

PRIMARY EDUCATION AND FISCAL POLICY IN MID-19TH CENTURY CHILE: IN SEARCH OF A BALANCE *

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RESUMEN

En este trabajo examinamos una propuesta sobre la organización de un sistema de instrucción primaria en Chile presentada por el entonces diputado Manuel Montt. Este proyecto representó una iniciativa muy anhelada en favor de la difusión de la educación en Chile, a la vez que involucró un diseño organizacional bastante radical. En la medida que el proyecto incluía consideraciones relativas al financiamiento del sistema, éste parece también relevante en cuanto al tema de la organización de la estructura fiscal de Chile. Aunque la propuesta de Montt fue finalmente desechada, las discusiones que ella suscitó constituyen un marco muy ilustrativo para debates fundamentales respecto de las bases de un sistema fiscal en el Chile del siglo XIX.

Palabras clave: Chile, historia económica, educación, política fiscal

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ABSTRACT

In this paper we examine a proposal regarding the organization of the system of primary education in Chile submitted by then Deputy Manuel Montt. This project represented a long overdue initiative in support of the diffusion of education in Chile and a radical way of viewing its organization. To the extent that this project included considerations regarding the funding of this system, it also seems relevant to the organization of Chile's fiscal framework. Although Montt's proposal was ultimately discarded, the related discussions represent an interesting setting for fundamental debates regarding the foundation of the fiscal system of 19th century Chile.

Keywords: Chile, economic history, education, fiscal policy

JEL Classification: N36, N46, H11, I28

1. INTRODUCTION

Educational matters were an important concern in newly independent Chile. Due to both Spanish rule and the fact that Chile was a poor country, the Colonial experience was associated with a sense of cultural insularity which was reflected in a very real educational backwardness. The limited scope and extent of the educational system had, in turn, important economic and political consequences. In independent Chile an educated class was crucial for the organization of a bureaucracy which should assume responsibility for the new national institutions. The establishment of the *Instituto Nacional*, soon after Independence in 1811, was at least in part intended as an initial response to this latter concern. Tackling the problem of the inadequate diffusion of primary education in the country was, on the other hand, a question which was postponed for different reasons. This is the problem we address in this paper with an in-depth examination of the proposals advanced during the years 1849-1850.

Independence also involved the problem of the organization of economic policy in the country, specifically that of fiscal policy. The fact that political and institutional stability, a requisite for the orderly management of economic policy, was not as straightforward as expected after Independence helps explain some of the problems involved in this area; because indeed this was not a simple matter. The establishment of an administrative organization for the government did not constitute a straightforward matter either. The management of economic policy was also conditioned by the

economic burdens of the wars of Independence. This led to a situation in which, despite some partial measures aimed at liberalizing the national foreign trade regime, the pressing urgency of the existing fiscal imbalances together with the existing bureaucratic insufficiencies and a multitude of political problems meant that some fundamental problems regarding the organization of fiscal policy were not tackled. Questions as to how the structure of taxation and expenditure was to be organized, or what principles would govern national public finances were not asked frequently. While proposals were sometimes advanced on these issues, few decisions were finally taken. The fact that these questions were not addressed even several decades after Independence is suggestive of what we could call a bias in favor of the status quo on fiscal issues.

In this paper we will examine a legislative proposal submitted to Congress in 1849 by then Deputy (and future President) Manuel Montt regarding the organization of the system of primary education («*instrucción primaria*») in Chile, which included a funding formula based on a direct «contribution» on income. Ideas regarding the organization of the system of primary education date from at least 1843. However, this proposal is especially interesting both because of the way it viewed the organization of public education and also because it advanced a new vision of the nation's fiscal framework. Although Montt's proposal was ultimately discarded, examination of his project is worthwhile because of the discussions on fiscal issues it brought about, in which many of the most important figures of mid-19th century Chile were involved. In particular we will focus on the following issues: What economic principles inspired and motivated this proposal? What did this idea symbolize in the economic and political context of mid-19th century Chile? Moreover, why did this plan ultimately fail? We contend that the debates on the financing mechanism of Montt's proposal are important because here we find a clear articulation of the substantial contemporary problems facing the still fragile system of Chilean public finances.

2. PRIMARY EDUCATION IN CHILE TILL THE 1840S AND THE CHRONICLE OF MONTT'S PROPOSAL

In Chile the state's responsibility regarding the issue of public education was established in the 1833 Constitution¹. The question as to the organization of public education, on the other hand, was not addressed till many years later. The organic law of the *Universidad de Chile* of 1842, which explicitly stated that the *Facultad de Filosofía y Humanidades* of the University

¹ See specifically Arts. 153 and 154, in Valencia Avaria (1986, I: 172-197). The constitution also stated that municipalities would be responsible for the «promotion» of education and the «supervision» of primary schools (Art. 128, §2 and §3).

would have a key role in the «direction» of primary schools, represented an important step in this area². To a certain degree, this was related to the role that the University would have as a superintendency of education in the country, but it also reflected the state's continued commitment to the transformation of education in the country. As Sol Serrano explained,

«La formación de un sistema nacional de educación durante la República Conservadora ... fue posible porque existía consenso en torno a tres elementos: formar a todos los estratos de la población en la virtud republicana; incorporar el conocimiento racional a la acción, y el deber del Estado de llevar a cabo este cometido» [Serrano (1994), 65].

The educational situation in the country, in the meantime, consisted of municipal schools, schools maintained by religious orders, and a small number of schools financed by means of general fiscal revenues (for a review see, for example, Campos Harriet 1960). This situation was, however, unsatisfactory since, for one, the system lacked uniformity. Moreover, only a small fraction of the population was being educated; according to a contemporary estimate, around the mid-1840s only around 18,000 students were being educated out of a school-age population estimated at approximately 300,000³. This, of course, does not take into account the fact that it is highly probable that the quality of education received by those children who attended school was not that good in any case. In terms of budgetary outlays in education, during the 1840s, expenditure on education only represented, on average, around 3 per cent of total central government expenditure, although it is important to explain that this figure tends to rise⁴.

Given the University's interest in all educational matters, Andrés Bello, the President of the University, reviewed this problem in his 1848 public report in which he highlighted the problems the organization of primary education faced in the country (Bello 1848). Some years later, in his 1854 five-year period report on the state of public education in Chile, Bello returned to this issue, acknowledging the efforts undertaken by the government and municipalities in the opening of new primary schools (as well as offe-

² See Art. 8. The law was published in Vol. 1 of the *Anales de la Universidad de Chile* (1843, pp. 3-10); the articles relevant for our discussion are reproduced in Monsalve (1998, p. 212).

³ Montt in *Congreso Nacional* (henceforth CN) 6/12/1850, p. 36; see also Montt, *El Araucano* (henceforth EA), 8/22/1849, p. 4. Ensuing references to Congressional debates from the year 1849 come from the records reproduced in EA or *El Progreso* (henceforth EP). Our references to these legislative discussions will, thus, indicate the date the session took place and the subsequent date in which the sessions were published either in EA or EP.

⁴ Computed on the basis of the data collected in Jofré *et al.* (2000). The bulk of government expenditure thus corresponds to spending on governmental administration, defense, and justice and security. We should note, however, that since this figure does not include private and municipal spending on education, it should be interpreted with care.

ring his own estimates on the extent of educational enrollment in the country), but observing that such efforts were insufficient to keep pace with the estimated growth of the population (Bello 1854). His implicit message was that, despite the efforts undertaken with the establishment of the *Escuelas Normales de Preceptores*, dating from 1842, something would have to be done to face this problem⁵.

Once political stability had been achieved, primary education did indeed become an increasingly significant issue in contemporary Chilean debates. Educated Chileans had been aware of the virtual abandonment that primary education had suffered during the Colonial years for some time and were gradually becoming more willing to act; a new spirit of cultural enlightenment sweeping through Chilean society in the 1840s and 1850s was especially helpful in this sense⁶. For Chileans, education was considered a civilizing influence. In the words of Miguel Luis and Gregorio Amunátegui, writing in the mid-1850s;

«La mejor forma de evitar revoluciones futuras es enseñar las primeras letras a los niños; la mejor forma de acabar con las revoluciones actuales es enseñar las primeras letras a los adultos» [quoted in Monsalve (1998), 134]⁷.

At the same time, education was also considered an economic factor. Consider, for example, the following comments by the Argentine statesman Domingo Faustino Sarmiento, who lived in Chile during the 1830s and 1840s, and who was deeply interested in educational issues;

«El poder, la riqueza y la fuerza de una nación dependen de la capacidad industrial, moral, e intelectual de los individuos que la componen; y la educación pública no debe tener otro fin que el aumentar estas fuerzas de producción, de acción y de dirección, aumentando cada vez más el número de individuos que las posean» [Sarmiento (1896), 35].

The 1849 legislative proposal by Manuel Montt (then a Deputy) of a *Ley de Instrucción Primaria* to be financed by an ad-hoc contribution on income, was supposed to deal with these problems that had been deferred for

⁵ On the origins of this institution see, for example, Barros Arana (1913, I, pp. 259-262), and Labarca (1939, pp. 112-117).

⁶ A similar diagnosis had been made in many other Latin American countries after Independence and similar reactions were forthcoming throughout the region. For a review of these histories see, for example, Weinberg (1995).

⁷ These political considerations can, however, go both ways. As Newland (1991) explained, in many Latin American countries the issue of public education was associated with a fear of a «subversion of the principle of authority» (339).

much too long. Let us thus consider the chronicle of this proposal in the context of an examination of the different initiatives advanced in this field.

In 1843, probably in validation of the statutes of the University, José Victorino Lastarria presented a project regarding the «arrangement» of primary education in the country, first to Congress and later to the *Facultad de Filosofía y Humanidades* of the *Universidad de Chile* [Lastarria (1907), 11-21]⁸. Public reaction, as expressed for example in *El Mercurio* (henceforth *EM*), commended this initiative for tackling a weighty problem, but lamented that it did not really deal with several key issues such as the definition of the role that the state should have in this field (id: 22-31). An amended project, revised in the *Facultad de Filosofía y Humanidades* and discussed by the University's governing Council, was presented to Congress in July 1848, this time under the auspices of Antonio García Reyes⁹. As stated in its title, García Reyes' proposal considered the «organization» of public instruction, including the organization of public instruction proper (Title I), the role of the tutors, their salaries and prerogatives (Titles II and III), and the inspection of schools (Title IV).

Legislative discussion on this project began almost a year later, in June 1849, and proceeded quite swiftly. After considerable analysis, however, on June 18th the debate was postponed and the formulation of amendments to the project was commissioned to Deputy Manuel Montt (Barros Arana 1913, II: 396; also see different issues of *El Progreso* from June 1849). This change seems to have been related to public discussions on the real merits of the project, especially regarding its completeness since it neglected the financing of the new system (the articles by Domingo F. Sarmiento 1886/1849a, originally published in *La Tribuna* between June 13-16 1849, are relevant here). However, whatever the reasons, Congress agreed on the need to reconsider García Reyes' project and amend it as necessary. In the legislative discussions it was suggested that «the individual the government sent to Europe to prepare a special report on primary education» (namely D. F. Sarmiento) be consulted on this matter. In the end, however, Montt was authorized to work with whoever he wanted and to propose the changes he saw fit to this project (6/18/1849; in *EP* 6/25/1849, pp. 1-3).

Montt presented his rehashed project (which was really a new project) to Congress in August 1849¹⁰. This proposal advanced novel concepts and ideas to deal with the issue at hand, building on ideas and experiences from Europe and the United States. In his motion, Montt openly refers to the

⁸ The narrative relating to Lastarria's proposal is presented in Lastarria (1907, pp. 11-31); Egaña (2000, pp. 49-50); and Campos Harriet (1960, pp. 21-22).

⁹ «Proyecto de Ley sobre la Organización de la Instrucción Primaria» (originally dated July 26 1848), in *EA* 6/29/1849, pp. 2-3.

¹⁰ «Moción presentada al Congreso Nacional por el Sr. Diputado D. Manuel Montt, sobre instrucción primaria» (originally dated August 2 1849), in *EA* 8/22/1849 (pp. 3-4), and 8/25/1849 (pp. 1-3).

experiences of France, Prussia and the State of Massachusetts in the United States as pioneering examples that should be imitated [see *EA* 8/22/1849 (pp. 3-4) and 8/25/1849 (pp. 1-3)]. In fact, this turned out to be a much more ambitious proposal particularly to the extent that it explicitly considered the state's responsibility in this field and also considered the financing of the system as part of the project itself, recommending at the same time a new local contribution as the main source of such financing (in a new Title II, under the heading «*De la Renta*»). This gave the project a decentralized trait, although the system would establish that inspection should be centralized. Regarding these points it is important to note that in Montt's proposal, Sarmiento's ideas, as expressed in his contributions to *La Tribuna* noted above, are unmistakably represented. Diego Barros Arana commented on Sarmiento's influence on Montt's proposal in his well-known *Un Decenio de la Historia de Chile* [Barros Arana (1913), II: 396-398]; the role of Sarmiento's *De la Educación Popular* is absolutely vital here. As Barros Arana mentions, the first edition of this book even reproduced the full text of Montt's project; this is due to the fact that, according to Sarmiento, Montt's proposal «reflects the basic ideas expressed in this work» [Sarmiento (1896), 429]¹¹. The most prominent issues where Sarmiento's influence can be seen are in the financing mechanism and in the organization as such of the system with its decentralized provisions; as Sarmiento himself explained, «a law to organize public instruction must, first and foremost, indicate the income that will support such a system; and secondly, arrange a procedure of inspection, which in essence represents the administration of the system» (1886/1849a, 345-346).

In any case, legislative discussions on this issue resumed in October 1849, at which point questions were raised as to the precedence of Montt's or García Reyes' projects, and especially regarding the financing mechanism of Montt's proposal. As a way to resolve the issue, on October 22nd it was agreed that a special legislative commission («*Comisión Informante*») be formed to study the situation, clarify the precedence issue and the differences between both projects, and present an alternative that precluded the «inconveniences» offered by the contribution proposed by Montt (10/22/1849; in *EA* 11/1/1849, p. 5). The report of this commission, whose members were Salvador Sanfuentes, Manuel R. Infante, Juan Bello and Francisco de B. Solar, was ready in November 1849¹². The commission

¹¹ Note, for example, that parallel to Montt's proposal, in Sarmiento's *De la Educación Popular*, different chapters successively deal with the organization, funding and inspection of a system of public education.

¹² «Informe de la Comisión Especial nombrada para dictaminar sobre los Proyectos de Instrucción Primaria presentados a la Cámara de Diputados por los señores García Reyes y Montt» (originally dated November 7 1849), in *EP* November 14, 15 and 17 1849. Francisco de B. Solar presented a minority report, expressing several additional points in a statement dated November 9 and published in *EP* 11/17/1849.

recommended that Montt's proposal should be the starting point for the study of the problem of the organization of public education. However, at the same time it completely re-formulated the provisions regarding the financing of the system of public education as considered in Title II of Montt's original project and proposed a new substitute Title II with an alternative financing method which did not rely directly on a new contribution. When Congress returned to the issue of public education in June 1850, it formally reaffirmed the proposals of the *Comisión Informante*, thus rejecting Montt's project regarding the contribution for the financing of public education (CN, 1850, pp. 36-49).

3. ON THE ORGANIZATION OF FISCAL POLICY IN MID-19TH CENTURY CHILE

As is well known, Independence brought about significant economic changes in Spanish American countries¹³. In the case of Chile, most studies of this era focus on the process of commercial liberalization then implemented. The evidence in this respect is quite clear (recall, for example, the implementation of the 1811 Decree of Free Commerce), and yet it is important to explain that this policy was not necessarily a matter of ideology but also seemed to have had a political purpose, namely assuring fiscal revenues in anticipation of a military reaction from Spain. As Ricardo Couyoumdjian (1989, pp. 248-262) and John Rector (1985) have explained, this new commercial policy, together with the authorization for the establishment of the so-called *almacenes francos*, or bonded warehouses for the storing of goods awaiting re-export to other destinations, led to a vigorous development of trade in the country, especially during the 1820s.

The wars of Independence involved considerable burdens which acted as important constraints on the management of the nation's economic policy. The direct financing, as well as the indirect legacy of these wars, resulted in an important increase in public debt. However, since the associated accounts were administered in a very disorderly fashion, particularly as different governments successively intervened in securing various loans in different places and under different conditions, an ordering of the internal debt became an imperious necessity. This matter was especially urgent since the existing situation affected the willingness of the public to lend to the government, leading to the consolidation of the internal public debt which, in turn, restored the main sources of government financing (see for example Couyoumdjian 1989, pp. 274-276; Rector 1985, pp. 308-311). Regarding the country's foreign debt, the careless and even reckless manner in which the first foreign loan of 1822 was managed implied that soon after

¹³ See, for example, Halperín Donghi (1973).

this credit was obtained the country would default on its payments. Fiscal authorities would then have to engage in a lengthy renegotiation process in order to try to sort out the existing mess.

Since the 1830s, once political stability had been achieved, Chile experienced relatively strong economic growth as the new trade policy was associated with vibrant growth in the mining and agricultural sectors. From the historical economic statistics collected by Juan Braun *et al.* (2000), we can see that between 1833 and 1839 real GDP grew at an average annual rate of 2.9 per cent, which increased to 4.2 per cent in the following decade, all of this while population was growing at a rate of 1.6 per cent per annum. The ordering of the country's fiscal and commercial accounts under the economic-policy leadership of Manuel Rengifo, then Minister of Finance, was surely important in explaining these results. While a competent system of public administration was not really instituted at this time, Rengifo was responsible for the urgent reform of Chile's fiscal accounts which, until this time, were considered to have been managed in an inept and even questionable fashion¹⁴. Anyhow, and as suggested above, political stability also played a role in explaining this economic performance; one need only imagine the disruption wars and coups can cause, especially regarding the security of property rights, to consider their effect on economic activity.

In any event, during these years the real issue of fiscal organization was not addressed. Throughout this period the structure of taxation remained heavily dependent on taxes on foreign trade as well as other highly inefficient taxes dating from the Colonial period such as, for example, the tithe and the *estanco* (the tobacco sales monopoly)¹⁵. The contemporary analysis by Diego José Benavente (1841-1842) offers a clear picture of this situation. This situation can, however, also be confirmed by an examination of the historical statistics regarding fiscal accounts collected by José Jofré *et al.* (2000). Working with this data we have calculated that, as an average over the period between 1833 and 1859, the *estanco* represented 20.2 per cent of the nation's tax revenues, direct taxes (which include the tithe, the *catastro*, and from 1855 the *contribución territorial*) 8.3 per cent, the *alcabala* (and the so-called *derecho de imposiciones*) 2.9 per cent, and indirect taxes on foreign trade a quite impressive 65.4 per cent of these revenues (the remainder corresponds to several other indirect taxes on national goods and services)¹⁶.

¹⁴ Miguel Cruchaga, for example, notes that the disorder in the government's treasury was such that «no había orden fijo ni regla alguna, ni para hacer pagos ni para recaudar los impuestos, ni para establecer las relaciones legítimas entre los contribuyentes y el Estado exactor, a tal punto que el mismo pago de las deudas públicas debía hacerse más por favor, por empeño o por viveza en el cobro, que en obediencia a los elevados principios a que está sujeta la institución del crédito público» [Cruchaga (1878), 44].

¹⁵ On the colonial origins of the *estanco* see, for example, Villalobos and Sagredo (2004).

¹⁶ Cruchaga (1878-1880) and different editions of the annual reports the Minister of Finance presented to Congress (*Memoria de la Hacienda Pública*) offer further information on the Chi-

The dependency on taxes on foreign trade can be understood in terms of the relative efficiency of such a system of tax collection. However, such a situation was not considered ideal. Some years after Independence, in the early 1820s, Benavente, who was then the Minister of Finance, strongly advocated the ordering of the nation's fiscal accounts in order to institute an organized system of public finances less heavily dependent on a few taxes which were very volatile in terms of their revenues. As he put it himself, «[the current tax revenues] are conditional upon circumstances, they follow the frequent changes in trade conditions, and ... are not enough for the requirements we have assumed upon ourselves» (Benavente 1823; quoted by Sagredo 1997, 302). The political disorder of those times made any progress on these issues quite difficult, and once these problems were solved it was left to Rengifo to address the most urgent problems of the time, mainly with the objective of systematizing and balancing fiscal and international accounts. However, the existing system was still fragile and financial constraints remained present. Calculations based on data for national fiscal accounts (Jofré *et al.* 2000) indicate that, as a yearly average, during the 1830s the Chilean fisc consistently presented a budget deficit, while during the 1840s the government's accounts presented (on average) a fiscal surplus, although this latter figure tends to be too marginal and fragile to imply any significant financial comfort (in the 1850s, for example, deficits returned, on average)¹⁷.

At the same time, fear of the very idea of fiscal reform precluded the possibility of undertaking a fundamental change in the structure of taxation or even facing the question as to what the fiscal requirements should be. This issue had not been resolved in this period. This does not mean, however, that no proposals pertaining to the organization of public finances were advanced throughout these years. During his tenure, Benavente himself proposed several ideas which, nonetheless, were summarily rejected (see the discussion in Sagredo 1997). Another interesting proposal was advanced by Santiago Arcos who, in 1850, would call for the need to implement a direct tax in Chile, arguing at the same time that «the limit of the democratic contribution [must be that of] financing the essential expenses the nation must undertake» [quoted by Cavieres and Vito Paredes (1995-1996), 91]¹⁸.

lean tax system during this period. Latin American countries' general reliance on customs taxes during the 19th century is explained by Centeno (2000). Humud (1974) illustrates the strong positive correlation between tax revenues and foreign trade throughout 19th century Chile.

¹⁷ See also the following contemporary assessment which is relevant here; «Cuando se exige una reforma [al Estanco], se encomia su utilidad, los buenos resultados más o menos probables que ha de acarrear, pero no se indica de un modo preciso, claro y seguro el cómo ha de sustituir el Estado los recursos que van a faltarle por la remoción del impuesto que determinaría la reforma» [Manuel Miquel, «El Estado y las Reformas» (1857), in Miquel 1863, p. 173].

¹⁸ This quotation comes from a document by Arcos with the provocative title of *La Contribución y la Recaudación. Sin aduanas, sin estanco, sin alcabalas, sin papel sellado, sin patentes, sin catastro, sin ramas eventuales* (1850).

Summing up, it can be said that throughout the mid-19th century there was a general awareness that the fiscal organization of the country was far from perfect, and yet it is interesting to note that reform was not considered necessary¹⁹. In a sense, it could be argued that in matters of fiscal policy (and probably in many others as well), at this time there seemed to be a strong majority in favor of the status quo. It is quite likely that this deferral was linked to political considerations; in 1849 *El Mercurio* was adamant in claiming that any attempt at tax reform should start with a change in the electoral system (N.º 6.665, 12/24/1849). The logic behind this contention was, precisely, that the negative effects of many taxes were well known and yet Congress had not acted to reform the fiscal system²⁰.

4. MANUEL MONTT'S PROPOSAL ON THE ORGANIZATION OF A SYSTEM OF PUBLIC EDUCATION IN CHILE

Let us now consider the proposal for the diffusion of primary education advanced by Manuel Montt in light of the educational deficiencies and the fiscal situation existing in Chile in the late 1840s. As a starting point, it is important to explain that the cornerstone of Montt's bill was the fact that the provision of public education should be free of charge for parents and children and financed by the state (Arts. 1 and 2). This position was presumably based on the Constitutional provisions regarding educational matters cited above, as well as on the general national consensus existing in these matters; indeed, this point was never threatened throughout the discussion of the project. This implied that the most important problem faced by the law was related to the financing of these programs. In Montt's own words, «How should we provide for the substantial expenses that the institution and maintenance of schools ... require? That is the central question to be addressed» (*EA* 8/22/1849, p. 4).

For Montt the problem should be addressed thus;

«El Tesoro nacional con sus recursos ordinarios no puede hacer los gastos que las escuelas superiores y elementales de toda la República

¹⁹ For example, consider the following contemporary observations: «Aunque el diezmo sea el impuesto más fuerte y más costoso en su recaudación, y aunque otro tanto del valor en que se remata se invierta en salarios, fletes y ganancias consiguientes, no creemos posible una reforma por ahora, ni por muchos años» [Benavente (1841-42), p. 34]; «La opinión contra el estanco es general, y el estanco subsiste. La repugnancia al diezmo está de manifiesto en las mismas cifras anuales de esa renta, y el diezmo permanece inalterable. La alcabala es mutilada a cada paso en la transmisión de las propiedades, y la Cámara prefiere la mentira de esa renta a su supresión definitiva...» (*El Mercurio*, 12/24/1849).

²⁰ As the editor of this newspaper put it, «no [se] podrá desconocer que no existe la menor uniformidad entre las ideas de la mayoría parlamentaria y las ideas de la mayoría de la población...» (*EM*, 12/24/1849).

demandan. Lo mismo debe decirse de las Municipalidades. Para costear la instrucción y satisfacer la urgente necesidad de extenderla y mejorarla es indispensable un impuesto especial. Si se establece como fiscal, será más oneroso y por consiguiente menos aceptable para el pueblo (...). Un impuesto municipal o por localidades, fuera de no exigir esos gastos inútiles, tendría la ventaja de excitar más el interés de los vecinos, puesto que ellos logran inmediatamente su utilidad y provecho, y que invirtiéndose bajo su inspección, tendrían oportunidad de velar e influir para que su distribución fuese más acertada» (Montt, *EA 8/25/1849*, p. 1).

Thus the expenses related to the law were to be financed locally, through the (relatively meager) funds that municipalities currently allocated to such purposes (plus other donations they received for this same object; on this see Art. 13) and, mainly, through the proceeds of a special ad-hoc contribution which was, in a sense, based on the existing constitutional provisions regarding taxation (Art. 14; see, also, Montt's introductory remarks to his proposal in *EA 8/25/1849*, p. 1). While this latter mechanism (the contribution) was to be the principal source for the financing of public education, it is interesting to note that the project was quite vague regarding its specifics. What seems unambiguous is that the contribution would be based on the taxpayers' assets or wealth (Arts. 14, 16); at the same time, a threshold, such as applied to the granting of voting rights, would be used to determine who would be liable to pay this charge (Art. 15). In this sense, since the proposed contribution was to be charged locally, there was to be a direct correlation between the revenue raised and the expenditure on public education in any given locality. As Montt argued elsewhere, this system established that,

«La contribución propuesta está fundada en una base de igualdad, porque va a recaer sobre todos los individuos que pueden pagarla, y cada uno de ellos la satisfará en proporción a sus haberes (...). Es por otra parte poco dispendiosa en su recaudación, y por mucho que se hagan subir sus gastos, siempre costará infinitamente menos que cualquiera de las contribuciones fiscales mejor establecidas (...). Ella por otra parte va a proporcionarse a las necesidades de cada departamento, porque en cada uno de ellos se impondrá lo que la instrucción primaria exija, y no menos ni más (...). Entre otras ventajas tiene para mí la contribución una que reputo de importancia, y consiste en darle a la instrucción primaria una existencia propia e independiente y que la ponga fuera de los vaivenes y vicisitudes a que quedaría expuesta proveyéndose del Tesoro Nacional» (Montt, in *CN 6/12/1850*, p. 39).

It is interesting to observe that the fact that public education was supposed to be freely provided by the state does not necessarily imply that it

should be publicly provided. After all, public goods can be privately provided. In Montt's proposal both points were, however, inextricably linked. This is not a minor issue and it has had an important effect on Chilean history because the path dependent character of this issue should be quite clear. As public education was supposed to be free, direct user charges were not considered as an option to finance the organization and diffusion of education. Conversely, indirect user charges were very much a conceptual basis for this project. These points were forcefully expressed by Montt as well as by Domingo F. Sarmiento. Montt, for example, was adamant that «[N]o schools can ever be established without an income to support them» (Montt, 10/19/1849 —in *EA* 10/24/1849, p. 3). In *La Tribuna*, on the other hand, Sarmiento argued that there was no state in the world that established free schooling, «like that, purely and simply, without [it] being paid by the same taxpayers» [Sarmiento (1886/1849a), 341]. And he added;

«La contribución para la instrucción primaria ... iría a influir directa e indirectamente sobre el contribuyente. No sabe uno cuánta parte de beneficio le cabe en que se construya un puente en algún punto del Estado; pero sabe muy bien, qué parte le cabe de la instrucción pública dada por el Estado a sus propios hijos (...). Entonces, volviendo a emplearse la contribución en beneficio directo del mismo contribuyente, el gasto de recaudación que importaría un 25 por cien, y el de distribución que costaría un seis, aumentaría inútilmente el monto total de la contribución, haciendo que vaya a las arcas nacionales, y vuelva después a distribuirse entre los contribuyentes (...). La renta de las escuelas, como que va a emplearse en beneficio directo de los mismos contribuyentes, debe emplearse en la misma localidad donde se cobra» [Sarmiento (1886/1849a), 338].

Here we are reaching another important point. Since the proposed contribution is a local tax, the fact that education was supposed to be free of charge for parents becomes quite relative. Note, at the same time, that considering this proposal more carefully, one could argue that it looks very much like a sort of earmarked tax with a redistributive element. Yet is such a hybrid mechanism really possible? Let us approach this problem from a different angle. Since Montt's proposed contribution is essentially a tax, it may be interesting to consider how it fares with respect to Adam Smith's well-known «maxims» on taxation. Recall that Smith established (as a first principle) that «The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state». Additionally, for Smith, taxes ought to be «certain, and not arbitrary»; they should be levied in a «conve-

nient» time and manner; and they should be efficiently administered (Smith 1981/1776, V.ii.b. § 3-6²¹).

While, as we shall see below, Montt's proposal directly addresses the efficiency criteria, our previous discussion raises questions as to the certainty and non-arbitrariness of the proposed tax. More importantly, the ambiguity in Smith's first maxim, which is an early statement of the «benefit principle» in taxation, is clearly reproduced in Montt's proposal. This ambiguity is a feature also present in Chile's constitutional provisions regarding taxation, because, as stated in Art. 12. § 3, the 1833 Constitution ensured «[T]he equal distribution of taxes and other levies in proportion to assets, and the equal distribution of other public obligations».

With this proposal, even those who do not consume the good in question are being taxed. On the other hand, as Dwight Lee and Richard Wagner (1991) explain, in a well-functioning earmarked tax system we should expect to find a correlation between the consumption of the taxed good and that of the good being financed by the earmarked tax. This difficulty could be tackled indirectly if we were to argue that every citizen (or taxpayer) in the polity is supposed to benefit (equally) from public education. This could occur, presumably, if there were significant positive externalities involved in public education. Such an argument was indeed put forward;

«[F]uera del provecho inmediato que ellos [los contribuyentes que no quieren pagar una nueva contribución] buscan, existe otro general y muy importante en que por medio de la difusión de la instrucción se moralicen todas las clases, se disminuyan los delitos, y se promueva la prosperidad común» (*Comisión Informante*, in *EP* 11/14/1849).

The existence of an externality in education was taken for granted throughout the discussions on this project²². Such an argument also turns out to be important in determining the specific form the mechanism to finance the public provision of public education would take and played a central role in the fact that public education should be free of charge²³. That said, it is important to note that the widespread political agreement regarding the importance of the state's leadership in educational matters must also have played a crucial role regarding this point (on these issues, see Serrano 1994).

²¹ For a discussion of Smith's maxims, see Musgrave (1985). In order to be clear, it is important to note that Smith is not mentioned by Montt in this project.

²² Such a view seems to have influential precursors. Since we have referred to Adam Smith and his principles on taxation above, it is interesting to note that in Bk.V.i.f., Smith (1981/1776) has a remarkable discussion from which it is possible to infer an acknowledgment as to the existence of externalities in primary education; on these issues see, also, Musgrave (1985).

²³ On this see, for example, Montt, 10/19/1849 —in *EA* 10/24/1849, pp. 2-3. The fact that the gratuitous nature of education and the mechanisms for its consequent public financing were not considered in García Reyes' original proposal were considered an important «omission» of this project, which was resolved in Montt's project (see, for example, Montt, *id*).

5. (POLITICAL) REACTIONS TO MONTT'S PROPOSAL

When Congress examined Manuel Montt's project in 1849-1850 the deliberations obviously did not take place in a political vacuum. In 1849, Congressional elections were held and 1850 was considered a pre-electoral period since in the following year, 1851, Presidential elections would be held. Cabinet changes also influenced the political environment²⁴. In general, it could be said that after the «conservative settlement», which established a conservative preponderance in Chilean politics in the 1830s, the liberal movement underwent a significant «renewal» (these expressions follow Collier 2003) during the 1840s. Several figures are important in these developments, including José Victorino Lastarria, the leader of the liberal group in Congress, and Manuel Montt himself, who ended up becoming a Presidential candidate in the 1851 elections.

In this paper we will be focusing on the reactions to Montt's project with respect to the proposed contribution to finance the organization of public education, particularly with regard to its implementation at a conceptual level. However, the legislative debates regarding this point also provoked intense discussions concerning the specific outlays involved in this proposal, especially concerning the number of schools to be financed (as a basic principle Montt had proposed the establishment of a school for every 2,000 inhabitants in a given «department»), and the amount of money required to fund the operation of a school (this is an issue which Montt did not address in his proposal, only in the legislative discussions). While expenditure on public education would be very different depending on the precise parameters employed, here we will focus on the principles involved in these discussions. As Montt argued, subsidiary issues such as these were to be dealt with not in the law, but through accompanying regulations to be designed by government authorities (Montt, *EA* 8/25/1849, p. 2). In other words, although throughout the legislative debates and in a number of newspapers, we find several calculations as to the precise sums involved in this law, we believe that the real problem was of a conceptual nature. Let us now back this claim.

A first class of criticisms Montt faced in Congress was based on the fact that taxes on income were not considered acceptable or tolerable. More generally, there seemed to be a negative response to any type of new taxes whatsoever. The arguments here took different forms; note for example the following:

«Yo recuerdo un hecho: que casi todos los Congresos han establecido contribuciones, y veo que ninguno ha extinguido una sola (...). Se dice que es preciso que haya educación, es cierto, señor; pero yo diré también que es necesario hacer ahorros en los ramos de la adminis-

²⁴ These issues are carefully dealt with by Barros Arana (1913, II). See also Collier (2003).

tración pública, para tener esta educación» (Manuel R. Infante, 10/19/1849 —in *EA* 10/24/1849, p. 2).

«[El proyecto] [e]stablece una nueva renta para proveer a la instrucción primaria, porque se dice que cuando se trate de la instrucción primaria la cuestión está en establecer la contribución que ha de sostenerla. Yo digo otra cosa, señor: cuando se trata de contribuciones la cuestión está en saber si el país puede soportarlas con justicia y con igualdad» (José V. Lastarria, 10/22/1849 —in *EA* 11/1/1849, p. 3).

This point was also connected by Lastarria to the «vexations» taxpayers would have to suffer as they paid their taxes due to the way such levies were expected to be collected (Lastarria, in *CN* 6/12/1850, p. 47). This would be especially costly for some groups such as small artisans who, having voting rights, would be subject to this new contribution.

The harmonization of some of the educational provisions considered in the law with sensitive religious issues was also an especially passionate issue; in particular, this dealt with discussions regarding the curricula of the primary schools and the role that the Church would have in their inspection²⁵. Despite the fact that policy dealing, albeit indirectly, with religious questions was a very delicate issue in mid-19th century Chile (and the presence in Congress of forceful priests, such as José Ignacio Eyzaguirre and Francisco de P. Taforó, did not make these discussions any easier) these points could be resolved in Congress²⁶.

Another array of comments dealt with the practical problems involved in this proposal, which were problems to the extent that they were not addressed by Montt and, moreover, seemed quite hard to deal with. Antonio García Reyes, in particular, argued that this proposal was bound to lead to a waste of effort and a loss of focus, when the real issue under consideration should be the organization of education and not an analysis of the structure of taxation²⁷. Moreover, he also argued that this new tax would reduce the flexibility and efficiency of fiscal policy; his reference to the contribution as an «iron law» is quite eloquent in this respect (García Reyes, 10/19/1849 —in *EA* 10/24/1849, pp. 5-6).

²⁵ On this see the Congressional debates on June 5, 7 and 10 1850; in *CN* 1850, pp. 8-27. For a brief review of these deliberations, see Barros Arana (1913, II: 397-398).

²⁶ The underlying problem of religious tolerance, present in Montt's proposal to the extent that parish priests would have the right to inspect religious education in schools (Art. 45), would however return in subsequent discussions on the issue of public education in the 1850s (see for example Egaña 2000, p. 53). On this religious problem in mid-19th century Chile see Collier (2003, pp. 118-121).

²⁷ Among the practical questions posed were the following: How would the system adjust to the fact that people could migrate to another city? How would the land tax assessments be completed? How would the timely payment of the contribution be established? What would happen if, once the required expenditures had been financed, there was some revenue left over from the contribution? (García Reyes, 10/19/1849 —in *EA* 10/24/1849, pp. 5-6).

However, the *Comisión Informante*, mandated to sort out the differences between the propositions advanced by García Reyes and Montt, made a more fundamental critique of Montt's financial scheme. It considered this proposal to be neither «necessary» nor «convenient». Salvador Sanfuentes, summarizing this report, expressed these ideas forcefully;

«Para creer que no es necesaria (...) puedo asegurar a la Cámara, que aunque ella esté penetrada de los mayores deseos de dar a la educación primaria toda la extensión posible, en la actualidad sería imposible, aunque prodigue los caudales para ello (...). [En todo caso] el erario nacional, que en la actualidad sabemos todos que tiene un sobrante considerable ¿no podría erogar 50.000 pesos para la educación primaria? (...). Por lo que toca a la oportunidad ... [se estima] que, la gran mayoría de nuestros conciudadanos no está todavía suficientemente ilustrada para conocer que la erogación que va a hacer para el sostén de la educación en general, puede aprovecharle al mismo contribuyente» (Sanfuentes, in *CN 6/10/1850*, pp. 29-30).

As to the convenience of the contribution, note that this argument presupposes a knowledge problem of sorts; the diffusion of education represents a public good (which also involves an externality), but the population will not voluntarily contribute to its financing as it not aware (or does not believe) that it needs such instruction. It would then have to be up to the government to resort to general fund-financing to provide this service to the lamentably uninformed general public (see also *Comisión Informante*, in *EP 11/14/1849*). As to the actual need of the contribution, the problem lies mainly with the dissemination of the population in the country, which would make it very hard to organize a system of public education that effectively assured the diffusion of education as desired. In this respect Lastarria went even further in questioning the need for a new contribution, as he argued that the problem with so few students going to school and being educated was not related to inadequate financing, but to the lack of public spiritedness of important parts of the Chilean population who did not recognize the importance of education²⁸.

²⁸ «¿[C]uál es la razón de la admirable desproporción que existe entre el corto número de alumnos que frecuentan las escuelas y el gran número que deberían frecuentarlas?, ¿estará esta razón en la falta de fondos? Me parece que no: luego es preciso investigar más, buscar otras causas, y esas causas las encuentro yo, en primer lugar, en la miseria deplorable que pesa sobre la mayor parte de los habitantes de la República, en la incuria de que está dominado el proletario, en la falta de recursos, en la falta de espíritu público; en la falta de conocimientos industriales; en segundo lugar, en la diseminación en que está la población en todo el país; y en otras varias causas ... (...). Así es que si se estableciese por ley la obligación de que todos los padres de familia mandasen a sus hijos a la escuela, esta ley sería ilusoria...» (Lastarria, in *CN 6/12/1850*, p. 44).

At this point it is important to explain that the *Comisión Informante* which, as mentioned, was explicitly committed to the effort of organizing a system of primary education, offered its own proposal for the funding of the system. This was based on the funds currently allocated for public education by local and central government, together with a special charge on wealthy families who educated their children in public schools. This alternative financing method did not rely on a new contribution, although the commission qualified its proposal with a statement that their provisions would apply «as long as no special contribution is established» (*EP*, November 14, 15 and 17, 1849).

Returning to our earlier discussion, and as can be gathered from Sanfuentes' remarks in the previous quotation, an additional reason as to why no new taxes were considered necessary was that a surplus of the fiscal accounts was expected in the short run. Leaving aside such short-term considerations, it is important to note that several arguments against the proposed contribution mechanism were based on financial grounds. For instance, it was claimed that the proposed formula did not really consider the possibility that the existing public expenditure could be re-assigned; one alternative in this line would be to proceed according to an urgency-basis criteria²⁹. In a more general sense, this line of reasoning implied that the existing general-fund revenues should suffice for the financing of public education, especially if this sector was given an effective priority in the government budget. As Lastarria put it;

«Que la Cámara tenga necesidad de ser consecuente, estableciendo los medios para llevar a cabo el derecho que reconoce en el pueblo, no es un antecedente preciso de la consecuencia que se quiere sacar, estableciendo que esos medios deben consistir en una nueva contribución, porque bien puede la Cámara arbitrar otros más adecuados para realizar ese hecho» (Lastarria, in *CN 6/12/1850*, p. 43)³⁰.

The reactions we have examined indicate an alleged lack of awareness on the part of the population regarding the importance of primary education, as well as to financial and organizational considerations that would likewise make new funding for this sector unnecessary. *El Mercurio*, however, argued that they constituted mainly political arguments; in this sense it

²⁹ This is an interesting argument; «¿Cuál es la provincia más atrasada en instrucción primaria? La de Colchagua? Cuántas escuelas deben establecerse en esa provincia en este año conforme a la ley? Tantas: pues destínese la suma necesaria, y pásese a la provincia que sea más atrasada después de Colchagua y así sucesivamente» (Lastarria, in *CN 6/12/1850*, p. 46).

³⁰ From another point of view, Lastarria also explained that «[s]i hay razón para formar una contribución especial con el objeto de proveer a la educación primaria, la misma contribución debe proveer a la administración de justicia por ejemplo. Esta es una necesidad imperiosa también que hay que atender» (*CN 6/12/1850*, p. 45).

was claimed that while they were being put forth, «[a]ll the press, ministerial, governmental, opposition, independent, has clamored for the sanction of the proposed law» (*EM*, N.º 6.628, 11/10/1849)³¹.

6. PRIMARY EDUCATION AND FISCAL POLICY

The Chamber of Deputies rejected Manuel Montt's project as originally proposed on June 12 1850 (*CN* 6/12/1850, p. 49). Consequently, the clauses relating to the financing of public education were changed in line with the recommendations of the *Comisión Informante*. It is interesting to note that this also halted further progress in this field; thus a *Ley de Instrucción Primaria* would only be promulgated in 1860, when Montt was President. While the law that was finally enacted seemed similar to Montt's proposal, it was, in Barros Arana's fitting words, quite different in «spirit» from Montt's original project (Barros Arana 1913, II: 399). Upon examining Title II of this law we find that the public Treasury was to be the main source of finance for public education; municipalities, the proceeds of a contribution «the foundations of which are to be determined by law», and other sources play a secondary role at best (Art. 12 § 2-4). It is clear, then, that the local character of the original financing mechanism with its decentralized features was all but lost in this law³².

Notwithstanding, and as we shall argue, we believe that Montt's proposal regarding the financing of the system of public education is an important case-study in the sense that it displays contemporary sensibilities regarding the problem of the organization of fiscal policy in mid-19th century Chile; the fact that many of the figures involved in these discussions were some of the most important names in Chile during this period makes it an even more significant experience.

Let us open our argument by considering the responses offered by Manuel Montt as well by other political figures and newspapers to the criticisms reviewed in the previous section. This is an important exercise to the extent that it sheds some light on the wider underlying (perceived) effects of the bill as a proposed policy initiative.

On the one hand, Montt quite soundly argued that analyzing only the costs of the proposed initiative was a mistake. When taxation is designed to

³¹ Even the opposition newspaper, *El Progreso*, was initially in favour of this project (10/19/1849), although in the end, following a change of editorship, it supported the report of the *Comisión Informante* (6/13/1850).

³² This law is reprinted in Monsalve (1998, pp. 213-217). Encina (1950) chronicles the legislative progress of this definitive project, which includes efforts by Montt, the nation's President since 1851, to further motivate public opinion as to the importance of public education. It was thus in 1857 that he presented a new bill on this subject to Congress, although this time he gave up on those points which had been most strongly resisted in his previous project. For other reviews of these issues see Campos Harriet (1960) and Egaña (2000).

finance goods which are positively valued by a community, it should be considered as socially beneficial;

«Toda contribución es un mal bajo cierto aspecto, pero no por eso debe rechazársela cualquiera que sea su naturaleza y objeto. Este modo infundado, empírico, de oponerse a toda contribución, nos dejaría reducidos a la imposibilidad de emprender cualquier reforma que demandase algunos gastos, y cerraría la puerta a mejoras importantes» (Montt, 10/19/1849 —in *EA* 10/24/1849, p. 4).

As *El Mercurio* argued in an analogous fashion;

«[L]os Congresos no pueden imponerle al gobierno, representante del Estado, deberes imposibles. Declarar que la nación debe educación a sus miembros ... sin poner a su disposición los medios de atender ese derecho de todo padre y todo hijo de familia que la ley crearía, es engañar al pueblo miserablemente, y comprometer la dignidad del poder público» (N.º 6.614, 10/25/1849)³³.

This argument is related to Montt's contention in the sense that the anticipated contribution was «necessary» to organize and extend a system of public education across the country and «make the republic a reality» (Montt, in *CN* 6/12/1850, p. 39). It is likewise connected with the argument that public education would assist in the process of nation-building, educating new generations who would become voters and active participants in national political and social affairs (Montt, *id*). These points are relevant since they highlight the expected political benefits associated with primary education as a public good, which is an issue that, as noted, had been questioned by some legislators. In sum, Montt was thus able to argue that under the proposed system, the financing of public education would have greater permanent funding and no longer be subject to potential changes in the priorities at general-budget level (see Montt, in *CN* 6/12/1850, p. 39). This is especially significant given the government's reliance on only a few sources of fiscal revenue, thus making the system highly fragile from a financial standpoint. As Sarmiento explained in *La Tribuna*;

«Por el sistema del señor Montt, la educación primaria no tiene nada que ver con las perturbaciones políticas ni financieras del estado.

³³ See, also, Sarmiento in *La Tribuna*: «¿Adónde ocurriríamos por autoridades para mostrar al señor Lastarria, que no contribuir para hacerse el bien a sí mismos, es la prerrogativa de los araucanos, donde el propietario no paga ni educación, ni gobierno, ni ejércitos, ni policía, ni jueces?» [Sarmiento (1886/1849b), p. 391].

Circula como la sangre en el cuerpo, independientemente de la voluntad» [Sarmiento (1886/1849b), 361]³⁴.

Another line of argument in defense of the proposed financial mechanism was based on the claim that the anticipated contribution was not really a new tax, since parents would no longer have to pay whatever fees they were currently paying for the education of their children, which would now be free of charge (Montt, 10/19/1849 —in *EA* 10/24/1849, p. 4)³⁵. Montt even argued that under the new system some parents would probably save money, although this does seem like an unsubstantiated claim (Montt, 10/22/1849 —in *EA* 11/1/1849, p. 4; see also Sarmiento (1886/1849a), pp. 367-378). In any case, according to Montt, the funds necessary to finance the diffusion and organization of public education would have to come from taxpayers. This was a building-block of the proposed legislation as well as representing an additional argument in favor of the proposed project, since the existing tax system was considered by Montt as highly inefficient and distortionary and the new alternative less so; in his own words;

«¿[C]onviene más sacar la renta de las escuelas de una nueva contribución sobre los particulares, o de las contribuciones fiscales? En último resultado los particulares han de pagar estos gastos, bien bajo la forma de un nuevo impuesto, bien como una parte de lo que pagan en el día a beneficio del fisco (...). Queda, pues, por averiguar, cuál contribución es peor, si las fiscales clasificadas como se acaba de hacerlo, o la que se propone de nuevo (...). Elíjase cualesquiera de las contribuciones fiscales, el diezmo, por ejemplo: ¿cuánto cuesta su recaudación? ¿cuánto cuesta la recaudación de las demás contribuciones? En mí concepto no bajan de un cincuenta por ciento tomando un término medio. La contribución para las escuelas, por dispensiosa que se la suponga, no costaría nunca esta cantidad tan subida» (Montt, in *CN* 6/12/1850, pp. 47-48).

Note that this is an important claim. Here Montt was addressing the relative efficiency of his proposed levy, but were his calculations regarding the efficiency of the existing tax system accurate? It is interesting, at this

³⁴ See also the following comments by *El Mercurio*: «Señalar una partida en el presupuesto general de gastos del Estado para la instrucción pública, no es asignarle esa suma. Eso es una mera promesa que las circunstancias se encargarán de cumplir o de frustrar.. En Chile no hay otro medio de hacer infalible la renta que el propuesto por el señor Montt...» (N.º 6.614, 10/25/1849).

³⁵ Montt also attempted to establish a correspondence between the proposed contribution and the already existing charge for the funding of «serenos» in cities such as Santiago (Montt, 10/22/1849 —in *EA* 11/1/1849, p. 4). What he was really arguing here was that the planned scheme was not really as unprecedented as the reactions it arose would lead one to imagine. In any case, one should keep in mind that there is a conceptual difference between a user charge and an earmarked or local tax.

point, to consider that in his evaluation of the country's national finances referred to above, Diego J. Benavente (1841-42), while recognizing the existence of several inefficient taxes, was much less disparaging about the overall efficiency of the system. Other observers, for example the editors of *El Mercurio*, were highly critical of the existing system, in particular of the tithe and the *estanco* (N.º 6.613, 10/24/1849; N.º 6.739, 5/20/1850). Likewise, *El Progreso* also expressed a strong dislike of the existing fiscal system (see, for example, 1/17/1850). It should also be recalled that Lastarria (as well as Manuel R. Infante) had also complained about the vexations that taxpayers currently faced as an argument against any new tax. While it is not possible to resolve this question here, these observations do point to fundamental problems with Chile's tax system that were not dealt with by the country's political elite.

What is evident from these discussions is that the precise form or structure a given tax system takes is indeed an important issue from the point of view of public opinion. Statements claiming concern for the welfare of taxpayers were advanced both by supporters and opponents of the proposed contribution, although the supporters of the contribution were faced with a harder task³⁶. The peculiar characteristics of Chile's system of political representation seem relevant here. During the period under consideration, taxpayers were an especially important subset of the population; they were voters. However, since electoral intervention was rampant it could be expected that political discussions sometimes ran parallel to the problems really affecting the population³⁷. In this manner one could argue that there may have been an asymmetry in the degree to which the costs and benefits of the project were perceived by those affected by it. As different observers implicitly remarked, those who would pay for the proposed system were probably more sensitive to these problems, as well as constituting a more defined group.

7. IN CLOSING: THE POLITICAL ECONOMY OF MANUEL MONTT'S PROPOSAL

Why did Manuel Montt's proposal fail? In a sense, this question has been partly addressed above, but let us examine this problem from a political economy of view. The vagueness of certain elements of Montt's contribution together with its distributive component are relevant in this context. In particular, one can imagine that the precise rate and tax base on which the new contribution was to be levied would be variables where it would be important to have some clarity; this would be especially so for the Congressmen

³⁶ For such attempts see, for example, Sarmiento (1886/1849b), p. 382; Rengifo in *CN* 6/10/1850, p. 27; and Montt, 10/22/1849—in *EA* 11/1/1849, p. 4.

³⁷ On this see the comments by *El Mercurio* in footnote 20 above.

themselves who, according to the 1833 Constitution, had to comply with specific income prerequisites in order to hold office³⁸. This would be an additional reason for those who would bear the main burden of the contribution to be sceptical of this funding mechanism. Montt himself acknowledged the existence of some uncertainty regarding the determination of the contribution but minimized its influence (see, for example, Montt, in *CN* 6/12/1850, pp. 39-40), and did not seem to make any significant, or at least successful, effort to clarify this point³⁹.

On the other hand, and as suggested above, the political discussions we have reviewed clearly reflect contemporary partisan squabbles. In this respect *El Mercurio*, sympathetic to the government, refers to the role of «small passions» and «mean selfishness» as factors obstructing progress in the legislative deliberations on this issue (N.º 6.612, 10/23/1849; see also, N.º 6.825, 6/29/1850); the approach followed by the opposition-inspired *El Progreso* during the discussions of this project could be interpreted in this sense (see footnote 31 above). Note that Lastarria was even accused of opposing the proposal in question only because it was advanced by Montt (*EM*, id and also *EM*, N.º 6.609, 10/20/1849). It is not clear, however, whether these differences between Lastarria and Montt were related to the fact that Montt was acquiring a Presidential aura in the context of the impending elections (In early 1850 *El Progreso* did, however, refer to him as the «great priest» of the government coalition; *EP*, 1/5/1850). After all, Montt and the liberals had clashed politically several times. The discussion of the 1850 budget which the opposition, led by Lastarria, attempted to block was one particularly noteworthy episode⁴⁰.

However, it should be noticed that opposition to Montt's proposal was not restricted to liberals, and included several government figures; for example, the views expressed by Antonio García Reyes, reviewed above, are especially noteworthy when we consider that he was then Minister of Finance. *El Progreso* was perplexed on this issue;

«Si creyésemos capaces de sistemas a los Ministros de junio, diríamos que la oposición a la ley de instrucción primaria era el desarro-

³⁸ Art. 21 established the requirements Congressmen should comply with, while Art. 34 established the equivalent requirements for Senators.

³⁹ Diego Barros Arana was quite critical of Montt for his naiveté in advocating the direct contribution as part of his project on public education, an idea which, according to Barros Arana, had no hope of success whatsoever (1913, II, p. 398). Maybe this criticism is indeed appropriate at this point.

⁴⁰ On this episode see, for example, *EM* 1/9/1850 and 1/12/1850, and *EP* January 10 through January 12, 1850; see also Barros Arana (1913, II: 367-376). It is interesting to note that when discussing this controversy, *El Progreso* acknowledged that the attempt to block the budget was motivated by a «political objective» (namely to force political changes in the country), but a «greater objective» is also mentioned; this refers to the strong desire to «renovate» the country's fiscal system (1/17/1850).

llo de un plan de hostilidades contra la educación en general. Pero no tenemos de ellos una idea tan aventajada...» (3/8/1850).

This comment leads us to a different point which makes the liberal opposition to this project seem quite surprising. The argument that the diffusion of primary education could be connected to the development of democratic virtues in the country was constantly brought up throughout the discussions we have reviewed. However, in an article in the *Revista de Santiago*, Juan Bello argued that «there are many» who believed that providing instruction to the popular classes (derisively called «*rotos*») could also lead to a subversion of authority (1849, 323). One would imagine that an attitude such as this, whether actually widespread or not, would provide momentum for the support of the project among liberals, but this did not happen.

A discussant of this paper has commented that it could also be argued that Chile was simply not prepared, from an institutional standpoint, to implement a proposal such as that advanced by Manuel Montt. In this sense, it is important to bear in mind that this proposal was closely related to a series of other issues, especially the organization of fiscal policy as well as the matter of administrative powers and functions of municipalities; moving forward on one line required corresponding steps in the others, and the national institutional matrix was simply not equipped for such a move⁴¹. Note that under this view the institutional structure includes a system of rules and administrative procedures which were neither available nor easily established. This was an important objection Antonio García Reyes had to this project;

«[E]n vez del primer proyecto que se nos ofrecía claro y expedito en la materia de instrucción primaria, tenemos ahora un objeto doble; nos hemos embarazado en nuestra marcha, nos hemos complicado, iniciando una materia extraña i tan espinosa, que yo tengo la firme convicción de que pasarán muchos años antes de darle solución» (*EA*, 10/24/1849, p. 5).

Regarding the functions of local governments, it is also interesting to note that, especially in Sarmiento's writings, the financing mechanism was tied to a sort of decentralized organization which made the whole system of public education look like a step towards a federalist system. Together with the strong local character of the proposed contribution, this may have seemed unacceptable in a country accustomed to a centralist administration of its government affairs and especially of its public finances⁴².

⁴¹ This point was also made in *El Mercurio* N.º 6.627, 11/9/1849. Note, incidentally, that in the *Revista de Santiago* it was also claimed that this issue of public instruction was related to the question of the expansion of voting rights in the country (May 27, 1850; p. 162).

⁴² I am grateful to Gert Wagner for this observation in an early presentation of this paper.

The political reticence to consider a fiscal reform as a complement of a project for the diffusion of public instruction seems hard to reconcile with the consensus on the need for some type of educational reform, as well as with a general awareness of some severe problems in the nation's fiscal structure. Insights from the spatial theory of voting can help illuminate the more general problem. The fact that we are dealing here with a multidimensional issue space, i.e. that the discussion surrounding Montt's proposal not only involved educational issues, is key here. In such a context, we should not expect to reach a political equilibrium, as Melvin Hinich and Michael Munger (1997) explain. When a stable equilibrium was achieved in 1860 the problem was different in the sense that the most controversial related issues were removed from the project under examination and thus not considered. This new equilibrium also reflects a process of consensus building by Montt, who was then President; the founding of a new paper to promote educational developments in the country, and a contest organized in 1853 to deal with the problem of the advancement of primary education are relevant in this sense⁴³.

It should, however, be noted that during the discussions we reviewed, the effectiveness of new investments in public education was called into question as a way of improving educational backwardness. Likewise, the very need for additional funds was doubted by some commentators. We believe that these issues point to fundamental political constraints for fiscal reform⁴⁴. It seems reasonable to presume that the existing fiscal structure was politically efficient, at least in the context of the contemporary political system; therein may lie the basis for the predilection for a status quo in fiscal matters. In 1849 *El Mercurio* shrewdly observed that if a new contribution was opposed because the current tax level was already too heavy a burden on the population, this should provide the justification for a comprehensive reform of the fiscal system; it was even claimed that «Congressmen are afraid» to deal with this issue (N.º 6.613, 10/24/1849). The limited tax bases existing in Latin American nations during the 19th century have been linked by Miguel Angel Centeno (2000) to the low income levels of these countries; in this context, the possibilities for fiscal reform in a country like Chile seem restricted. Different types of fiscal constraints would also make hypothetically efficient political transactions impossible, highlighting the role of political (and institutional) constraints as fundamental elements of a fiscal reform. In all, discussions similar to those which arose in 1849-1850 would come up again and again in Chile during the 19th century (see for

⁴³ On these points see Egaña (2000).

⁴⁴ The arguments put forward by Elisa Mariscal and Kenneth Sokoloff (2000) in the sense that the existing political and economic inequality in Latin America may have influenced the decisions to postpone the expansion of educational systems are, on the other hand, consistent with our analysis, although we can only support the correlation observed, with no attempt at explaining the alleged causation.

example Sater 1976), but the problem of fiscal organization was left unresolved; in the mid 1860s, for example, the then Minister of Finance, Alejandro Reyes, was very direct in contending that taxes on foreign trade were «the main and most tolerable of taxes», adding that in cases of fiscal shortfalls the best response was to rely on foreign indebtedness (quoted by Cavieres and Vito Paredes 1995-1996, 97). It would have to be a quite different set of social, political and economic events in the 1920s which finally forced the country to undertake a fundamental fiscal reorganization.

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