technical efficiency of the functionaries” (Cortázar 1995, 15). However, to tackle the “irreducible exposure” of administrative agents to bribery solicitations and embezzlement opportunities, Cortázar underscores the need to double the search for expertise with an assessment and assertion of moral values. Both dimensions form the inseparable ingredients of what he calls an “integral strategy”. The stress on “moral probity” echoes the writings of Estela himself as well as other participants’ feelings. Luis Francia, one of Estela’s collaborators, defined the initial evaluation steps as a quest for people “who had not fallen in the bed of corruption”.²⁶

Cortázar’s analysis goes one step further as it characterizes the situation of the pre-reform tax agency as one in which the stated values and norms of the organization had become “purely formal” (1995, 3), that is, in terms of our analytic vocabulary, a situation in which the affective link to the official normative framework was absent or broken. As argued earlier, this situation results from an erratic or “deviant” – in that it departs from the official organizational doctrine – path of institutionalization, one in which a culture of private gain becomes entrenched in the actors’ worldviews and value schedules at the expenses of the official bureaucratic ethos.

Replacing these values is a challenging task, one that can be performed neither by a

presidential decree – as it is sometimes expected – nor by the painstaking screening and selection of the personnel alone. In fact, the faithful and thorough implementation of this program necessitated, confronted as it were by powerful interest groups and even terrorist boycott attempts, a strong value commitment to the institutional project. The latter must be elicited, spread out, and sustained, for the project to come through.

FRAMES AND VALUES: THE REFORM AS A NATION-BUILDING ENTERPRISE

One fact on which virtually all accounts of the experience concur was the emergence of a special workplace atmosphere, a form of collective movement referred to by participants as “*una mística*” (a mystique). An observable implication of this “mystique” was the exceptional amount of energy invested in the project: Working hours extended far beyond contractual obligations, overnight and week-end stays at the office were not uncommon, and taking holiday leaves was badly regarded by colleagues.²⁷ A full account of this subjective movement lies beyond the reach of this study but the leadership role played by Estela and his team, as well as their ability to meaningfully frame bureaucratic activity and infuse it with value, finds support from the data.

The nomination of Manuel Estela to the reforming task was not casual. Estela was a former seminarian with a graduate education in economics from an elite British university. He was described in interviews as “special” or even “weird”, and various informants attributed his peculiarity to his “theological” or “spiritual formation”.

I argue in what follows that Estela and his team successfully carried out the construction and performance – in the sense of making real by acting out – of a narrative about the meaning of the reform that rallied Sunat workers around the project and bolstered their commitment to new forms of conduct. The performance of this narrative, in other words, had institution-building effects: it instilled value to new ways of doing, thinking, and responding (Selznick,

1957, 63).

In recent developments, new institutionalism has acknowledged the function of “framing” as a constitutive part of institutional entrepreneurship. Still, this function is itself framed in strategic or instrumental terms. As Battilana et al. describe it:

This effort implies theorizing the institutional project in a way that resonates with the interests, values, and problems of potential allies (Battilana et al. 2009, 80).

In Sunat, the approach was more radical. Reformers explicitly asserted a rupture with the past and, rather than justifying the enterprise in terms of the interests of established constituencies, redefined the stakes altogether, in opposition to dominant organizational stakeholders.

Inquired on the drives of his abnegated investment in the project, one member of the “BCR team” points to Estela’s mastery of magic “*palabritas*” (little words).²⁸ Indeed, various expressions attributed to the leader, like the metaphor that achieving the reform was akin to “crossing a river” or that, in spite of discouraging antecedents, this reform would succeed because “planets [were] aligned”, were borrowed by other agents to frame their own recounts of the experience. Quite literally in these examples, leadership provides meaning.

In line with a popular “epic” cliché, the leader embodied a righteous and austere figure. From the outset of Estela’s administration, a “Decalogue” was published which stated the norms of organizational life, alcohol was banned from any kind of institutional celebration, and auditors were forbidden from accepting the slightest gift from taxpayers, including, in one account, a “glass of water”.²⁹ One official points to Estela’s personal sacrifices, another typical trait of epic leadership:

To see that your leader kills himself for the institution, to see that he provides you with comfort, to see that he gives a much better pay, to see that he gives you a better treatment to human resources with high quality training... I’d kill for that institution. (Interview with Jorge Napurí, senior Sunat official, Lima, January 30th 2009, *personal translation*)

The leader status was constructed and asserted in daily acts, such as the return of personal gifts from private actors “under everyone’s eye”, but also, as fits the epic type, in dramatic episodes. After the bomb exploded in March 1992 at Sunat’s headquarters, Paulino Barragán, a senior employee, recounts:

The leader appears immediately in TV and says: “ladies and gentlemen, what just happened has only reinforced our conviction that we are on the right track. [As the tax administration gets to work], there will not be more such attacks because we will be able to satisfy the people’s hunger, its basic needs, etcetera.” (Interview, Lima, January 29th 2009, *personal translation*)

Paulino then recalls a sentence pronounced by Estela in this occasion: “Because I will not respond to bullets with bullets, but with work”, and concludes: “that reinforced our convictions of service to the nation”. One trait, above all, seems to define Estela’s distinctive position as a leader: « *el hombre habla y se cumple* » (what the man says gets done).³⁰ This contrasted with the empty promises with which Sunat workers, and the Peruvian public in general, were so familiar when it came to changing things. Indeed, Estela became a popular public figure.

Thus, the projection of Estela as an exceptional personality, at once austere and stoical, appears to have been instrumental in his reframing of the stakes in the reform. These stakes can be captured by analyzing other statements from the actors involved, including Estela himself. They define the thematic axes of the performing narrative.

To begin with, interviewees express a clear notion of the link between the administration of taxes and the financial problems facing the country at that time. Paulino Barragán recalls how, in those days, civil servants were paid with sheer “paper” because of the complete lack of “liquidities” in the state coffers.³¹ Another actor points to the state incapacity, under the circumstances, to simply honor its payroll.

This consciousness of the financial implications of tax collection stemmed to a large extent

from the educational and professional background of participants. One distinctive achievement of the reform's leadership, however, was to bring the stakes higher. The aim was not only to "modernize" tax administration or to raise tax revenue but, in the words of Manuel Estela, to "build a nation" (*construir país*). The patriotic element pervades Estela's writings – even the most "technical" ones – and, indeed, resonates in testimonies of other actors involved. In a specialized magazine article, where he reviews the key factors of Sunat's initial success, Estela (2000, 39) points out the "sharing of a transcendental sense attributed to the levy of taxes: each [employee] from his position and by his daily activity felt he was contributing to the construction of a hope for Peru. A young human resources manager who joined Sunat in the mid-1990s echoes this claim when she says: "A lot was expected from you. The nation drove you (*el país te movía*)".³²

Following the typical logic of nationalistic narratives, Estela also defines in his writings the "enemies" of the nation. These also happen to be powerful opponents to Sunat's project. In an essay book titled *El Perú y la Sunat*, Estela rails against the "pseudo-liberals", those members of the economic elite who, camped behind free-market rhetoric, plunder the resources of the state and the nation. The beginning of the book evokes the story of the famous hacienda *La Brea y Pariñas*, which was sold for a pittance to a foreign oil company at the beginning of the 20th century. A parallel is thus suggested with the action of powerful business groups who attempted to – and, although it lies beyond the temporal framework of this study, ultimately achieved to – curb the reformers' efforts to enhance the autonomy and effectiveness of the tax authority.³³ Both cases, in the author's view, illustrate the lack of commitment to *national interests* on the part of –"pseudo-liberal" – economic elites (Estela 2000, 39).

This incursion in matters of political economy is not casual; it expresses another ideal at the core of the narrative driving the reform endeavor, namely the overcoming of socioeconomic

inequalities. Indeed, Estela points out two “obstacles to sustained growth and welfare” in Peru: a “chronic fiscal fragility [imbalance]” and an “improvised state” (Estela 2000, 39). As another quote makes clear, the reform was meant to tackle both:

Only a neutral and fair fiscal system can permit to finance in a salutary manner the redistributive policies that will permit to draw from their condition of marginality and poverty those 50% of the population barred from the benefits of the market. (*ibid.*, *personal translation*)

These claims, too, find echoes in statements by other actors engaged in the reform under his leadership. Luis Francia, a former employee of the *Banco de la Nación* recruited by Estela, makes this point:

...It was a commitment with the country. We worked to raise tax income with an exclusive goal. That exclusive goal was to step out of underdevelopment or, in more concrete terms, to solve the problem of poverty. (interview with Luis Francia, Lima, February 2009)

Of course, these “meanings” did not infuse each actor’s view in the same terms and with the same intensity. Some interviewees put forth more individualistic reasons to get involved in the project, like a lust for challenge or promotion opportunities. Even then, however, a “disposition for public service” had a part in the decision.³⁴

In short, through their discourse and actions, Estela and his team framed the reform endeavor as a nation-building enterprise. The level of collective investment it spurred among the actors suggests that, whatever other motivations individual agents might have had to engage in the project, its definition in terms of the nation-building narrative did “catch”. In fact, Sunat made itself a reputation of rigorous law-enforcement, both within the organization and outside.

DISCUSSION

To the extent that norms were complied with for their own sake or because they were perceived as necessary to accomplish a broader project, as this time-backward probe into the subjective

aspects of the experience suggests they were, then the value-infusing function of leadership, which lies at the core of its “institution-building” potential, can be said to have been achieved.

The critical significance of this factor is highlighted by the overall account of the conditions under which the reform unfolded. If the reform has been cast as the outcome of the convergence of an array of circumstances, I have argued that each of the concurring processes fits into a general model of institutional change in a context where practices like patronage, pilfering and other forms of corruption have been informally institutionalized.

The criticism could be raised that the personal role of Estela and that of his team has been overstated because of the social and hierarchical proximity of the majority of the informants to the leader. A survey of Sunat’s rank-and-file would have delivered a different picture. In fact, Fransisco Durand, the social scientist who has written the most about the reform and a former participant in it, points to the “cohesiveness and skills of [the] policy team” as *the* critical factor in assuring a positive outcome (Durand 1997, 3). He, too, was close to Estela and the team. Still, I hope to have shown that the “big idea” of the administrative reform entailing a societal transformation was “there”, that it was credibly embodied by the leader, and that it influenced other actors’ commitment to the task.

Second, and finally, a caveat must be raised. For reasons it was not possible to establish conclusively, Estela resigned from office in November 1992. Though the upward trend in tax collection continued for another two years or so, starting in the mid-1994 the internal atmosphere deteriorated. Concurrently, as the Fujimori regime grew more authoritarian and corrupt, special interests within the state began to thwart Sunat’s autonomy. Later, during the second half of the 1990s decade, agents within Sunat would fall prey to the clutches of Vladimiro Montesinos, the nefarious “security advisor” of Fujimori who pulled the wires of much of the state apparatus by means of extortion, corruption, and crime. In relation with these

developments, Sunat acquired the self-explanatory sobriquet of “Gestapo”. These aftermaths suggest that if, as this paper claims, successful institutional reforms necessitate the intervention of an actor – most likely a collective one – who bestows meaning to the new institutional arrangement and, by doing so, infuses it with value, the institutionalization of these values in the long-run is a different task, the conditions of which are still to be established.

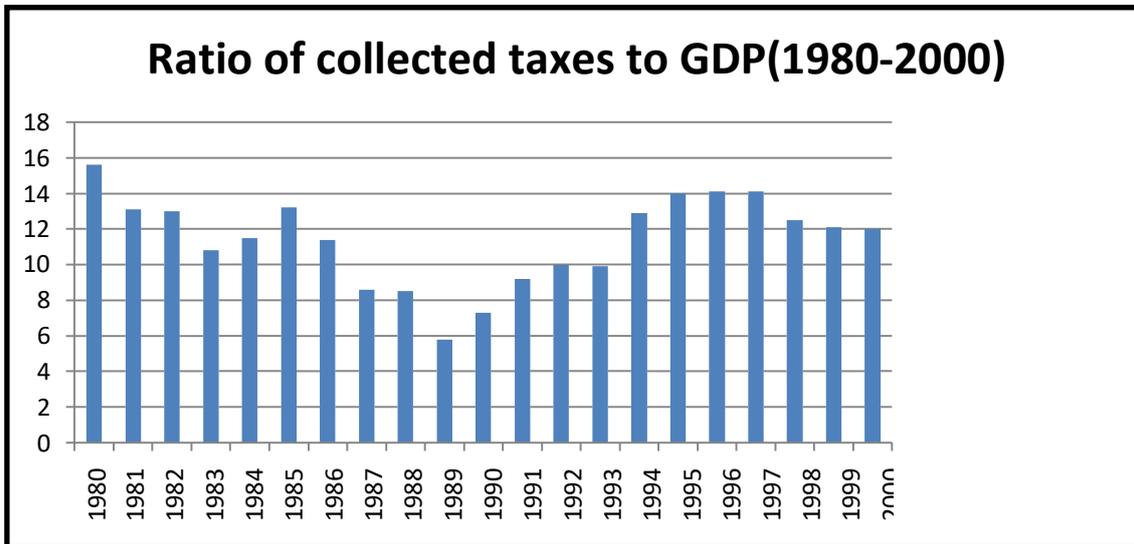
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FIGURE 1



Source: Personal elaboration based on data from Sunat.