

## **Democracy and Redistribution in Historical Perspective: Argentina, 1880-1946**

Roy Elis  
Stanford University  
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### Abstract:

In this paper I argue that democratization (suffrage expansion, multiparty competition and the secret ballot) is neither sufficient nor necessary for generating fiscal redistribution (tax burden, progressivity of the tax structure, redistributive government spending). I offer extensive time-series evidence on Argentina collected during 10 months of archival research to establish this fact and offer a simple model of democratization as the result of intra-elite conflict that explains why this might be the case. Despite the fact that Argentina enjoyed per capita wealth on par with Canada by 1900, was ethnically more homogeneous than the United States, and did not suffer from the landlord-peasant social structure typical of other Latin American countries, the period of democratic rule (1912-1930) did not usher in redistributive taxation and spending as predicted by the workhorse median-voter models. Strangely, taxation became more progressive and redistributive spending increased with the military coup of 1931.

Note to workshop participants: This paper combines a first draft of a dissertation chapter with initial sketches of a theory. To put it in context I briefly explain the dissertation's main argument.

**Overview** A prominent argument in political science going back at least to Tocqueville associates democratic rule with high levels of fiscal redistribution. The redistributive view of democracy has gained wide acceptance among political scientists, due in large part to the formalization of its arguments (Meltzer and Richard 1981, Boix 2003, Acemoglu and Robinson 2000, 2006). The theory is compellingly simple: electoral competition makes parties responsive to voters' demands while expanded suffrage rights give political voice to poor, working-class, and middle-class voters. The primary implication is that we should observe an increase in redistributive policies following democratization. Empirical confirmation of the theory by political scientists, however, has found only cross-national correlations between democracy and redistribution (Elis 2008) and has failed to engage in the more difficult task of analyzing historical change over time within a single case.

In the dissertation I offer an alternative theory of democratic responsiveness based on the political history of Argentina, 1880-1946. This time frame allows me to analyze a broad range of redistributive government policies, ranging from the structure of taxes to the development of public elementary schooling under the political regimes of oligarchy (1880-1911), electoral democracy (1912-1930) and military dictatorship (1931-1946) in a single country. It also allows me to recast political theory in historical context.

Contrary to the established literature, I argue that the introduction of electoral democracy is neither sufficient nor necessary for generating redistributive policies. A fundamental aspect of democracy, which is assumed away in redistributive models, is the ability of new parties and political organizations to form at the grass roots. Democratic responsiveness depends not only

on fair multiparty elections – Argentina had just that between 1912 and 1930 – but also on a political culture that guarantees to all social and economic interests the ability to organize freely in order to contest the status quo. This includes ensuring that the barriers to political entry are low. Absent this guarantee, the threat of entry by new parties is not credible, voters are powerless to discipline existing parties, and existing elites continue to carry out conservative policies.

**Methodology** In previous work (Elis 2008) I show that extant empirical evidence for the causal connection between democracy and redistribution based on panel regressions is not robust. In particular, I show that the democracy-redistribution relationship is driven by cross-sectional variation rather than by changes in democracy within countries over time. This suggests that the empirical correlation is driven by omitted country-level factors that are correlated both with democracy and levels of redistribution.

Rather than employing panel data as is the norm in the literature, this chapter analyzes temporal change within a single case. I chose pre-Peronist Argentina as the case because it was wealthy, European and relatively homogenous. Of the New World economies, its factor endowments were much closer to those of Canada and the northern United States than they were to the plantation economies of Brazil or the U.S. South. In short, there were no obvious confounding factors that may have undermined the democratic process in Argentina.

Since Argentina in non-democratic periods is the counterfactual against which I'm comparing Argentina under electoral democracy, I needed to choose a time-frame in which in which data are broadly comparable. I begin in 1880 after the capital city of Buenos Aires is federalized (usually called *Capital Federal* to help distinguish it from the province of Buenos

Aires). Once *Capital Federal* is wrested from the Province of Buenos Aires, the basic political structure of Argentina does not change. I end in 1946 with the rise of Peron.

**Data** I spent ten months in Buenos Aires in 2007 collecting primary-source evidence for this project. I gathered data on the sources and composition of revenues, the size and composition of budgets, and detailed information about the evolution of public K-12 schooling. Sources include the *Memorias de la Contaduria General de la Nación* and the *Informes de Educación Común*, which I found at the National Archives, the National Library, the Ministry of Education and the Ministry of the Economy in Buenos Aires. I sampled contemporary accounts in both major national newspapers, *La Nación* and *La Prensa*, which I found at the Tornquist Library's private collection. Legislative debates are from the *Diario de Sesiones de la Cámara de Diputados*. Economic and demographic information are from various national and provincial censuses. Data on national elections and the composition of the Chamber of Deputies are from Smith (1974) and Canton (1968). Though most of the data presented in this chapter are at the national level, later chapters rely on extensive subnational data.

## **Chapter 2: Democracy and Redistribution in Argentina, 1880-1946**

This chapter provides further empirical evidence against the hypothesis that democracy leads to on redistribution. I construct time-series of a number of measures that capture redistribution from 1880-1946, a period that spans both periods of nondemocracy and periods of electoral democracy. Fiscal measures include the size of government, the tax structure, and the composition of expenditures. I also construct time-series of public primary schooling as a measure of services rendered and not just money spent. The major finding is that electoral democracy did not increase redistribution by a single one of the measures used. In fact, there is significant evidence that Argentina became more progressive under the military government that ended democratic rule in a 1931 coup.

### **Section 1: Electoral Democracy**

**Historical Background** On February 10, 1912, the Argentine Congress passed the Sáenz Peña Electoral Reform, guaranteeing universal male suffrage, obligatory voting, and the secret ballot. The electoral reform marked the transition from a long period of oligarchic rule to a period of electoral democracy in which multiple parties competed for political power in free and fair elections. The UCR (*Unión Cívica Radical*), which had been the opposition party under the oligarchy, successfully wrested political positions from the old ruling party, the PAN (*Partido Autonomista Nacional*) starting with the legislative elections of 1912. The UCR's candidate, Hipólito Yrigoyen, then took the presidency in 1916, which remained in the hands of the UCR until a military coup overthrew the democratic regime on September 6, 1930. From 1930 through 1946, Argentina was ruled by a combination of military governments and fraudulently elected conservative parties. There is broad agreement among historians of

Argentina that the country was democratic between 1912 and 1930 but not in the years preceding the electoral reform or following the coup.

Voter participation rates increased dramatically after the electoral reform of 1912 (see Table 1, column 3). These numbers (Canton 1968) are not entirely helpful, however, for several reasons. First, turnout is measured by votes cast as a percentage of registered voters rather than as a percentage of all eligible voters. I estimated the percent of eligible voters registered using registration data (Canton 1968) and census data from the 1947 National Census. I estimated the base of eligible voters as male Argentine citizens over 18. Between 65% and 87% of all eligible voters registered to vote from 1912 to 1928 (see Table 1, column 4). Finally, I combined the data from columns 3 and 4 to estimate voter turnout as a percentage of all eligible voters (see Table 1, column 5). Between 35% and 67% of all eligible voters turned up on Election Day between 1912 and 1928.

I haven't been able to locate registration data for 1910, making it difficult to estimate the percentage of eligible voters who turned out previous to the electoral reform of 1912. For the time being, I assume that 30% to 50% of eligible voters were registered (a very high range judging from anecdotal evidence), implying that between 7% and 10% of all eligible voters turned up to vote in the years preceding the reform. The important point is simply that voter participation shot up from around 7% to almost 50% of the electorate, making it safe to assume that the Sáenz Peña Electoral Reform shifted the identity of the median voter much farther down the income distribution.

Table 1: Voter participation as a percentage of registered voters. Source: Canton (1968) and my estimates.

Year	Election Type	Turnout Among Registered Voters	% Registered (estimated)	Turnout Among Eligible Voters (estimated)
<b>1910</b>	<b>Presidential</b>	<b>21%</b>	<b>N/A</b>	<b>(7-10%)</b>
1912	Congressional	69%	65%	48%
1914	Congressional	56%	67%	38%
<b>1916</b>	<b>Presidential</b>	<b>63%</b>	<b>74%</b>	<b>46%</b>
1918	Congressional	58%	77%	46%
1920	Congressional	53%	80%	42%
<b>1922</b>	<b>Presidential</b>	<b>55%</b>	<b>84%</b>	<b>46%</b>
1924	Congressional	44%	80%	35%
1926	Congressional	49%	87%	43%
<b>1928</b>	<b>Presidential</b>	<b>81%</b>	<b>83%</b>	<b>67%</b>

**Operationalizing Democracy** I use Boix and Rosato's (2001) binary measure of democracy, which extends the Przeworski et al (2000) dataset but amends it as follows. A country is coded as democratic if it meets all three of the following conditions: (1) the legislature is elected in free multi-party elections; (2) the executive is directly or indirectly elected in popular elections and is responsible either directly or indirectly to voters or to a legislature elected according to the first condition; (3) at least 50% of adult men have the right to vote. Boix and Rosato code Argentina as being democratic between 1912 and 1930 (inclusive) and nondemocratic for the remainder of the period under study.

The primary strength of the minimalist definition that it isolates the democratic mechanism explicitly posited redistributive theories of democracy: popular, competitive elections (e.g. Meltzer and Richard (1981), Boix (2003), Acemoglu and Robinson (2006)). Polity scores, on the other hand, would not be appropriate because they include constraints on the executive, which is outside the scope of redistributive theories. Moreover, Polity scores conflate rules of the game that are identifiable *ex ante* with behavior outcomes. That is, Polity would

code a country case as having strong constraints on the Executive only if the Executive actually behaves in a constrained manner. This is clearly different from measuring external constraints on the executive and would tend to capture. If our measure of democracy captured an entire constellation of “democratic” outcomes such as having a well-behaved Executive, it would most likely be picking up lots of other outcomes correlated with having a government responsive to citizens’ needs and demands. The Przeworski/Boix definition allows us to avoid this worry.

## Section 2: An Overview of Revenues and Expenditures

Meltzer and Richard (1981) argue that the size of government, which they define as the share of total income redistributed, is determined by majority rule, a.k.a. the median voter. One of their central predictions is that government grows (redistribution increases) with the expansion of voting rights. This holds so long as franchise expansions imply that the relative position of the median voter in the income distribution falls. In accordance with their argument, I construct time-series of federal taxation and expenditures as a share of GDP. Since their model does not account for multiple levels of government, I ignore the fact of Argentine federalism in this section and focus on the behavior of the federal government only, leaving the behavior of provincial governments for a later chapter.

Federal revenues and expenditures were unstable prior to 1900, frequently surging to paying for the federal government’s military efforts to put down provincial insurrections (see Figure 1)<sup>1</sup>. By the turn of the 20<sup>th</sup> century, however, such civil strife was largely contained and government spending turned away from the military. We therefore can be confident that patterns

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<sup>1</sup> Meltzer-Richard (1981) equates the size of government with redistributive spending in the form of cash transfers and services, thus explicitly excluding public-goods spending. It is therefore important to exclude military spending, which (sometimes) provides the public good of defense – and perhaps law and order in the Argentine context, given the use of military force to put down local insurrections.

in federal revenues and expenditures from 1900 on are not driven by military spending and provide an even-handed comparison of redistribution under democratic and non-democratic governments.

It turns out that the relationship between electoral democracy and government size contradict the pattern implied by the Richard and Meltzer model. Despite the passage of the Sáenz Peña reform and the jump in voter participation, government spending did not increase as a fraction of GDP. In fact, federal revenues and expenditures under electoral democracy are each lower by about two percentage points of GDP in relation to non-democratic years. (N.B. I label 1912-1930 as Electoral Democracy in this and all subsequent figures according to Boix and Rosato's (2001) coding.)

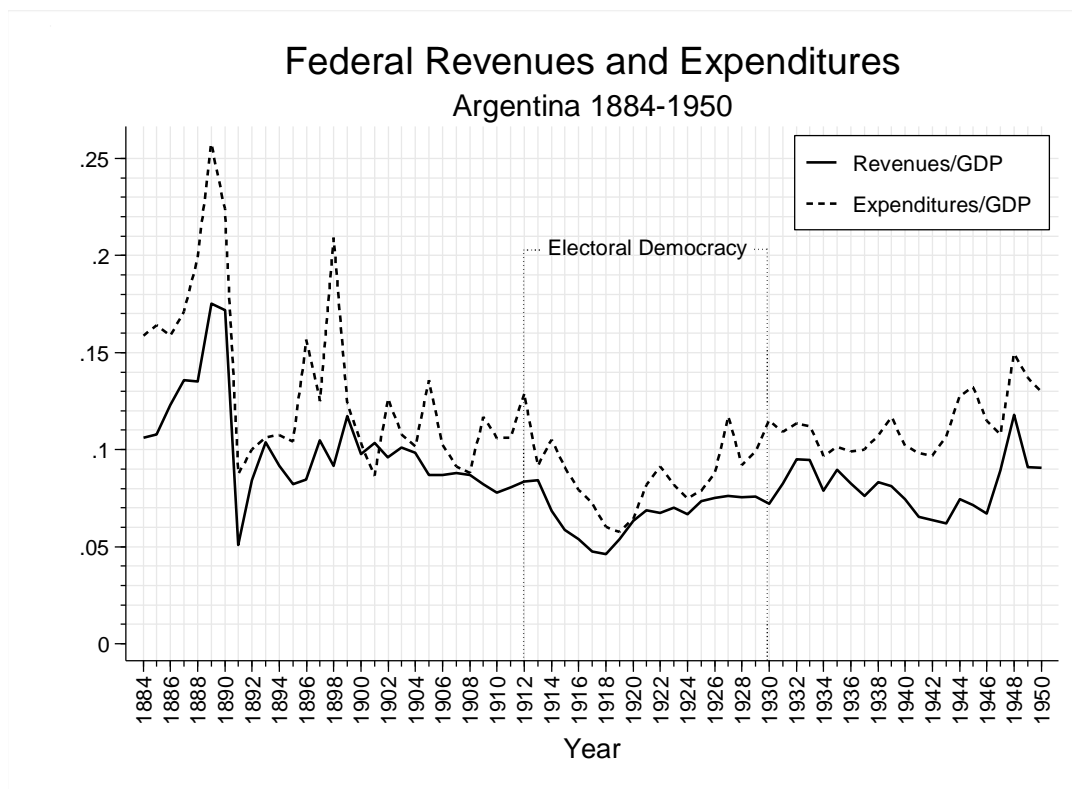


Figure 1: Federal Revenues and Expenditures as a Fraction of GDP. Source: della Paolera et al (2003).

We can rescue the redistributive view of democracy either wholly or in modified form if we can establish that the pattern in Figure 1 is an artifact of the data or reflects an unobserved

process coinciding with the political periodization I've chosen. Perhaps military spending after 1900 continued to constitute a significant source of government spending and was systematically lower from 1912 to 1930 precisely because democratic rule did not depend on coercion. Higher redistribution under democratic elections is therefore masked by an even greater decrease in military spending. This assumes, of course, that military force is directed primarily against domestic threats – i.e. quashing internal uprisings – rather than providing for the common national defense.

Alternatively, it might be the case that democratization was accompanied by decentralization. The reduction of revenues and expenditures at the federal level was offset by an increase in government activity at the provincial and local levels. I should note that this logic is broadly inconsistent with the redistributive assumptions of Richard-Meltzer, Acemoglu-Robinson, et al, because decentralization implies an effective block on fiscal redistribution. (As the locus of taxation and the provision of services devolve to local governments, public funding and provision have much less redistributive bite under the empirically supported assumption that wealthy voters tend to live with other wealthy voters, middle-class voters tend to live with other middle-class voters, and so on. At the local level, choosing public over private provision has less to do with redistribution and more to do with solving free-rider problems tied to local public goods. ) Nonetheless, in principle, it is still possible that minor decentralization (to the provincial not municipal level) coupled with massive increases in the size of provincial government entails an overall jump in redistribution from the wealthy to the poor.

One might also suspect that redistributive gains are masked by a concomitant reduction in government corruption. Electoral pressure induced elites to eliminate or reduce the salaries of cronies, thus driving down overall expenditures. To test this hypothesis we would need data that

distinguish military spending and government employment from general expenditures. The problem, however, is obviously more general. On the expenditure side, there are literally thousands of line items in the federal budget including public goods like defense, local public goods like roads and sewers, upwardly redistributive goods like public universities, and downwardly redistributive goods like elementary schooling. There are also club goods like pensions for federal employees and a wide range of subsidies for various sectors and industries, the redistributive impact of which are unclear. On the revenue side, the Argentine government made use of regressive excise taxes, progressive income taxes, progressive import taxes on luxury goods, regressive import taxes on common goods like matches and beer. The government also generated revenues from selling and leasing land, from selling rights to mineral exploitation, and so on.

In short, although the *size* of government is an attractive first-cut proxy for redistribution, we would be much better off with data on the *composition* of revenues and expenditures. To the best of my knowledge, disaggregated historical data on revenues and expenditures is not readily available. I collected these data through extensive archival research in Buenos Aires in 2007. I describe the data and provide preliminary results in the next section.

### Section 3: Revenues in Detail

The Ministry of the Treasury has been publishing detailed reports on national revenues and expenditures of the federal government since 1862 in a series called *Memorias de la Contaduria General de la Nación*. I spent several months in Buenos Aires in 2007 collecting these data on an annual basis and am currently in the process of entering and coding the data<sup>2</sup>.

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<sup>2</sup> I was fortunate to find an additional source on revenues of the Argentine government 1892-1950 in an unpublished University of Texas dissertation, Patterson (1951). Patterson's dissertation is especially useful for explaining each

The results described in this section are based on a provisional coding scheme and are subject to change as I refine categories and recode the data accordingly.

Taxes on foreign trade – imports in particular – constituted the single largest source of revenue for the Argentine government until the early 1930s (see Figure 2). Except for a few brief episodes that I discuss below, the Argentine government barely levied export taxes, cancelling them altogether most years. In order to determine the progressivity of import taxes, we would have to know what goods were being imported and the rates at which they were being taxed in each year. Unfortunately, these data are not readily available. We know, however, that Argentina primarily imported finished consumer goods and that the vast majority were imported from Britain, followed by France and the United States. I am in the process of collecting data on the composition of British exports to Argentina in order to get a sense of the types of goods being imported<sup>3</sup>. I am also in the process of collecting data on tax rates for imports from alternative Argentine sources. An increase in taxes on luxury goods rather than common consumer goods under democracy would provide some support for the redistributive hypothesis.

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of the various revenue sources and describing the economic context. In terms of the actual data, my revenue figures and Patterson's generally agree but I use my own in the instances they differ as I can trace my figures to the original sources. All data for year preceding 1892 are my own and are taken from the original *Memorias*. See Appendix A (not included in this draft) for a detailed treatment of revenues.

<sup>3</sup> Published by the British government as the "Annual Statement of the Trade of the United Kingdom with Foreign Countries and British Possessions (various years). I thank Steve Haber for this suggestion.

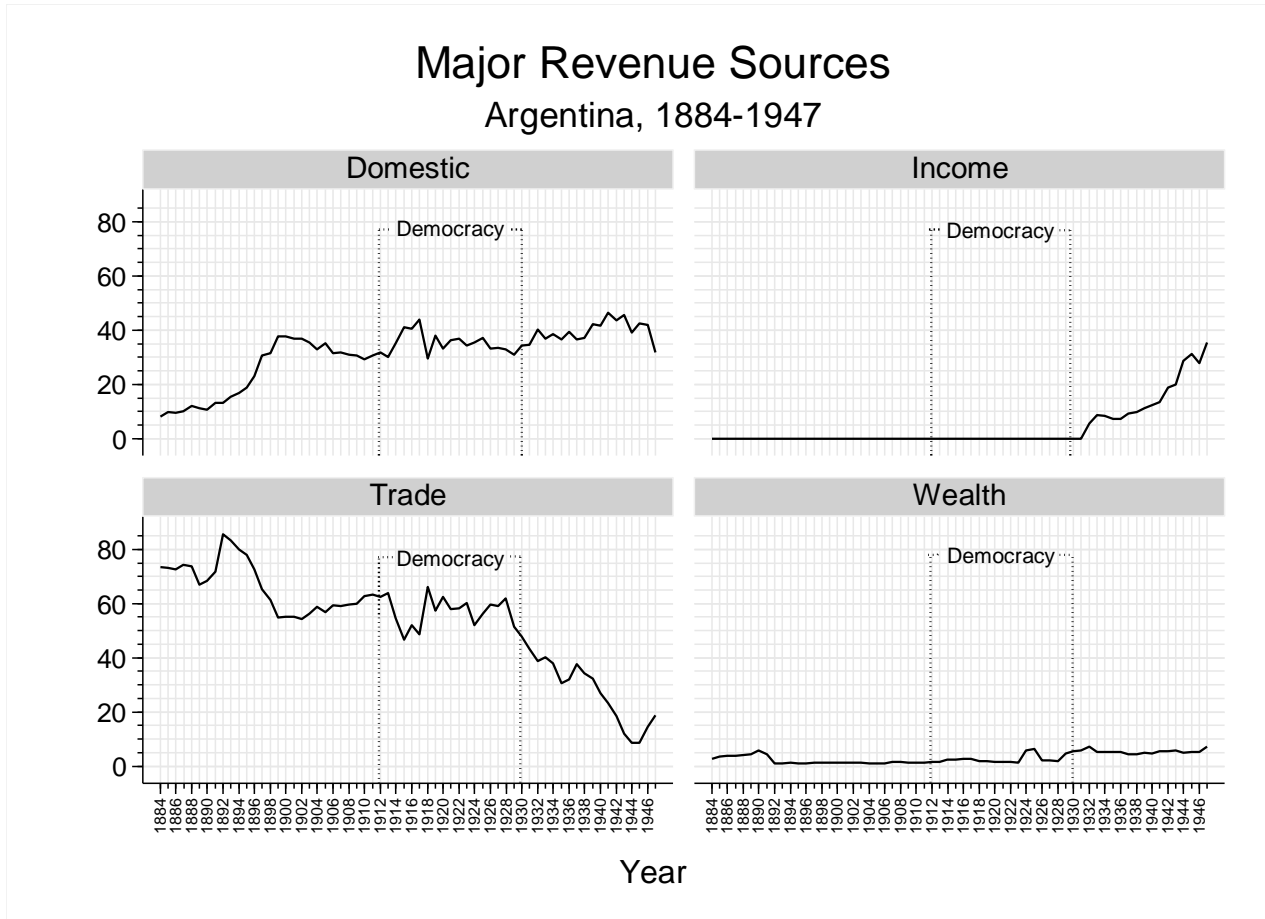


Figure 2: Composition of major revenue sources

Taxes on domestic goods and services were the next most important revenue source. There is no evidence of an increase in these taxes under democracy (see Figure 2). Of course, sales and excise taxes on consumer goods are regressive in the sense that poor consumers spend a greater portion of their income on common consumption items. We would expect that sales and excise taxes on everyday consumer goods be reduced under democracy, while taxes on luxury goods would be increased. The *Memorias* offer sufficiently disaggregated data to allow an easy test of this hypothesis. I classified revenues from alcoholic beverages, beer, tobacco, matches, playing cards, sugar and sales tax as taxes on everyday goods. I classified revenues from the sale of perfume, silk, jewels, lighters, mineral water, car tires and “sumptuary goods” as

taxes on luxury items. I code unclassifiable domestic taxes (e.g. “forest exploitation”, “licenses”, “sanitary works”) as miscellaneous. Comparing the composition of domestic taxes before, during and after the democratic period does support the redistributive hypothesis (see Figure 3). In fact, taxes on luxury goods appear to be *higher* during the non-democratic periods, especially after 1930.

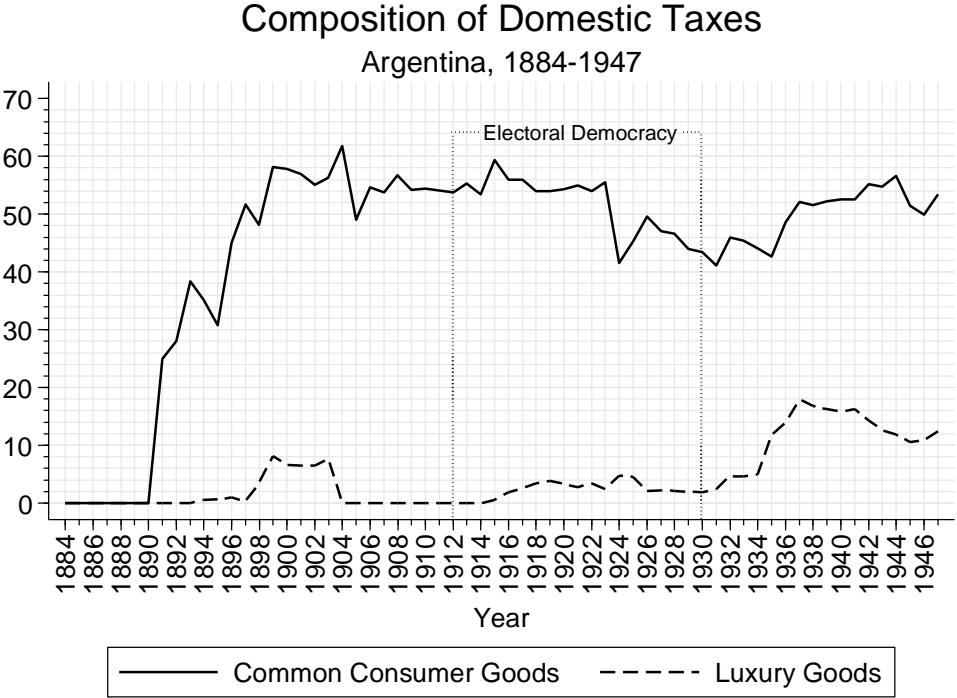


Figure 3: Domestic Taxes on Common and Luxury Goods

The most direct test of the redistributive hypothesis, however, is whether taxes on income and wealth increase under electoral democracy. Wealth taxes include land, capital gains, and inheritance taxes. The data completely undermine the redistributive hypothesis (see Figure 2). The national government did not introduce or increase taxes on personal or corporate income, land, capital gains, or inheritances under democratic electoral rules. In fact, the inheritance tax is

implemented in 1935 under a non-democratic, military regime. Capital gains taxes are introduced in the 1940s. Land taxes remained inconsequential for the entire period 1880-1946.

Most puzzling, however, is the legislation of Argentina’s first income tax by Presidential decree on January 19, 1932 – under military government that toppled democracy one year earlier. The passage of electoral reforms in 1912 did not induce the PAN government to introduce an income tax. After defeating the PAN in the first national elections in 1916, the UCR did not legislate an income tax. Argentina’s first income tax was instituted by General José Félix Uriburu, leader of the military coup that toppled Yrigoyen and the UCR, without the threat of electoral pressure.

**Table 2: Federal Income Tax, Argentina 1941. Source: Patterson (1951)**

<b>Tax Bracket (pesos)</b>	<b>Average Tax Rate (percent)</b>	<b>Number of Taxpayers<sup>4</sup></b>	<b>Percent of Taxpayers</b>	<b>Percent of Total Income Taxes</b>
0 to 4,999	4.9	70,835	56.3	6.1
5,000 to 9,999	4.7	22,680	18.0	7.3
10,000 to 14,999	4.6	10,317	8.2	5.8
15,000 to 19,999	4.8	5,928	4.7	4.9
20,000 to 24,999	5.0	3,681	2.9	4.1
25,000 to 49,999	5.7	7,370	5.8	14.8
50,000 to 74,999	7.0	2,371	1.9	10.3
75,000 to 99,999	8.2	1,057	0.8	7.8
100,000 to 149,999	9.6	859	0.7	10.3
150,000 to 199,999	10.7	335	0.3	6.3
200,00 and over	11.7	471	0.4	22.3

Taxes from personal income soon displaced import taxes as the leading revenue source for the federal government, providing nearly 40% of all revenues by 1947 (see Figure 2). Though

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<sup>4</sup> There is an enormous discrepancy between the number of taxpayers listed in Patterson (1951) and the size of the potential tax base: 125,000 vs. roughly 3.75 million. Consider a rough estimate of the potential number of taxpayers: demographic data for 1942 show around 14.6 million inhabitants, with just over 50% (call it 7.5 million) falling between the ages of 20 and 60. Assume that half of those are males and that each male represents one household, yielding about 3.75 million taxpaying households. Assume that only urban households are taxed (although income tax did include income from agriculture as well) and that around 60% of Argentines live in urban areas (the 1947 Census show 62.5%). Assume further that 30% are too poor to pay any taxes whatsoever. That leaves us with over 1.5 million potential taxpayers – implying that less than 10% of income-earning households were paying the income tax. Evasion in general is not too troubling for my argument, as long as it is evenly distributed across provinces, economic classes, etc. I am investigating this issue at length.

not shown here, the income tax continued to grow in importance for future governments as well. Moreover, Argentina's first income tax was progressive. The structure of the income tax was complicated, with multiple clauses assigning nominal rates, minimum quotas, maximum quotas, and a bewildering array of deductions. Patterson (1951) estimates effective average tax rates across income brackets based on the number of taxpayers and total taxes paid within that bracket (see Table 2). The average tax rate was 5.0% for the bottom bracket and over twice as high, 11.7%, for the highest bracket. The \$100,000-and-over bracket, which includes only the top 1.4% of taxpayers, generated nearly 40% of all income-tax revenues for the federal government.

In short, the central prediction of the redistributive hypothesis is overturned by the most direct available evidence. The introduction of electoral competition under the Sáenz Peña electoral reform of 1912 did not increase either the scale or progressivity of total taxation. General Urriburu established a progressive income tax by Presidential decree as part of the military regime that overthrew the democratically elected UCR.

#### Section 4: Expenditures in Detail

I collected expenditures data from the *Memorias de la Contaduría General de la Nación* as well. To the best of my knowledge, the expenditures dataset is a unique and original contribution. The greatest challenge so far is that expenditures data are not classified in any meaningful way for my purposes. I would need to recode thousands of line-items each year in order to re-aggregate spending in useful categories, and am in the process of doing just that for selected years. In the meantime, I show results for expenditures summarized by Ministry. Even this blunt coding is an improvement over existing aggregate data and can help us knock out some of the alternative explanations considered in Section 2.

As a first cut I calculated all nonmilitary expenditures as a fraction of GDP. Removing military expenditures allows us to consider public spending on services not directly associated with the provision of national defense, which has two purposes given the discussion in Section 1. First, in accordance with Richard and Meltzer (1981), assume that the military provides the public good of national defense. It would be obviously inappropriate to consider military expenditures as constituting redistribution and they should therefore be excluded from our measure of government size. On the other hand, the Argentine military was often used as an integral part of “Federal Interventions,” helping to quash local insurrections and bringing renegade provincial governments in line. If a significant portion of military spending is dedicated to such activities, the relative decrease in total expenditures from 1912 to 1930 (see Figure 1) could be driven by a decline in coercion under democracy.

We can put both worries to rest with a refined measure of government size based on nonmilitary expenditures (see Figure 4). As was the case for total expenditures, nonmilitary expenditures also are systematically lower in the democratic period than in either of the non-democratic periods. I repeat the exercise with yet a third measure of the size of government, this time including domestic expenditures only. I exclude from this measure expenditures by the Ministry of Defense and the Ministry of the Exterior, expenditures on infrastructure for international trade (the customs house in particular). Even this bare-bones measure of government size remains unchanged by electoral democracy.

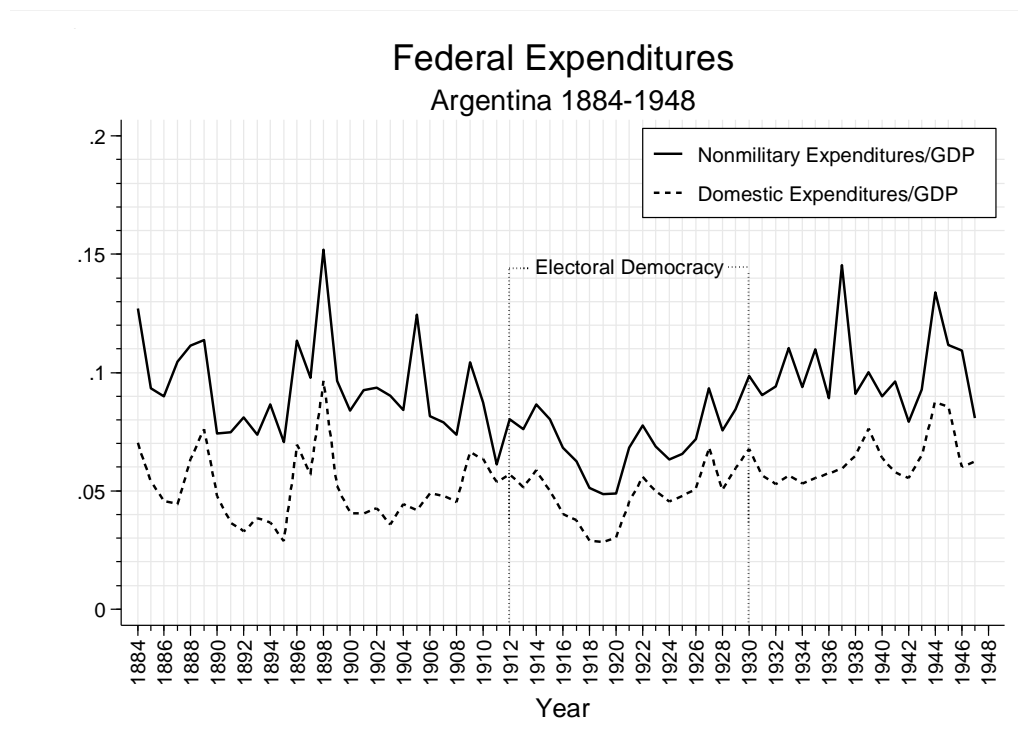


Figure 4: Nonmilitary and domestic expenditures as a fraction of GDP. Source: Elis (2008), except GDP data from della Paolera et al (2003).

Finally, I present (slightly) disaggregated expenditure data by function (see Figure 5).

Spending by the Ministry of the Interior includes infrastructure projects such as roads and sewers, communications (e.g. the postal service, telephones and telegraphs), the Department of Hygiene, National Police, and the administration of the National Territories. Spending by the Ministry of Justice, Culture, and Public Schooling supports the court system, subsidies to the Church, and importantly public schooling. Finally, Extraordinary Expenses is a catchall category used in the budget reports to cover an eclectic range of projects and services.

Though only some of these services would be redistributive in the sense of direct transfers, they do fit the Richard-Meltzer definition of redistribution. These data show that there is no discernable difference in spending patterns in democratic and non-democratic years. In fact, spending by the Ministry of Justice, Culture, and Public Schooling increases around 1905 –

under oligarchy, not democracy. As I show in the next section, this is driven by an increase in national support for public schooling at the primary level.

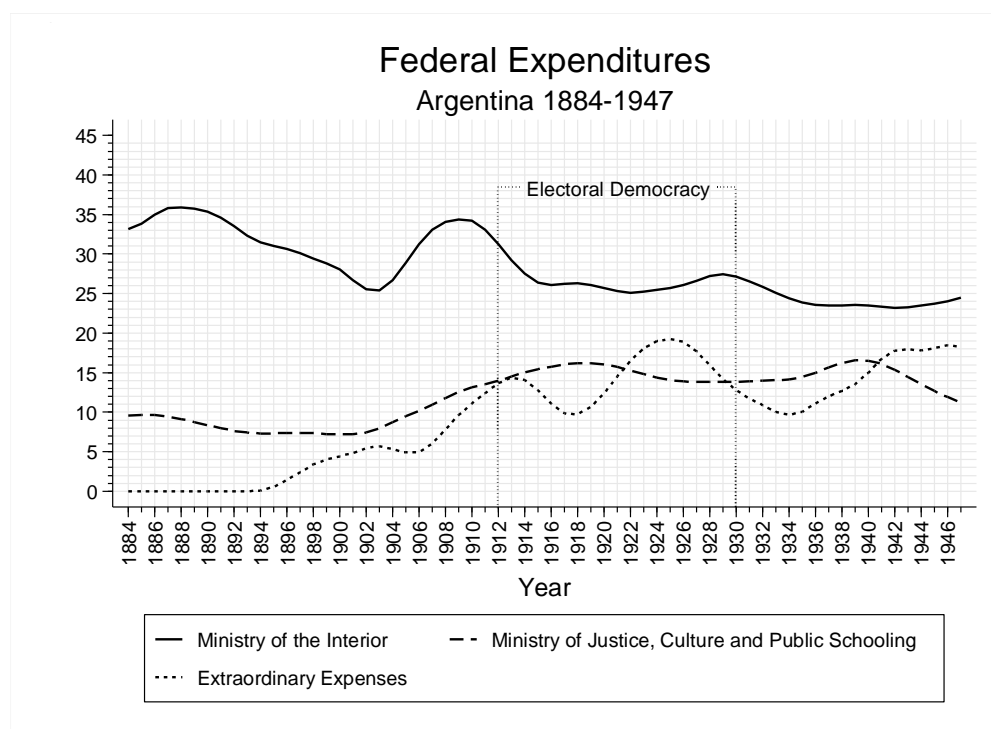


Figure 5: Composition of federal expenditures. Source Elis (2008).

## Section 5: Public Primary Schooling

Schooling presents an interesting case of redistributive government spending. It is not only redistributive in the short run, but has long-term consequences as well by redistributing opportunities for the children of the poor to compete with children of the wealthy in the long run (Ansell 2006). Of course, not all public schooling is progressive. Lindert (2004) argues that investments in public tertiary schooling at the expense of primary school funding is one of the hallmarks of elitist, regressive public policies. Moreover, several recent works in political science have made explicit claims that democracy leads to greater provision of public primary schools - e.g. Stasavage (2005), Baum and Lake (2003), Lake and Baum (2001), Brown and Hunter (1999), Lindert (2004), Mariscal and Sokoloff (1999), Ansell (2006) and Gallego (2003).

Finally, data on schooling allow us to measure an actual outcome rather than restricting our attention to spending levels alone.

**Organization of Argentine Schools** In accordance with the Constitution of 1853, schooling was left in the hands of the provincial governments, which often included schooling legislation into their respective provincial constitutions (citation needed). In contrast to the United States, where political authority over schools devolved to local districts, public primary schooling in Argentina remained in the hands of Provincial governments.

Argentine primary schools fall into one of three sources of administrative control called *dependencias*. Public schools are run either by the provincial government (*escuelas fiscales provinciales*) or by the national government (*escuelas nacionales*). The national government also ran a small handful of primary schools associated with national teaching colleges (*escuelas anexas*), which I group with national schools to simplify the analysis. Private schools (*escuelas particulares*) tend to be religious, though immigrant communities sometimes established secular private schools. The *dependencia* indicates not only how schools are administered, but also how they are funded. For example, provincial schools in Santa Fe are funded by a mix of provincial and municipal taxes while national schools in Santa Fe are funded by national taxes.

**National schools and the *Láinez* law (1905)** Prior to 1880, the national government did not directly administer primary schools<sup>5</sup>, although it did subsidize schooling in rural provinces<sup>6,7</sup>.

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<sup>5</sup> Except for the Annexed schools described above. Similar to modern lab schools. See Informe 1881 for role of 1871 law on subvenciones.

<sup>6</sup> To be explored in later chapters. In particular – why did the oligarchy spend \$ on rural schools?

<sup>7</sup> After the city of Buenos Aires (*Capital Federal*) was federalized in 1880, the national Board of Education (Consejo Nacional) assumed responsibility for its schools, which until then had been administered by the Province of Buenos Aires.

In a move considered by many to be an unconstitutional encroachment on provincial autonomy, the national government begins to directly establish its own schools in the provinces under the *Láinez* law, which is passed on October 19, 1905. These schools are nationally funded, governed, and administered. The first ones appear in 1906 except for Buenos Aires where they are not introduced until 1909.

The *Láinez* law aimed to alleviate illiteracy, particularly in rural, “backwards” provinces (citation of debate/law). Chapter [X] explores in detail whether the creation of national schools actually followed this logic, but it is clear that the *Láinez* law dramatically increased national funding for primary schools above the levels established by the preceding regime of subsidies (subvenciones – 1871, 1890, etc). The passage of the *Láinez* law challenges established theories of democracy and redistribution: why would an oligarchic government boost public funding for primary schools in poor, rural areas?

**Primary School Enrollment**      The first measure is enrollment, the penultimate outcome of public schooling (education being the ultimate). An advantage of enrollment figures over fiscal measures as in previous sections is that it captures not only whether the state invested more money, but whether that money was well-spent in producing the services demanded by voters. Expenditure measures carry the risk of reflecting either inefficiency, corruption, or both.

Enrollment figures are normalized by school-aged population. I use 6-14 as the relevant school age. Although not all provinces chose the same age ranges for mandatory schooling (some chose 5-14), Law 1410 establishes this as the national norm – even if it wasn’t enforced. [can include in the appendix a table of mandatory ages by province]. The interpretation of *trends*

is unaffected by this choice, but it should be kept in mind that using the 6-14 age range as the denominator might inflate enrollment *levels* by up to 10%.

Figure 6 plots the time-series of enrollment in primary school as a fraction of 6-14 year-olds, by *dependencia*. Following the top of the area graph allows us to make a few key observations about total enrollments. First, from 1885 to about 1940, enrollments in Argentina's primary schools rose at a steady pace. There are no obvious breaks that coincide either with the transition to electoral democracy in 1912 or with its demise in 1930. There is simply no evidence that electoral democracy caused enrollments to grow. There are, on the other hand, several breaks in the trends line *within* each period.

We observe a noticeable acceleration in enrollments around 1908. Enrollments grew  $x\%$  per year on average for the decade preceding 1908 and  $y\%$  per year on average for the decade following it. The expansion of national schools in particular is evident in Figure 6 and reflects the passage of the Láinez Law (*Ley Láinez*) rather than a change on the part of the provinces. Why would an oligarchic government pass such a law? We also notice a *fall* in enrollment rates after 1923 – in the heart of the democratic period – for the first time in over 20 years. The dip in enrollment might reflect an increase in child labor during the economic boom of the 1920s though a demand-side explanation is inconsistent with the lack of a spike in enrollments during the economic recession from 1913-17 (citation needed - Rock).

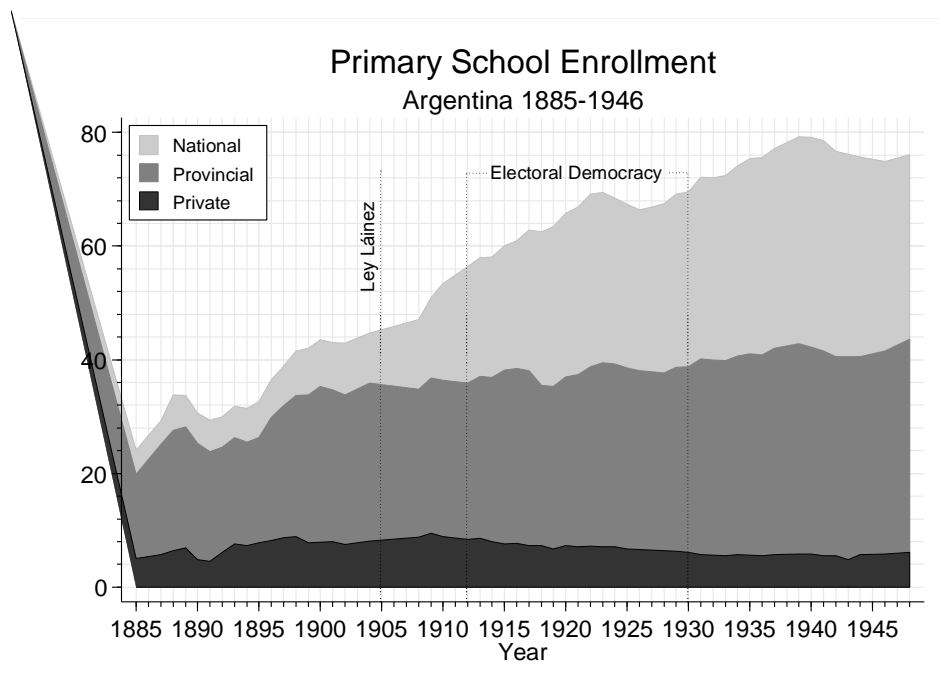


Figure 6: Primary school enrollment as a fraction of 6-14 year-olds.

In principle, however, enrollment rates are subject to short-term fluctuations in demand, whether due to an increase in the opportunity cost of schooling or for some other reason. We can mitigate this concern by analyzing schooling inputs that are less sensitive to short-term fluctuations in demand. The size of the teacher labor force and the stock of school buildings are the most obvious candidates. Paralleling the pattern of enrollments, the number of primary school teachers generally trends upwards whether under oligarchy, democracy, or military rule (Figure 7) except for a slight drop around 1923.<sup>8</sup> Moreover, school construction actually *declines* in relation to the school-aged population after 1912 (Figure 8). The end of the democratic period in 1930 is accompanied by a drop in the number of schools, but this is

<sup>8</sup> The spike in the number of teachers around 1930 is driven entirely by changes in the Federal Capital and doesn't reflect broader changes at the national level. The sharp discontinuities in the data for the Federal Capital may reflect a temporary change in accounting procedures or a clerical error, though I could not confirm this from the primary source documents. Another explanation is that the spikes are real, and represent vote-buying efforts by the UCR in the waning days of their regime. This is, of course, pure speculation.

temporary<sup>9</sup> and the overall number of schools across the three periods is about equal (x% y% z %)

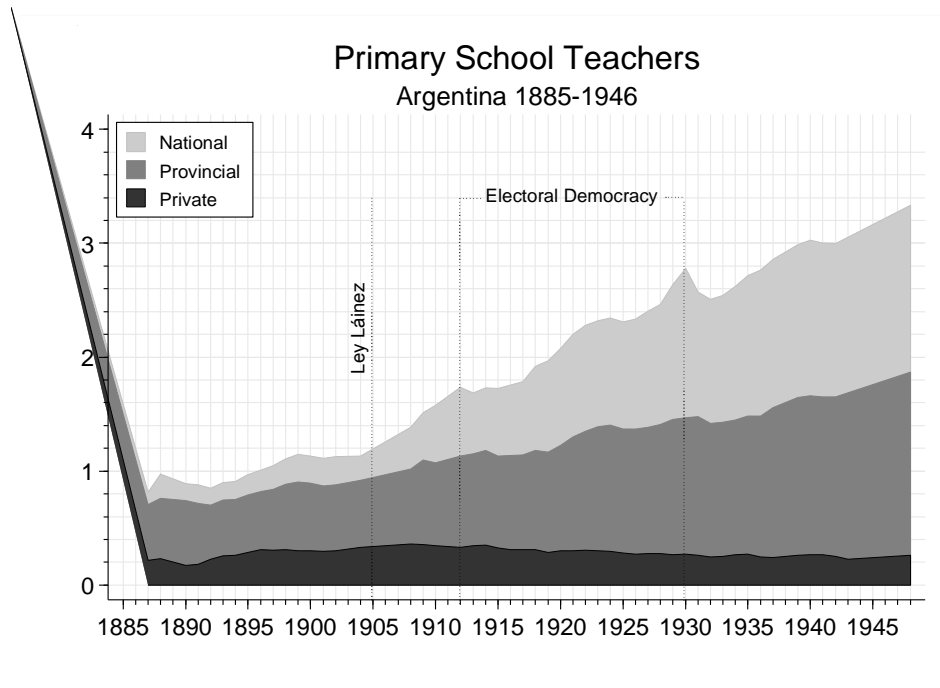


Figure 7: Primary school teachers per 100 children aged 6-14.

Looking beyond the subtle ticks in the data, primary schooling in Argentina experienced slow and steady growth throughout the entire period. Electoral democracy between 1912 and 1930 did little to boost the carrying capacity of the school system, the size of the teaching force, or the enrollment of school-aged children.

<sup>9</sup> Where any schools actually shut down? Why?

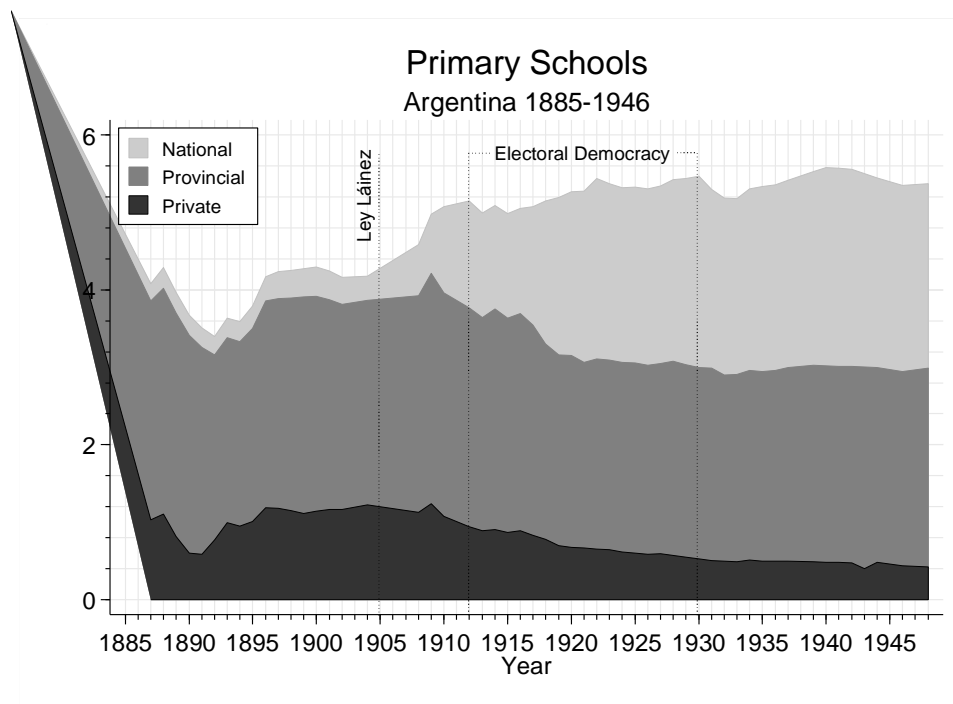


Figure 8: Primary school buildings per 1,000 children aged 6-14.

## Section 6: Discussion

Not a single piece of evidence lends support to redistributive theories of democracy (e.g. Meltzer and Richard 1981). Electoral democracy did not increase redistribution as measured by the size of government, by taxes on land, on capital gains, on inheritances, on luxury goods or on income. To the contrary, Argentina's first income tax, which was progressive, came under a non-democratic, military government in 1932. The national government passed its first major legislation to support free public schooling in 1884 and significantly increased national funding in 1905 – both under oligarchy. On the flipside, the democratically elected UCR did little to accelerate investment in primary public schools between 1916 and 1930.

We can also put to rest Boix's (2003) claim that democracy only produces redistribution under conditions of inequality. Argentina was certainly unequal. Once we start to consider the

historical context more closely, we can also put to rest Acemoglu and Robinson's (2006) story about democracy as a redistributive political bargain between the wealthy and poor. I offer a sketch of the argument below but a full treatment awaits later chapters.

The first relevant piece of historical context is that conflict in Argentina was never between rich and poor. Rather, political conflict in Argentina revolved around regional cleavages among political and economic elites. The leaders of the UCR were only radical in name. They were fundamentally an elite out-group – a remnant of the losing factions from the uprisings of the late 19<sup>th</sup> century. In terms of policy and ideology, the Radicals were “mostly conservative in orientation” (Rock 1987; pg.186). The Socialist party considered the Radicals “an atavism of ‘creole politics’ ...descendants of earlier oligarchic factions” (Rock 1987; pg. 188). Argentine politics did not pit rich against poor and democratization was not a grass-roots process. It is quite clear that democratization was the outcome of intra-elite conflict and that the incentives of politicians reflect that cleavage. I intend to fill out this story in much greater detail in later chapters.

Even if I'm right and electoral democracy was the result of intra-elite conflict rather than bottom-up redistributive pressures, the logic of the median voter logic behind redistributive views of democracy should still hold. Parties will choose the ideal point of the median voter without regard to their own policy preferences or the status quo ante. Why, then, did the threat of electoral punishment not create an “electoral connection” (Mayhew 1974) inducing the UCR to increase redistribution in spite of their own conservative views? My answer, in broad strokes, is that electoral responsiveness requires more than multiparty competition among existing elites. It requires that all interest groups have the freedom to organize politically and threaten entry into

the political system. Argentina's political system lacked these features. I expand this line of thought in Part II of the paper.

### Section 7: Next Steps

Subsequent chapters of my dissertation build on this negative finding in two ways. First, I explain in general terms why introducing electoral democracy (expanding suffrage) is not sufficient for producing redistribution. I offer a sketch of this argument in Part II of this paper and include some evidence from the Argentine case. Second, I explain why we do observe the counterintuitive rise in redistribution in non-democratic periods. In particular, how can we explain education reforms under the oligarchy in 1905 and the introduction of the income tax in 1932 under a military regime?

I haven't yet fully developed the argument, but the thrust of it is that these phenomena reflect the specific nature of elite-level competition in Argentina. In particular, they reflect the process in which political power was centralized in the hands of the Federal government at the expense of the provinces beginning around 1880. As preliminary evidence I offer the following details: Both the nationalization of schools and the levying of a national income tax were unconstitutional encroachments on the rights of provinces. Argentina's Constitution explicitly protects the rights of the Provincial governments in matters of schooling and direct taxation. The federal government could legally subsidize schooling and levy indirect taxes (e.g. sales and excise taxes), but nothing more. In later chapters I develop the argument that centralization of power rather than democratization drove redistribution in Argentina in the period under study. These chapters rely on subnational analyses at the provincial level and on analyses of voting behavior in the Argentine Congress.

## **Part II: Median Voter Models Under Limited Political Access**

What follows is a very early sketch of my thinking on why expanding suffrage does not necessarily lead to redistribution followed in general terms. In the following weeks I plan to develop these intuitions into a full model.

### The canonical model

The canonical model from which this literature derives the democracy-redistribution is Meltzer and Richard (1981), which assumes the standard median-voter framework. The implication of democratization (suffrage expansion in particular) is that the identity of the median voter shifts downwards, thus increasing net redistribution. We know, however, that the Downsian median-voter model makes fundamentally problematic assumptions, which are especially significant in the context of developing democracies. While the limits of the Downsian model have been well-researched (e.g. Alesina (1988) – see below) they have not been linked to the Meltzer-Richard model or to arguments about democracy and redistribution more generally.

As a quick review: the parties in the standard Downsian model don't care about policy outcomes, only about winning elections. Secondly, parties can make binding pre-commitments. That is, the model assumes that the policy each party announces is the policy it will implement if elected, regardless of its own ideal policy. This makes perfect sense if we assume that parties don't care about policy outcomes at all. It is straightforward to show, however, that the median-voter result is robust to the inclusion of party policy preferences. In the context of the discussion in Part I, this means that the parties should have converged to the median despite their own

conservative stances. Less-discussed in political science (ironically) is the assumption of binding pre-commitments. In an important theoretical paper, Alesina (1988) drives home the point that when parties care about policies, the assumption of binding precommitments is vital to the median-voter result. Without it policy divergence is the unique equilibrium.

What follows is a simplified adaptation of Alesina (1988). The main features of the model are as follows: There are two parties in a median-voter framework with determinate voting<sup>10</sup>. Parties care both about winning office and about policy outcomes. Though we usually assume that there is a left and right party flanking the ideal point of a median voter, in the context of suffrage expansion, it makes more sense to assume that the ideal point of a newly enfranchised median voter is to the left of both parties. These features alone do not at all alter the predictions of the standard median-voter model in which both parties converge to the median (see Games 1 and 2 below).

The crucial idea that Alesina introduces is the time-consistency problem inherent in the electoral process. In particular, rational parties will announce any platform they need in order to get elected, but have an incentive to deviate to their preferred policy if and when they are voted into office. The standard model simply assumes away the commitment problem, but without binding precommitments, policies do not converge to the median voter's ideal point. In what follows I harp on this issue and consider some implications for theories of democratization and redistribution.

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<sup>10</sup> Alesina (1988) and related papers assume probabilistic voting, though I don't think it's crucial in my setup. Probabilistic voting allows for analyzing convergence in abstraction from a median voter and also smoothes the utility functions of the parties so that partial convergence is possible.

### An adaptation of Alesina (1988)

Policy space, players and payoffs:

- Policy space  $X \in [0,1]$
- Policy  $x \in X$
  
- Parties  $j = 1, 2$
- Party Preferences  $v_j(x, h)$ . Each party  $j$  gets a bump in utility  $h$  for winning the election and has single-peaked preferences  $w$  over  $x \in [0,1]$ . Call party  $j$ 's ideal point  $\hat{x}_j$ .
  
- There is a continuous distribution of citizen types with CDF  $F$  and with single-peaked preferences defined over  $x \in [0,1]$ . Call the median voter's ideal point  $\hat{x}_{mv}$ .
  
- The payoff for party  $j$  is  $\pi_j(x_1, x_2) v_j(x_j, h) + (1 - \pi_j(x_1, x_2)) v_j(x_k, h)$ . That is, it's the probability of winning times the value of winning (own policy +  $h$ ) plus the probability of losing times the value of losing (opponent's policy). Since voting is determinate,  $\pi_j$  is either 0 or 1 (but see footnote 1 on how this works in Alesina's paper).

Timing:

1. Parties simultaneously announce their platform
2. Voters vote. In case of a tie the winner is determined by coin flip.
3. The winning party implements a policy.
4. Payoffs are realized.

It is worth sorting through a few variation of the game:

**Game 1:**  $\hat{x}_1 < \hat{x}_{mv} < \hat{x}_2$  with binding platforms (i.e. no commitment problem)

Parties have ideal points on either side of the median voter and care both about winning and about the policy implemented. In equilibrium, the parties each announce  $\hat{x}_{mv}$ , there is a coin toss and  $\hat{x}_{mv}$  is implemented. You need to work through a few scenarios to show this, but it's

pretty straightforward. This is the standard median-voter result, which holds despite the fact that parties care about policy outcomes.

**Game 2:**  $\hat{x}_{mv} < \hat{x}_1 < \hat{x}_2$  with binding platforms (i.e. no commitment problem)

Now both parties are to the right of the median. Still, each party has an incentive to announce a policy close to the  $\hat{x}_{mv}$ . If parties only cared about policy and not about winning per se, the equilibrium announcement would be  $(\hat{x}_1, \hat{x}_1)$ . Since the parties also care about winning, however, there is an incentive to move closer to  $\hat{x}_{mv}$  which would barely change the policy outcome but guarantee the extra boost from winning office. This logic implies that the parties each announce  $x_{mv}$ , there is a coin toss and  $x_{mv}$  is implemented. This is the same result as above, and it holds even when the parties both are to the right of the median.

**Game 3:**  $\hat{x}_{mv} < \hat{x}_1 < \hat{x}_2$  without binding platforms (i.e. commitment problem)

Both parties are still to the right of the median but we no longer assume that parties follow through on their announced platforms. Given that parties care about policy, it is natural to assume that once elected, the winner has an incentive to renege and implement its preferred policy. Alesina (1988) refers to this as a time-consistency problem, which we can think of more generally as a commitment problem.

The equilibrium concept is subgame perfection. Assuming complete information (specifically, voters know the parties' true preferences) the only credible platform announcements are the respective ideal points of the parties. In equilibrium, the parties announce platforms of their respective ideal points (though I think announcements might be

indeterminate since the voters ignore them anyhow), the party whose ideal point is closest to the median voter wins and the party's ideal point is implemented. In the current setup that is party 1 with  $x = \hat{x}_1$ .

### Comments on the Game 3

There is no policy convergence to the median voter. As long as  $\hat{x}_{mv} < \hat{x}_1 < \hat{x}_2$ , changing the identity of the median voter (i.e. shifting  $\hat{x}_{mv}$ ) does not affect the implemented policy. Arranging voters along  $X$  as in Meltzer and Richard, we can see why expanding suffrage doesn't radically shift policy to the left (i.e. increase redistribution) even with free and fair elections, and multiparty competition. No matter how far to the left we move the median voter Party 1 will continue to implement its own ideal policy.

The game assumes there is no free entry of additional parties and the unique non-convergent equilibrium depends on it. In particular, it depends on suppressing the entry of parties with ideal points to the left of Party 1. The implication is straightforward and significant for how we understand the value of democratic elections. The threat of entry by parties with ideal positions all along the policy space is high in societies where all interest groups can form political organizations and openly contest political power. In this context, either existing parties move to the median or new parties form and replace them in subsequent elections. The threat of entry is low (and probably restricted to specific segments of the policy space) in societies where interest groups are not free to form political organizations and/or where the barriers to entry are high. In this context, existing elite parties continue to implement their preferred policies rather than respond to the interests of the median voter.

A few side-comments: Party 1 – the relatively-left-leaning-but-actually-conservative-party – has an especially strong incentive to block entry. Ironically, Party 2 has a stronger

incentive to overcome the commitment problem so that it can credibly promise the median position and potentially reap the benefits of holding office. Finally, political competitors don't have to enter as outsiders. In systems where the parties are formed at the grassroots, the identity of party members can change over time and will eventually converge to the median. This is not likely in systems where political entry is controlled from the top.

### Comments on Argentina

Relating the discussion of Game 3 back to the Argentine case: the barriers to entry were particularly high, even between 1912 and 1930, for several reasons. I am in the process of compiling evidence, which is not yet ready for presentation. In the meantime, I offer three empirical assertions. First, Argentina has always employed closed party lists and first-past-the-post in its elections by province. Effectively, legislators were not elected by district, but by province. Province-level party leadership rather than district-level voters controlled the electoral fate of individual legislators. Spiller and Tommasi (2007) discuss the phenomenon in modern times but it harks back at least to the 1880s. In terms of Game 3, the barriers to entry were extremely high in Argentina. New entrants pose a real threat to existing parties only if they can win a plurality of the votes for an entire province. Only major parties and extremely wealthy individuals have the resources to clear this minimum barrier.

Secondly, the top-down structure has been reinforced both at the federal and the provincial levels. The federal government has "intervened" in each of the Argentine provinces on multiple occasions dating back to the first days of the republic. An intervention consists of deposing a provincial governor by military force and replacing the provincial government with allies of the federal government. The provinces have similarly intervened in local politics in

reaction to nascent political organizations as early as the 1893 Farmer's Revolt in Santa Fe, which agitated for local political autonomy (Gallo 1973). That is, nascent political opposition has been suppressed by force.

Third, though Argentina's political geography is similar to the federal structure of the United States, the Argentine provinces are not the U.S. states. That is, the Argentine provinces themselves were extremely centralized. Municipalities imposed few taxes and provided few services. Political and fiscal authority in each province was concentrated in the capital city and access to political power was limited and controlled by the center. The US states provide a striking contrast on this point: states devolved significant tax authority to towns and school districts, there was local democratic control over taxation and the provision of local public goods. The main point is that the narrow geographic distribution of political power in Argentina at the subnational level did not provide a fertile breeding ground for robust grass-roots political opposition

#### Next steps

Endogenizing political entry and empirical testing [to be continued...]