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The Other Taxation: An Ethnographic Account of "Off-the-Books" State Financing

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This article contends that previous research has failed to consider resources that are systematically collected by way of informal taxation and channeled to support the provision of public services. Drawing on extensive ethnographic fieldwork in the markets for stolen auto parts and counterfeit clothing in Greater Buenos Aires, this article describes how state agencies informally tax these economies, and "follows the money" extracted. While a portion of these resources does end up in private pockets, the article shows that a greater share of the resources are directed toward enhancing state performance: welfare programs, everyday police duties, and political activities. An analysis of informal state financing schemes helps us to understand a state's true capacities and its structural transformation over time.

En el presente artículo se sostiene que hasta el momento la literatura académica no ha considerado aquellos recursos que son recolectados de manera sistemática a través de sistemas impositivos informales y que son utilizados para proveer servicios públicos. Este artículo, basado en un extenso trabajo etnográfico en los mercados de autopartes provenientes del robo de automotores y de vestimenta falsificada en el Gran Buenos Aires, describe cómo agencias estatales introducen un impuesto informal en estas economías, y "sigue la ruta del dinero" extraído. Mientras que una porción de estos recursos termina ilegalmente en manos privadas, el artículo muestra que una gran porción de dichos recursos es utilizada para mejorar ciertas prestaciones estatales: programas sociales, tareas policiales de rutina y actividades políticas. El análisis de las formas de financiamiento informal del estado permite una mejor comprensión de las capacidades reales del mismo, así como de su transformación estructural a lo largo del tiempo.

Introduction

If current studies on taxation and state capacity share anything, it is the assumption that state presence in society is the consequence of (legally) extracted revenues. They all acknowledge the fact that, over the last few centuries, capital has become the most prominent resource for supporting state capacity, and taxation the most obvious process for its extraction.

Scholars have established comprehensive knowledge of "the driving forces of the fate of nations," as Joseph Schumpeter (1918) referred to fiscal matters. The varied ways social sciences have dissected taxation range from accounts on the origins and modernization of tax infrastructures as a response to threats (Tilly 1985; Brewer 1990), to perspectives of revenue raising as a collective action problem (Levi 1988; Timmons 2005), including analysis of the role played by democratic institutions (Steinmo 1993; Cheibub 1998; Boix 2001). The relationship between states' ability to raise taxes and their capacity to meet people's needs, deliver security, and stimulate economic development has also been central in analyses of state-building in developing countries (Brautigam, Fjeldstad, and Moore 2008; Moore 2004; Di John 2010) and of the state's infrastructural power (Mann 1984; Soifer 2008). Researchers have also studied whether the threat of war, the cornerstone of state-building processes in Europe, serves equally as an explanation in other latitudes. In Latin America, Miguel Centeno (1997, 28) asserts, "whether through loans or through the sale of commodity, the ... state escaped the need to force itself on society," a situation that led to the state lacking capacity. In a similar fashion, Jeffrey Herbst (2000) argues that weak state institutions in Africa are explained by the

lack of threats in the vein of those that fostered state consolidation in Europe. Taken together, we have solid knowledge that taxation furnishes the state with fungible resources and that these resources “make possible not just one state action, but most if not all of the state’s activities” (Martin, Mehrotra, and Prasad 2009, 4).

This article casts doubt on the legality bias in accounts of states’ resource extraction. With the exceptions noted herein, I contend that previous research has failed to consider the role played by informal rules aimed at the collection of resources which are reintroduced into state structures. Put differently, as the empirical evidence here will show, this article introduces a previously overlooked possibility: that ordinary state performance is also financed by resources captured both illegally and regularly. While this perspective does not deny that a portion of these resources does end up in private pockets, it emphasizes the fact that these resources are overwhelmingly channeled toward enhancing state performance.

Drawing on two ethnographic research projects, one focused on the market for stolen vehicles and spare parts in Greater Buenos Aires and the other on the market for counterfeit and irregularly produced garments in the same area, this article shows that monies systematically extracted from illegal markets by state agents end up financing welfare programs, political campaigns, and everyday police activity. Thus by paying attention to “less official state actions” (Auyero and Jensen 2015, 361), I provide ethnographic evidence of deep-rooted, informal money-collection structures whose workings clearly resemble taxation systems.¹ These informal institutions, which bring politicians, brokers, police officers, business people, and criminals together, enable the extraction of resources and, paradoxically, the provision of public services or the establishing of political stability. Although this article is focused on the extraction of resources for the provision of these services, this should be seen as complementary to the flows of resources allocated with the aim of winning loyalty and strengthening patronage networks. In this way, by uncovering a phenomenon that is not divorced from events of corruption but certainly goes beyond current understandings of it (Rose-Ackerman 1978; Della Porta and Vannucci 1999), this article contributes to the literature on the state and fiscal sociology. Overall, by way of empirical demonstration, this article illuminates the unexplored field of “off the books” state revenues and offers a new lens for observing ordinary state performance.

On Illegal Markets, the State and Extraction Off the Books

Ethnographic research has only recently started to “follow the money” and identify the routes connecting illegal economies, state agencies, and their capacity to provide goods and services. By tracing the flows of economic resources, a key fact has been unveiled—namely, that in some specific cases most bribe money is not used to benefit individual officials but to further collective interests, something Alan Smart (1999, 114) observed some years ago. Recently, Sarah Milne (2015, 214) observed that construction of a Chinese-backed hydropower dam in Cambodia required vegetation to be cleared, which led to illegal timber extraction on a massive scale. Park rangers, officially appointed authorities in the 4,179 hectares of conservation area, imposed an informal tax on every rosewood truck and independent logger and channeled the collected money upward. The final destination of the majority of these economic resources was not, as may be expected, private pockets, but rather the financing of public functions: funding for the armed forces and civil servants, the construction of office buildings, and other construction projects for roads, schools, and wells, among others. A similar constellation is described by Phuc Xuan To (2015, 244) in Vietnam: monies stemming from illegal logging end up supporting various village-based groups such as farmers’ and women’s organizations, and are used to cover the costs of disseminating information about government policies on crime control, cultivation techniques, and health care. A disaggregated perspective of the state, one that takes the peripheries and the local level into account, shows how political stability and the production of social order means blurred and moving boundaries between state and society (Migdal, Kohli, and Shue 1994, 3). In addition, they show that what is usually referred to as the capacity or presence of the state can be the result of illegal economic activities whose informal taxation is not captured in formal measurements of state revenue.

Informal regimes of resource extraction are dependent on legal stipulations and on how state agents manipulate them. As Milne’s (2015) and To’s (2015) ethnographic studies show, it is not the absence of official regulations but their constant production alongside the invention of new criminalization schemes

¹ It is worth emphasizing that the “taxes” I allude to in this article are not collected in accordance with legally sanctioned rules. However, the similarities are revealing. The current informal system for collecting money at the illegal garment market La Salada is the result of an intervention-resistance-repression-bargaining process (Tilly 2009, 180) between Buenos Aires police forces and the Bolivian community. The regular and compulsory character of the payments, as well as the final use of this money, certainly parallels a “taxation system.” Throughout this article I use interchangeably the terms “informal taxation system,” “informal regimes of extraction,” and “informal money-collection system.”

that make room for engineering and lead to novel formats of extraction. In general, formal prohibitions referring to the exchange of goods and services can be manipulated in order to extract regular “taxation,” that is, sources of additional off-the-books resources (Dewey 2012). Meanwhile, legalization—the attempt to make informal regimes of extraction transparent and accountable—is confronted with several obstacles. Boris Verbrugge (2015, 190) reveals that “tax compliance” in the context of illegal mining camps in the Philippines hinges on a mix of coercion and, most importantly, social acceptance. Legalization would provoke a shortage of basic material resources that support networks of intermediaries and brokers, crucial actors in the management of social expectations and exchanges (Auyero 2001) and usually guarantors of political stability. Thus, due to the manifold ways illegal activities are interwoven with state institutions and power structures, and the fact that their interests depend on existing regulations, it is extremely difficult to legalize informal taxation structures.

Informal regimes of resource extraction are closely associated with what is usually referred to as corruption. In fact, both phenomena tend to coexist and are very much intertwined in real-life settings. From the perspective of the structure of exchanges, there is no significant variation between “informal taxation” and corruption, both being composed of triads.² In addition, in both cases a “contract,” a key feature in most definitions of corruption (Rose-Ackerman 1978, 2007; Della Porta and Vannucci 1999; Gambetta 2002; Johnston 1997; Philp 2015) is broken. Corruption, and in principle also informal taxation, suggests a subversion of the structure and order of politics, a damaging of the functioning of the state, and a weakening of economic development. However, one crucial feature sets corruption and informal taxation apart: the observed final destination of the collected resources. If resources are reintroduced into state structures and made available to the wider public, as this article contends, the crucial difference is that informal taxation means renewing, or reformulating, the contract that was broken.³ This seems to be clear when, as some studies have already shown, captured resources are used for the construction of schools or roads, or, as my evidence demonstrates, to fund welfare programs. Accordingly, this “renewal” of the social contract, which simply means meeting individuals’ expectations concerning the provision of certain services, tends to produce what corruption cannot: effects that legitimize authorities. In this regard, the phenomenon of informal taxation and the emerging legitimacy of extralegal actors seem closely connected with research on fragmented sovereignties (Davis 2010; Leeds 1996; Clunan and Trinkunas 2010; Stephenson 2016; Dewey, Míguez, and Sain 2017) and the role played by illegal economies, especially in postwar societies (Engwicht 2016). In these cases, extralegal actors, almost always in control of the state-society interface through corruption, establish rules and political control over economic resources and concrete sectors of society.

Legal architectures provide additional leeway for generating the rewards that lead legal and extralegal actors to form alliances. As Jacqui Baker and Milne (2015, 161) observe: “By starving the state of formal revenues and weakening fiscal institutions, rulers and regimes legitimate other means and mechanisms for generating monies.” Thus, by disregarding public tenders, weakening fiscal regulations, relaxing regulatory frameworks for controlling money laundering, creating legal gaps, or limiting official budgets, among other tactics, state actors intentionally degrade the fiscal power of the state and stimulate dependence on other kinds of revenues. In Argentina, this is the case for the Buenos Aires Province Police Force (Policía de la Provincia de Buenos Aires), whose budget is structured to take *cajas policiales* (illegal sources of money) into account (Sain 2008).

This powerful instrumentalism of regulations (Baker and Milne 2015), the ability to forge informal alliances, and the capacity to provide goods or services in a more or less effective way unquestionably blur the lines of what is commonly referred to as a “weak” or “absent” state. A state’s active participation in these informal regimes of extraction is closer to Béatrice Hibou’s (2004) observation that privatization processes in Africa are part of “the continuous process of state formation” (see also Bayart, Ellis, and Hibou 1999) than to Guillermo O’Donnell’s (1993) brown areas, in which the presence of the state is both functionally and territorially low. Additionally, as Richard Snyder (2006) points out, violence is not always correlated to the extraction of “lootable wealth”—gems, illicit timber, or drugs. Political stability and social order count

² In the situations depicted in this article we find an (off-the-books) tax collector, superiors who endorse the informal taxation and citizens who pay to evade the enforcement of the law. Established definitions of corruption also point to a triad: an agent (the corrupted), a principal (a person, an organization, or the citizenry), and a third party who offers a bribe to the agent. The idea that corruption implies the violation of an already established contract among these parties and that “there is a sense of the unity and cohesiveness of the political order being harmed or destroyed by malign influences” (Philp 2015, 20) underlies most common understandings of corruption.

³ The financing of political campaigns and parties is a contentious case that would only partially confirm the argument presented in this article.

also as outcomes of specific modes of extracting resources set up by power holders. In the Latin American context, several scholars (Arias 2006; Arias and Barnes 2016; Auyero 2007; Auyero and Berti 2015) have emphatically contradicted the idea of a weak or absent state, and Marcelo Sain (2013) has successfully demonstrated the ability of police forces to *regulate* crime (see also Flores Pérez 2013). Subsequent studies have analyzed the relationship between state and nonstate actors as the sale of protection: state agents sell the nonenforcement of the law as a commodity to entrepreneurs active in illegal economies. In this exchange, while the enforcement of the law is neutralized, the formal law is very much needed (Dewey 2017). In other words, without the law the sale of a temporary and de facto suspension of law enforcement is impossible. This mechanism, as I will show, makes room for informal regulation and takes the form of illegal systems of money collection.

The presence of informal fiscal arrangements that emerge under certain historical, political, and economic circumstances suggests a view of the state that escapes description in terms of weak versus strong, or absent versus present. Providing particular goods or services using ill-gotten resources shows, as Joel Migdal (1994) notes, the transformation and changing goals of the various state institutions, especially when they come into contact with social groups and need to accommodate different moral orders. Thus, instead of a zero-sum conflict of power between state and social actors, the systematic extraction of resources by illegal means that end up supporting the state shows a mutual empowering process (Migdal, Kohli, and Shue 1994). The highly intricate forms these relationships might take has been exemplified by Elizabeth Leeds (1996) in her study on the cocaine economy and politics in Brazil. As she noted, basing the analysis on Charles Tilly's (1985) notion of protection, the convergence of distrust on public authorities, the emergence of powerful armed groups, and the intervention of highly corrupt and violent police forces might lead to social formations in which extralegal groups come to fulfill state functions. Leeds's case study indicates an extreme constellation: one of autonomized power in which extralegal, state-like organizations extract revenues and provide welfare services to a segment of the population.

Data and Methods

The evidence presented in this article is the outcome of two different research projects. The fieldwork on the theft of vehicles and resale of auto parts in Buenos Aires was conducted between December 2009 and January 2010, and then again between April and July 2010. The main sources of information were interviews and official documents provided by the Buenos Aires Province Police Force (Policía de la Provincia de Buenos Aires). The documentary evidence is of two sorts: First, I had access to a considerable number of summary administrative investigations (*investigaciones sumariales administrativas*), preparatory penal investigations (*investigaciones penales preparatorias*), and memoranda. This evidence was provided by Asuntos Internos, a division of the Ministry of Security for the Province of Buenos Aires (Ministerio de Seguridad de la Provincia de Buenos Aires). Second, the National Directorate for the Control of Auto Dismantlers and Auto Parts (Dirección Nacional de Fiscalización de Desarmaderos y Autopartes, DNFDA) granted me access to documentation relating to legal proceedings against leaders of "chop shop" rings. Additionally, I interviewed several key actors with leading roles in reforming the police, working within intelligence units, and enforcing rules within the police force.

The ethnographic fieldwork for the market for counterfeit clothing was conducted in 2013 in La Salada, a marketplace close to the City of Buenos Aires. For seven months I worked in a nearby neighborhood as a field hockey teacher for an NGO. In this period, I established contact with many residents, most of them informal workers with various jobs in the marketplace, and also with a microcredit institution, which gave me access to the producers and stallholders who had taken loans. Through these contacts, I met a Bolivian family who owned and ran a market stall. I spent a great deal of time working alongside these actors; coupled with extensive visits to the marketplace itself, I was able to make the detailed ethnographic notes upon which the case study in this article is based.

A more detailed understanding of the workings of what I call an "informal taxation system" in La Salada was achieved with the help of 109 in-depth interviews with market actors. The description of the workings of the informal taxation system is supported by two specific types of data: the accurate number of stalls and the different sums of the fees paid. Further interviews meant establishing the links between this "tax structure" and governmental agencies. Here, the interviewees were high-ranking actors in key positions: a former principal commandant of the Argentine National Gendarmerie, two local politicians working for the local government, four market managers (three current, one former), an informal fee collector, the CEO of one of the biggest textile companies in the country, and the former advisor to a previous secretary

of commerce. Where permission was granted, interviews were recorded; otherwise, the discussions were recorded afterward in writing. All names used in this article has been anonymized.

In order to study power structures, and in the reconstruction of “clandestine connections” (Auyero and Joseph 2007, 5; Kubik 2009, 31), ethnographic fieldwork is vital. In that sense, I followed standard ethnographic research practice (Katz 2001, 2002; Becker 1958) and could therefore assign evidentiary value to patterns of conduct and to references given repeatedly by market actors. As a result, I was able to reveal the vital importance of the “informal taxation system” in the economic life of La Salada. Additionally, cross-checking and member checking were standard procedures for tracing and confirming links. To illustrate this practice, consider that the recipients of the fees collected (ten state agencies at different levels) were confirmed by three interviewees who did not know each other: a fee collector, an ex-market manager and a local politician.

Scenarios of State Extraction of Resources

The illegal markets in which the informal taxation takes place are located in the suburban area of Buenos Aires Province. Their relevance stems from the state’s intervention in both markets—for illegally produced garments and for auto parts—in order to extract resources. Although both markets have been declared illegal by the state, my descriptions below reveal stark differences in structure and how they are related to state actors. Additionally, each experiences different levels of tolerance throughout society. While garments are considered harmless, auto parts, with their potential for being products of violence, are perceived as less desirable.

The market for counterfeit clothing

La Salada garment market is a vast eighteen-hectare marketplace to the south of the City of Buenos Aires. Almost all counterfeit garments in Argentina originate here, the first link in a supply chain connecting clothing producers, who run sweatshops in Buenos Aires, with wholesale buyers who resell the goods in other provinces. Alongside sellers and buyers, the third presence in the marketplace is that of government and state actors: as the nerve center of a countrywide network, the extraction of resources at La Salada influences the workings of the whole market.

La Salada marketplace is made up of several large shed markets divided like shopping malls into 7,822 two-meter-square stalls. Sweatshop producers, who manufacture and sell either unbranded or counterfeit items, rent the stalls. Their sweatshops are mostly small affairs run from private houses; through a number of interviews, I discovered that informal workers in a specialized workshop generally number fewer than twenty-five. Laws pertaining to work safety, employment, and taxation are completely ignored at the production stage and continue to be flouted when the garments are distributed throughout the country. The scale of the circumvention is significant: by my calculations, which tally with those of other specialists, there are approximately thirty-one thousand such sweatshops in Buenos Aires Province. The sweatshop producers’ position is typical for illegal markets: since they are infringing several regulations and laws and their actions are not supported by state law, they are subject to asset seizure or arrest. Consequently, they are obliged either to simply try to evade punishment or, as is the case, to illegally pay a fixed sum of money in order to continue breaking the law without the threat of punishment.

In the shed markets, sweatshop producers meet thousands of wholesalers who arrive three times per week in search of low-priced counterfeit garments to resell back in their home provinces. Thus, as a wholesale marketplace, La Salada is the main provider of access to clothing for middle- to low-income sectors of the country. Its success is beyond dispute: according to recent figures from CAME (the Argentine Confederation of Medium-Sized Companies) (CAME 2016), La Salada sources 656 smaller garment distribution centers in 109 cities.

Each shed market is headed by a manager, who rents the stalls to producers of sweatshop-made garments. In essence, the managers run a real estate business, which depends entirely on the producers. If police stop them on their way to the marketplace and seize their goods, or if the police enter the shed markets and confiscate their wares, the managers’ business is seriously damaged. Their solution is a system of money collection within the shed markets that raises a sum set by the police and political authorities. I describe the system below.

Police officers and health and security inspectors are powerful actors in the marketplace and belong to institutions known to protect criminals in exchange for money (Sain 2002, 2008; Dewey 2015, 2017, 2018). Politicians, both local and national, are also crucial actors. The informal taxation system at the marketplace

provides them with enormous economic resources that, according to my interviews, are used to finance costly political campaigns. At the same time, besides economic resources, politicians take advantage of the legitimacy of the illegal market in different ways. During the last fifteen years, the rapid and seemingly unstoppable growth of the market has created countless informal jobs, increased the consumption of garments enormously, and stimulated the general consumption of goods and services. Aware that the enforcement of the law would provoke a serious disturbance of the social order, politicians have allowed this economy to continue unabated.

The informal taxation system at La Salada

“Nobody tells me the true story. Who would? The police come and surround you,” says Cosita, the stocky ex-manager of one of the shed markets.⁴ He explains what everyone at La Salada knows: the police, parked in strategic spots nearby, enforce the law selectively by stopping sweatshop producers and seizing bags of garments. Thus, since it impedes producers from arriving at the marketplace and renting a stall, the managers are forced to collect money to give to the police to prevent damage to their real estate business. “I know who I have to give it [the collected money] to,” asserts Cosita, listing around ten different state agencies. “Because otherwise they stop the vans [of stallholders or buyers] when they enter [La Salada]. They took the vans when they were arriving and they really fucked me up.” The result is a system of money collection imposed upon stallholders (sweatshop producers). Each shed market collects the money internally before the managers hand it to the state agencies. In doing so, they “compensate” police officers for not enforcing the law.

However, not all stallholders (producers) pay protection rackets. The managers’ criterion for who pays is simple: only those who infringe the country’s trademark law; that is, those displaying logos of famous brands. They must pay a fee, a bribe to be later illegally handed over to the police. Needless to say, the reference to trademark law is a dishonest justification; the law stipulates entirely different procedures and penalties. According to my calculations 38.5 percent of stalls across all shed markets sell counterfeit clothing branded with Adidas, Puma, Nike, and Disney, among others. Regardless of the quality of the copy, each stall displaying branded garments must pay a racket known as *marca* (brand). The *marca* racket must be paid every time branded garments are exhibited on the stall. Over time, the collection has become a complex structure with appointed collectors taking the fixed sums of money from stallholders and recording debts in dedicated books. Claudia, remembering her days as a collector, depicts the route of the money: “We went and collected inside, going through the aisles, gathering money ... say, for the Crime and Fraud Agency [Delitos y Estafas], the Mitre Police Service [la Brigada de Mitre], the Anti-Narcotics Agency [Narcotráfico], District and Departmental Offices [la distrital y la departamental]. Cosita [the manager] went to have lunch with Ordaz [a police chief] every market day.”

According to several interviews with stallholders, the fees are simply accepted as the price they must pay to increase their sales. Brothers Paul and Franco, two Bolivian stallholders I worked with, manufacture “Nike” jackets and, in consequence, must pay the *marca* fee regularly. The money they hand over three times per week continuously actualizes the informal taxation system, a long-standing relationship between the illegal collector and the stallholder. Susi, Paul and Franco’s mother, is well aware that collectors “get a lot of money from us, from everyone,” but she also knows the benefits of paying *marca*. She has no doubt that a “Nike” branded garment “is what you sell best, because if you sell plain [*liso*, unbranded] you can’t shift anything [*no se mueve nada*].” Susi knows it is a risk, but selling *marca* is a profitable business: “*Marca* makes you sell more, and that’s convenient in every respect.” She clearly recognizes that she is adding value, which is why “robbers and policemen are here, it’s like the cat trying to catch the mouse.”

Susi and her sons, fully aware that they are infringing “some law” and that selling branded clothing is more profitable than “plain” pieces, readily accept the imposed payment. This lack of resistance is based not only on the considerable demand for counterfeit garments (which increases profits and thus reduces the significance of the racket) but, even more importantly, stems from the fear of the consequences of refusing to pay. **Table 1** shows the total sum collected—US\$772,000 each month—which is, as mentioned, distributed between at least ten state agencies at both national and provincial levels, as well as a portion going to the local municipality to fund political activities.

⁴ Two types of data support the description of the informal taxation system. First, counting the number of stalls ascertained the size of the marketplace. Second, the number of stallholders within the scope of the informal taxation system and how much they pay in fees was calculated by questioning actors in each sector of the marketplace. The results were cross-referenced with interview findings to confirm their accuracy.

Table 1: Number of stalls and taxes collected by marketplace (sheds and streets) in La Salada.

Markets	Sheds					Street	Total
	Red	Yellow	Green	Blue	Violet		
Number of stalls	1,102	2,210	1,254	171	170	2,915	7,822
Number of stalls selling “brands”	440	875	512	69	72	1,049	3,017
Amount of the tax (Argentine pesos)	150	150	200	100	100	35	
Monthly tax collection (Argentine pesos)	793,440	1,575,360	1,228,800	82,800	86,400	440,580	4,207,380
Monthly tax collection (US dollar, exchange rate as on July 14, 2013)	145,578	289,042	225,456	15,191	15,852	80,836	771,955

Source: Author’s calculation based on an individual stall-count and interviews conducted with stallholders from each marketplace.

The market for stolen auto parts

Along with human and drug trafficking, stealing and dismantling vehicles and illegally selling auto parts is allegedly one of the most profitable illegal activities in Buenos Aires Province. Between 2000 and 2010, the average number of vehicles stolen per year was 43,624; more than 119 per day. The evolution of this phenomenon has followed a varied trajectory and it is apparently sensitive to changes in the economic climate (devaluation in 2001, inflation after 2007), since an increase in local prices seems to stimulate illegal demand. Between 80 and 85 percent of the stolen vehicles are cars, and approximately 50 percent are never found due to being dismantled and/or taken outside the radius covered by satellite security systems. In general, the vehicles are taken to Paraguay, where controls on entering a vehicle into legal circulation are less strict. Regarding the geographical distribution of car thefts, the Center for Testing and Road Safety in Argentina (Centro de Experimentación y Seguridad Vial Argentina, CESVI) indicates that the area most affected is southern Greater Buenos Aires, followed by the north, the west, and finally the interior of the province. The most common method of illegal vehicle acquisition in the first half of 2011 was theft (66 percent of all stolen vehicles), with the rest acquired through carjacking (34 percent).

There are several methods for profiting illegally from stolen vehicles. According to the judicial investigations I reviewed, (a) vehicles can be used for other criminal purposes and abandoned afterward, (b) vehicles can be sold in neighboring countries, (c) vehicles can be sold on by changing the license plate and falsifying the car ownership papers, (d) the license plates are re-registered to hide the illicit origin, and (e) vehicles can be dismantled and sold for parts. According to three former government employees who had led the war against illegal chop shops, the most frequently used methods are (d) and (e). The latter, dismantling the cars and selling the parts, is by far the most widespread method and the fate of most stolen cars.

The greatest incentive for this illicit economic activity is the high demand for auto parts, which increases in periods of economic instability and in contexts of poverty. Buying auto parts of questionable origin in Greater Buenos Aires is not frowned on, and shops where these auto parts can be purchased are well known.

Collecting money from auto thieves and dismantlers

Although money is collected on a regular basis and there are previous agreements regulating exchanges, there is no marketplace in the case of the market for auto parts from stolen cars. This means that taxation is decentralized and is facilitated by specific relationships between police officers and car thieves or dismantlers.

The illegality of the market for auto parts begins at the moment of the theft and continues—facilitated by tenacious state protection—during the sale of the vehicle or its parts. This means that criminals may require police protection at two stages: when the vehicles are stolen and dismantled, and when the auto parts are sold. According to Roberto Vazquez, a former undersecretary of investigations and criminal intelligence, the most common practice facilitating the operation of the stolen vehicle market is that of exempting from the rule of law the areas in which criminals dismantle vehicles. These *zonas liberadas* (released zones) may also play an essential role when criminals steal vehicles from the street or when vehicles are illegally sold on in shops. As for the production of such spaces, an exhaustive knowledge of the territory is required, as

is a certain degree of logistical coordination and the deliberate decision to do so: according to Supervision Officer Carlos, “the person who gives the order to create a no-go area at a specific time and street is the officer on duty or the chief officer.”

Evidence of the deep-rooted character of the production of such spaces freed from enforcement (i.e., the collection of resources) is the police’s regulation of the quantity of vehicles stolen. Arslanián, a former government minister, noted that he once “received a document developed by the COMPSTAT [Computer Statistics] system which stated that a police station reported the theft of seventy-one automobiles every month.” It was then, he recalls, that “we realized there was a quota per jurisdiction—that is to say, a number of car thefts that is determined or stipulated by each police station. The quantity is set, among other factors, by the law of supply and demand, but also by the levels of tolerance of the insurance companies.”

Unlike the market for counterfeit clothing, the money collection in the auto parts trade is connected to activities whose consequences might be detrimental to the business, such as, for instance, the killing of innocents during carjacking. This situation, in the context of general concern caused by lack of public security, leads to political and institutional pressures which can jeopardize the jobs of the police involved. For this reason, Supervision Officer Carlos mentioned the tendency among officers to avoid working with “stoned” drug users. When they are involved, especially during car thefts, there is a higher risk that a murder will be committed, which may lead to public protests or the intervention of the media. In relation to this, Carlos explains that “all the police stations depend on the district police station—that is to say, it’s like a network. Nobody should stand out when doing business, because if you mess up, you affect the district station and in the end you damage the other police stations and the mayor. So we avoid dealing with gangs of kids wasted on *paco* [variant of crack cocaine]. That causes media fuss and it’s very important [to avoid that].”

In this business, the police “taxation” means half of criminals’ earnings. “If you work for the cops,” Officer Carlos explains, “you leave 50 percent: thieves [*chorros*] leave that money.” However, as in La Salada, the collected money is channeled through different agencies and levels. The first stage is the police station where, as Carlos asserts, “the officer takes between 10 and 20 percent of the collected money and the chief officer takes 20 percent,” and “the rest [around 60 percent] goes up to the departmental. Sixty percent of the money of each police station goes to each departmental. From each departmental a percentage goes up to the Office of the Superintendent of Operative Coordination [Superintendencia de Cooperación Operativa].” Finally, Carlos makes clear that “if the money is non-institutionally collected, that is, collected without going through the usual mechanisms and you don’t let the chief officer ‘participate’ in the collection, then you run the risk of being seen as a traitor. They ‘take you out’ [of the police station] and make you go on patrol or do clerical work.”

Where the Money Goes: Financing State Activities

A disaggregated perspective of the state, one that acknowledges regional and local bodies of state servants translating policies and producing regulations, offers a new lens for observing state-society relationships. In Buenos Aires Province, especially in regard to police forces and local politicians, this relationship is paradoxical: in a circumscribed territory they claim to represent the state while at the same time providing goods and services that originate in an extrabudgetary, illegal appropriation of resources. In what follows I indicate three final destinations of the collected money in the context of the aforementioned illegal markets: welfare programs, political campaigns, and everyday police activity.

Clothes for All: A welfare program

Richard, formerly a high-ranking broker in one of La Salada’s shed markets and currently the advisor to the mayor of the marketplace’s local municipality, recognized the value of the market for local politics. “In this district there are three hundred social organizations. All of them received bags with thirty pairs of shoes [from the government]. Brand new. Nike, Adidas, and so forth,” he said, and went on to explain: “Do you know where they came from? From La Salada. It’s called ‘Clothes for All’ [Ropa para Todos].” This was the name given to a social program introduced by the government in 2013 that helps to illustrate the intricacy of market-government relationships: an official, government-run social program provided the population with clothing manufactured in sweatshops. The provision of informally produced clothing in the context of a welfare program was also confirmed by a CEO in the textile industry with ties to an important foundation that promotes the interests of this industrial sector within Argentina. According to him, the managers of La Salada’s shed markets “contributed” to the program with donations of clothing. Following the dynamic of the collection system explained above, this “contribution” was first imposed by

the managers internally; that is, they asked stallholders for donations, and then channeled the donated garments to political authorities.

Everyday police and political activities

“How do you think the police finance an intelligence investigation? Let’s say they’re following drug traffickers. You need a car, to fill it with gas, perhaps spend some nights in a hotel, to eat something, the equipment, etc.... Well, there’s no budget for that. For that, there is *caja* [illegally earned money],” explained Marcelo Sain, deputy security minister of Buenos Aires Province and a member of the government that introduced a major police reform in 2003. Sain noted that the collected money is not used solely for private purposes: it is also used to paint police stations and even as an informal fund to bolster low police pensions.

Former Supreme Court justice Eugenio Zaffaroni tells a similar story.

It is traditional ... that police agencies’ budgets are large but that salaries and expenditures for operative matters are neglected. This is the result of corporative, vertical, and authoritarian organizations in which decisions are imposed from the upper echelons and any discussion about the allocation of resources is absent. As a consequence, this lack of resources needs to be compensated with an illegal collection of resources carried out by police officers. To a great extent, the benefits of the so-called subterranean criminal system are meant to complement the state budget. This leads to the paradox that the crime prevention agency is funded by criminal acts (Zaffaroni as cited by Sain 2008, 160).

From the paper used to print citizens’ complaints to the tanks of gas needed to pursue or transport criminals by car, materials for the ordinary maintenance of police stations are, as stated in official records produced by the Internal Affairs Unit (Asuntos Internos), usually financed with resources originating in the aforementioned markets. Additionally, a common illegal practice described by Sain and Supervision Officer Carlos is to inflate budgets—of monthly gas consumption or equipment—at all levels of the police institution in order to make extra money available. According to the interviewees, the final destination of these monies is often to compensate salaries or fund minor expenses at police stations. Finally, “snitches” providing valuable information about criminal organizations that lead to (legal) antidrug operations are usually paid with 10 percent of the seized drugs.⁵

However, the “taxes” collected from sweatshop producers, car thieves and dismantlers not only fund everyday police activities: political campaigns are another destination of these monies. “I remember it perfectly, with my brother we went to see Palacio [a manager in La Salada] and asked him for money for the campaign,” says an influential politician who earlier collected money for political campaigns in Lomas de Zamora, a Buenos Aires municipality adjacent to La Salada marketplace. His confession recalls Claudia’s listing of the various official bodies that received the money she collected in “fees” when she worked at the marketplace. As for the market for stolen auto parts, Kent Eaton (2008, 19) explains that mayors are able to “derive substantial funds from the illicit conduct of police officers, funds that are useful in hard-fought and increasingly expensive political campaigns.” This is confirmed by Supervision Officer Carlos, who told me that “during campaign times there is an increase in crime because the police let the rackets do their work. Letting their businesses run is a means for politicians to raise money during campaign times.” During these phases, he explained, “there is also a decrease in drug seizures; there is a need to sell. The deal for the mayor is to win money that is then passed on to the chief officer. And it is also meant for other things.” These informal arrangements as such shed new light on behaviors that are usually seen as undermining formal institutions. The fixed sums of money, the conditions for doing business, the code of silence among police officers, and the strict norms referred to by Officer Carlos and others reveal well-functioning informal institutions that help to reinforce police hierarchies and finance political careers.

Dimensioning the Effects of Off-the-Books Taxation

An obvious question refers to the relative importance, or the scale, of such taxation off the books. Not only are we dealing with a social space in which no records of transactions or payments exist, the lack of reliable statistics in Argentina (especially at provincial and municipality levels) further complicates potential estimations. For instance, I examined every budget allocated to the Ministry of Security from 2001 to 2013,

⁵ Interview with Supervision Officer Carlos.

and there is a tendency toward budget increase. Concurrently, the number of police officers skyrocketed from forty-eight thousand in 2005, to seventy-seven thousand in 2015, as well as eighteen thousand new “local” police officers.⁶ Whether the budget increase corresponds to the actual costs of hiring more officers is impossible to verify. Not only is there no public information about budgets per police station, but according to two ex-ministers I interviewed there are also continuous new budget assignments and underused items barely recorded as such. In that sense, the question, for example, about the share of the official budget that relies on what the police collect illegally is nearly impossible to calculate only with these bare numbers.

However, I will provide some sense of the dimension of this phenomenon by alluding first to a countrywide survey of families regarding the availability of clothing and shoes, and second to the evolution of vehicle theft between 2001 and 2010.⁷ While the clothing survey gives us an idea of the huge impact of the sweatshop economy, the tenacity of the vehicle theft business suggests the importance of the funds collected.

In order to get an idea of the penetration in Argentine society of the sweatshop economy centered on La Salada, we can observe the deficit of clothing in homes distributed according to socioeconomic strata. **Figure 1** shows an overall improvement between 2004 and 2010 regarding the availability of clothing and shoes. Whereas 54.9 percent of families in the low segments of society in 2004 reported a lack of clothing, six years later only 25.5 percent stated the same.

Although the clothing deficit does not directly indicate the consumption of clothing produced informally, three inferences in favor of this hypothesis are possible. First, since access to clothing in low-income segments became more restricted during the same period, especially due to the introduction of new distribution channels like shopping malls and outlets (INDEC 2006; Kestelboim 2009, 2012), we can infer that the demand for clothing in this segment was met by the sweatshop economy, of which the main distribution center is La Salada. Second, the demand could be met due to the aforementioned exponential increase in the number of “Saladitas”: small distribution centers throughout Argentina selling only sweatshop-produced garments. The collection of statistics about these centers started in 2014, when 522 centers were registered. Only two years later, 656 sites were counted. Third, the total number of people working as informal seamsters in the market for sweatshop-produced clothing ballooned from 42,000 in 2002 to 177,000 in 2010, a fourfold increase. Meanwhile, during the same period, the number of formal seamsters decreased from 51,000 to 29,000. In other words, whereas in 2002 59.15 percent of seamsters worked informally, in 2010 it was 77.6 percent, an increase of 18.45 percentage points (Instituto Nacional de Tecnología Industrial 2010; González 2006, 6–7; Choren 2012, 36).

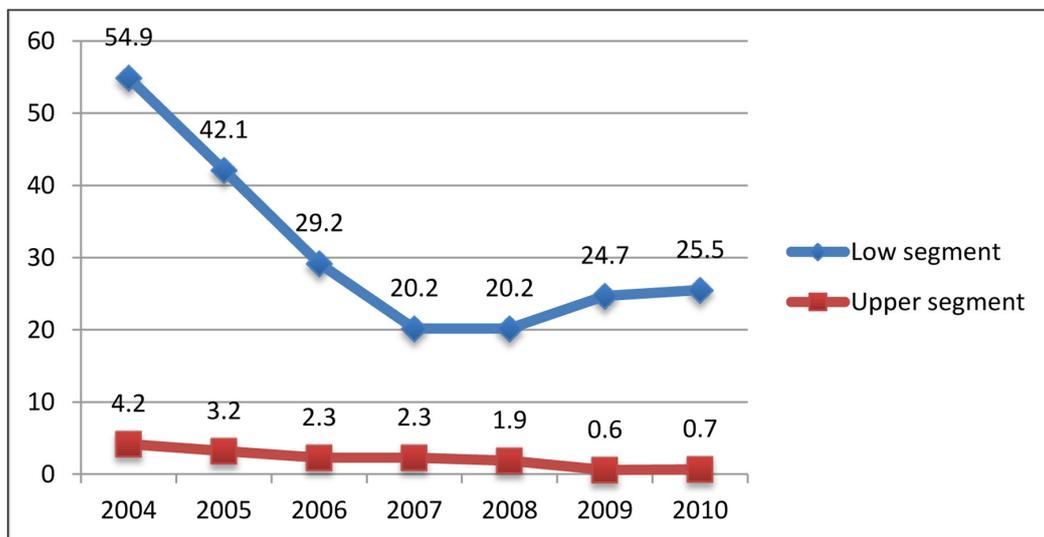


Figure 1: Availability of clothing and shoes by social stratum and year (2004–2010).

Source: Based on Salvia 2011.

⁶ Ariel Riera, “Scioli: ‘Realizamos la mayor campaña de reclutamiento y renovación policial de todos los tiempos,’” Chequeado, September 15, 2015, <http://chequeado.com/ultimas-noticias/scioli-realizamos-la-mayor-campana-de-reclutamiento-y-renovacion-policial-de-todos-los-tiempos/>.

⁷ At present (March 2017), the Superintendencia de Seguros de la Nación no longer provides disaggregated information regarding vehicle theft.

Finally, **Table 1** above provides information about the distribution of stalls by shed market and the amount of the “tax” charged, as well as the number of stalls paying it. The table demonstrates the profitability of the illegal economy: 38.5 percent of the stallholders choose to sell counterfeit items despite being forced to pay a tax to do so. However, the number of stalls that do not sell counterfeit clothing (61.5 percent) is also instructive. These stalls offer plain, unbranded pieces of clothing; that is, items whose consumption meets everyday needs. This segment of the market highlights the gap between high- and low-income sectors in terms of access to clothing: while a portion of the population acquires clothing in shopping malls, outlets, and brand stores, another significant portion is excluded from this legal distribution circuit. Additionally, it also helps to explain the rationale of tolerance to this economy, expressed in the system of informal taxation: facing a structural divide, political and state actors choose not to eliminate the economy but to informally tax it, providing benefits (access to garments, jobs, increased powers of consumption) to a sector of the population and receiving material (money) as well as immaterial (social peace, electoral support, political control) resources in exchange.

Concerning the market for stolen vehicles, besides the total number of vehicles taken, a further measure of the market is the number of victims murdered during a carjacking. For example, whereas the FBI reports forty-one homicides in 2015 for the whole of the United States, Buenos Aires Province, with a population almost twenty times smaller, alone reported twenty-five victims during the same period.⁸ Though the number of stolen vehicles varies, the business could not be eliminated. A former undersecretary of Investigations and Criminal Intelligence commented: “Our controls were strict and constant but there was a solid number of about two thousand vehicles a month that we could not possibly reduce further.”

In sum, as these figures indirectly suggest, there are illegal market activities that provide access to resources. These enhance state performance but also allow political control and strengthen patronage networks at a local level.

An additional side effect of the informal extraction of resources is the political control over the population that comes from the fact that authorities, by not enforcing the law, ensure a certain level of income by creating jobs, even though these jobs lack stability and are in conflict with official regulations. Furthermore, political stability is achieved by promoting consumption and ensuring access to low-cost garments. Future research should determine if the results of political elections in constituencies close to La Salada correlate with the marketplace’s activity: in nearby Lomas de Zamora and in the south of the City of Buenos Aires, political candidates from the ruling party have won every election without exception. Patronage networks are further strengthened, for instance, through the implementation of welfare programs such as Clothes for All. Additionally, La Salada marketplace’s activity also indirectly assists with the administration of the municipal government. In fact, as pointed out by Richard, formerly a high-ranking broker in a shed market and currently the advisor to the mayor, the shed markets pay a monthly sum of 4 million pesos in formal taxes (for property taxes, garbage collection, street lighting, and other public services), a sum the local government budget desperately needs. In other words, the performance of local government is strongly influenced by an economy that, despite running informally and illegally, makes a legal—and significant—contribution to the government’s budget.

Conclusion

When dissecting the ways in which state apparatuses are economically supported, social sciences have paid great attention to formal, state-sanctioned channels of revenue extraction. Analysis of state performance, therefore, has followed a similar pattern. Weak (legal) extraction capacity has usually meant a state less capable of delivering basic services, and this remains true even when the importance of informal institutions is acknowledged (Helmke and Levitsky 2006; Soifer 2008, 234). However, understanding the opportunities available to state structures to extract resources from society off the books, especially in the context of underserved and marginalized urban areas, is a field that demands much more research.

Drawing on extensive ethnographic fieldwork in two well-functioning illegal economies located in Buenos Aires Province, this article showed deep-rooted informal taxation systems. Here, informal taxation means an off-the-books extraction of resources, which is imposed on a portion of the population and used not only as a form of corruption but as a way of financing formal state performance. By illuminating such informal

⁸ FBI Crime Data, November 1, 2018, https://crime-data-explorer.fr.cloud.gov/explorer/national/united-states/crime/2007/2017.11_murder_circumstances_by_weapon_2015.xls; and “Buenos Aires: No se esclarece la mitad de los delitos investigados,” *Perfil*, December 11, 2016, <http://www.perfil.com/sociedad/buenos-aires-no-se-esclarece-la-mitad-de-los-delitos-investigados.phtml>.

means of capturing resources and how these resources are used, this article points out the paradoxes of the state's transformative power. In alliance with extralegal actors, the state invigorates its performance in society, strengthens political power, and manufactures social consensus. Both the market for stolen cars and auto parts and the market for illegally produced garments are illegally regulated and taxed by the state and provide resources whose final destination, according to empirical evidence, is a welfare program and the funding of everyday political and police activity. In both cases, I showed that the "deeply imbricated triad of state practices, informal institutions, and clandestine connections" (Auyero and Jensen 2015, 362) produces specific forms of state presence in society.

An expanded understanding of state revenues is undoubtedly linked to an analysis that connects the state to informal institutions and illegal exchanges in a renewed form. The perspective acknowledging illegal economies as potential sources of state funding must consider informal social arrangements that, if resources are extracted, should be seen as part of a fiscal social contract. However, this magnified view of state revenues should not be seen only as an attempt to illuminate another form of capturing monies. In fact, if the extracted resources are at least partially reintroduced into state structures, considerable resistance to transformation can be expected. The evidence provided by the two markets in Buenos Aires shows this clearly. Over the years, informal forms of extracting resources have shaped deep-rooted expectations and economic interests that condition the workings of formal institutions. Several attempts to reform the Buenos Aires Province police and to formalize La Salada marketplace not only failed but also reinforced prior patterns of behavior. In this way, the relevance of studying the informal extraction of resources lies in observing how informal institutions may block, distort, or support the process of state formation. How should we understand the state formation processes when at least part of the resources supporting the process are illegally produced?

My attempt to shed light on these informal forms of state financing should not be understood as a way of devaluing the social order created by the legal exercise of control and implementation of policies, or as celebrating corrupt practices. Fine-grained ethnographic accounts of "the continuous formation of the state" (Hibou 2004) in urban landscapes raise awareness of dynamics that might produce "decivilizatory" effects, such as those described by Javier Auyero and María Fernanda Berti (2015, 123), but also other effects that converge with those produced by the formal state. Far from appearing as a coherent entity, the state can be observed as a heterogeneous palette of organizations constantly dealing with a variety of social groups. Considering this complexity of state structures and the variety of illegalized economies, ethnographic work appears to be a promising way to capture these connections and advance our understanding of the complex nature of the state's participation in illegal markets.

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