

The Fiscal Cost of Conflict: Evidence from La Violencia in Colombia

Download Other Working Papers Keep in mind

The series of *Cuadernos de Historia Económica* (only in Spanish, Notebooks on Economic History) is a publication of Banco de la República in Cartagena. The opinions contained in this document are the sole responsibility of the authors and do not commit Banco de la República or its Board of Directors.

AUTHOR OR EDITOR Diana Ricciulli-Marín Publication Date: Wednesday, 23 of December 2020

The opinions expressed in this document are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

Abstract

This paper studies the effect of internal conflict on local fiscal capacity using evidence from Colombia's political conflict in the mid-20th century, better known as La Violencia. Following a difference-in-differences strategy, I find that internal conflict has negative long-term consequences in local fiscal capacity. More precisely, municipalities affected by La Violencia experienced an average reduction of 10.3% in their tax revenue and a fall of 2.8 percentage points on their ratio of taxes to total revenue. Effects lasted for more than a decade and are only partially explained by a population and economic activity downturn. These results are consistent with previous evidence indicating a negative effect of violence on tax collection efficiency at the local level.