

From federalism to centralism: local finances in Cundinamarca, Colombia 1872-1910
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0. Introduction

After 23 years of a radical federal system established in the liberal Constitution of 1863, a political coalition of moderate liberals and conservative leaders won the 1884 Colombian general election. The elected president was Rafael Nuñez, a moderate liberal transformed into a leading member of the coalition, who sought to eliminate the reforms introduced by the Liberal party in the constitution of 1863, including fiscal federalism. Different state governments, led by radical liberals, resisted militarily the new policies that threatened their political and tax autonomy. The federal government eventually stopped the local rebellions, taking control of the state governments and repealing the old constitution, replacing it with a new one in 1886. The new constitution introduced a series of reforms that reduced tax and budgetary autonomy of the regional entities known as *departamentos* or departments under the new constitution and centralized the fiscal administration in Bogotá, the capital of both the country and the department of Cundinamarca, where the capital of both the country and the state was also located. This paper studies how the process of centralization contributed to the consolidation of the local public finances of Cundinamarca, one of the most prosperous regions in central Colombia. The paper explores long-term trends of local taxation and public expenditures, focusing on the evolution of public beneficence, an area that Cundinamarca government pioneered during the federal period.

This analysis is based on the reconstruction of public expenditure and tax revenue series, using the figures presented by the presidents of the State of Cundinamarca and their Secretary of the Treasury in their reports to local legislatures, also the budget laws, and local newspapers.

The study of local public finances in Colombia has shown that since the mid-nineteenth century local governments made a great effort to abolish taxes inherited from the colonial era and promote spending on public goods. Despite the political instability and civil wars that characterized Colombia in the nineteenth century, local states sought to expand their influence on areas traditionally dominated by the Catholic Church, such as health and education.

Cundinamarca, for example, was a pioneer in creating taxes to fund public charity in the 1870s. This paper studies the effect of political and fiscal centralization introduced by the 1886 Constitution on revenues and taxes collected by the local state of Cundinamarca. Although this constitution created a unitary state, Cundinamarca could maintain some level of autonomy in determining its fiscal structure and the expansion of social spending, at least until 1910.

The decentralized provision of public goods is a channel to promote regional economic development. The dominant theoretical approach in the literature assumes that local governments are more efficient in allocating public resources than the central government, since the former have better information and more incentives to do so. On the one hand, local authorities have more capacity to provide the goods that people prefer, since they are closer to population's preferences and better understand their needs (Oates, 1999). On the other hand, given that local governments are under the permanent inspection of their constituencies, they have incentives to execute public policies based on the general interests of the community (Tiebout, 1956).

Decentralization could also benefit public management and market mechanisms by simultaneously favoring private activities (Tulchin and Selee, 2004, Weingast, 1995). In practice,

all these factors jointly promote learning, experimentation, and competition in the provision of collective consumer goods and merit good provided publicly, thus promoting economic growth. However, the benefits of decentralized governance structures have been tested in recent studies. For example, central governments could be more efficient than local governments in providing public goods, since they have economies of scale and advantages in the organization and use of technologies (Stein, 1998). Additionally, local governments could be less efficient in planning and executing projects, mainly because they do not have enough trained or expert personnel (Iimi, 2005). Decentralized systems would also be more exposed to corruption risks and problems of appropriation of income, which negatively affects economic activities (Rodden and Rose-Ackerman, 1997, Brueckner, 2001, Fisman and Gatti, 2002, Bardhan and Mookherjee, 2005).

Local state building processes require the combination of two complementary potentialities: the first has to do with the extractive role of the State as a tax collector and the second its productive role, as a provider of public and merit services and such as welfare services, health care, transportation, and justice (Dincecco and Katz 2012). The political economy of taxation implies consensus of the taxpayers but at the same time a discipline that the State imposes on the citizens or is a combination of reason (the law) and force (application of the law). The provision of public goods requires an enlightened civil service, well paid and supervised by a diligent congress that pays taxes and whose expenses benefit all citizens. Taxpayers will be more willing to pay taxes if they clearly perceive the impact of public investment, which is facilitated in a decentralized state. The study of local public finances in Colombia shows that since the mid-nineteenth century local governments made a great effort to abolish taxes inherited from the colonial era and promote spending on public goods. Despite the political instability and civil

wars that characterized Colombia in the 19th century, local states sought to expand their influence on areas traditionally dominated by the Catholic Church, such as health and education.

1. Federalism and centralism in Colombia

Since independence in the 1810s and throughout the nineteenth century, centralism and different forms of decentralization were intermittent solutions for the fundamental question of Latin American politics in this century: the making of a nation, endowed with state capacity. In the Colombian case, the experimentation with decentralized governments began with the constitution of a confederation between 1811 and 1816, followed by Bolivarian centralism between 1821 and 1831, and New Granada regionalism between 1832 and 1842. In the period 1843 -1852 the centralism imposed by the conservative party returned, followed by the liberal and most radical period of federalism between 1853 and 1886. After this period of progressive descentralization, a political coalition of moderate liberals and conservative leaders won the 1884 Colombian general election.

In general, the transitions between these periods were mediated by confrontations and civil wars of different intensity, since centralism and federalism were ideas defended by the liberal and conservative elites respectively, which could hardly agree on institutions of civil negotiation in order to reach agreements on how to organize the budding nation in a non-violent way. In fact, the struggles to impose centralism and federalism, along with the separation between church and state, were the two main causes of civil wars in the nascent Spanish-American states during the nineteenth century (Maquard 2009).

Figure 1: Constitutions in Latin America 1810-1991

Argentina	1815	1816	1817	1819	1825	1826	1853	1949	1955					
Brazil	1824	1891	1934	1937	1946	1967	1969	1988						
Chile	1812	1814	1818	1822	1823*	1828	1833	1925	1980					
Colombia	1811	1819	1821	1828	1830	1831	1832	1843	1853	1858	1861	1863	1886	1991
Mexico	1812	1814	1824	1835	1836	1843	1847	1857	1917					

Source: Dye 2006, 178

	Centralist
	Federalist/decentralized
	Centralist/federalist
	Not clear

*Federal laws of 1826

The local and national finances of Colombia in the 19th century have been less studied than in countries like Argentina and Mexico, where there is a greater availability of quantitative and qualitative information. In the Colombian case, the period 1800 - 1863 is perhaps the least studied by the historiography, with the notable exception of the works of Junguito (2010) who collected and analyzed series of tax revenue and expenditure for the central and some local governments and Pinto (2011) who studies the local finance of the different regions that conformed Colombia in the early period of the republic between 1819 and 1830. The federal period between 1863 and 1885 was studied by Kalmanovitz and López (2010) who make a global analysis of the situation of the States that conformed the United States of Colombia, work that has been expanded with monographs for some of the states such as Panama until its separation from the Republic of Colombia (Kalmanovitz, 2012), Santander between 1865 and 1879 (Pico, 2011), Bolívar (Wong Hiu, 1999), Cundinamarca (López and Castillo, 2012) and Tolima (Clavijo, 1993). In general, these works have focused on how the state was organized to modernize the tax structure, but little has been done on the evolution of the expenditure structure.

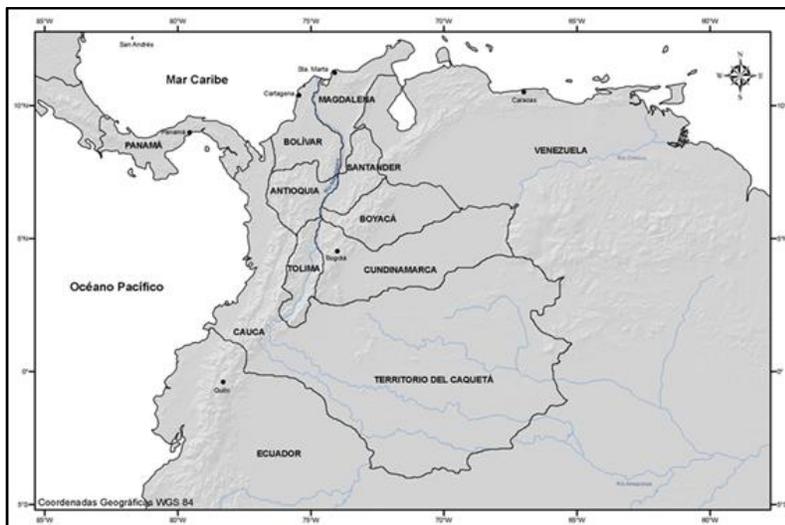
For most of modern history, public services such as clean water, sanitation, and disease prevention and palliation measures were funded by notables or local private charitable organizations. Taxation by the state was almost entirely dedicated to maintaining internal order and protecting territorial boundaries. Around the eighteenth century, modern states began to be involved in the provision of public and merit goods and services such as education, health, and sanitation (Lindert 2004). In a Durkheimian tradition, sociologist Robert Castel developed the concept of "Social State," grounded in the intersection of market economies and workers' living conditions (Castell 2010). The idea of the social state presupposes that the gradual improvement of the status of all forces within society in the industrial era –employers, workers, managers, professional- could be achieved by political strategies that would ameliorate the hardship of the worst-off and maintain the principle of productive labor. All of this while cushioning its harshness within the workplace and lessening the fear of unemployment by supporting those outside the labor market. Social states allow binding all social strata into an agreement for social progress of which the state is to a greater or less extent, the guarantor. The social state thus has the role of coordinating the political strategies which oblige antagonist partners to work towards and facilitate social progress (Rose 1999, 135).

One of the most radical periods of decentralization that Colombia has experienced began with the law of April 20, 1850, by which the central state ceded to the provinces the main revenue sources inherited from the colonial period such as tithes, mining taxes, indigenous tributes, provincial tolls, revenue from the production of liquors (Melo 2016). Decentralization was motivated by the idea that the abolition of colonial taxes was easier if it was carried on by local authorities and replaced by direct taxes or other kind of modern taxes. Over the next 13 years, the Congress and the different governments issues a series of laws were proclaimed that

eventually defined a structure of federal government that was also adapted to the convenience and interests of some local elites.

The 1863 Constitution established the United States of Colombia, a federalist republic created from the union of the "Nine Sovereign States": Cundinamarca, Antioquia, Magdalena, Santander, Tolima, Bolívar, Cauca, Boyacá and Panama (see Figure 1). Thus, Colombian federalism emerged as a solution to the conflicts that plagued the country since the independence, seeking a middle ground between the excessive localism and the possibility of the secession of these nine regions. Under the terms of this Constitution, the federal government was limited to fulfilling specific tasks in fields such as foreign defense, education and the opening of interstate communication routes. For their part, the states had to organize their public finances to finance their current expenses -bureaucracy, justice and local police- and other activities that promoted economic growth such as education, public charities and infrastructure.

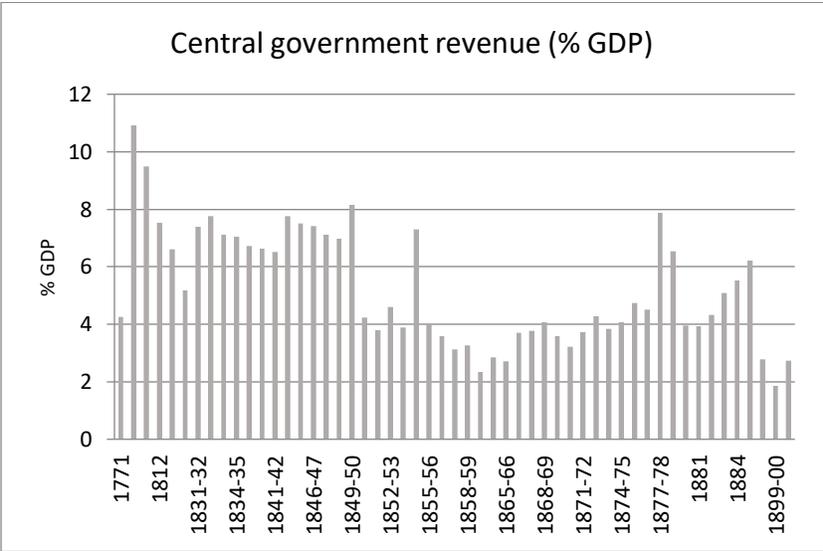
Figure 2. United States of Colombia 1863-1886



Fuente: Domínguez 2012

Revenues of the federal government remained around 5% of GDP before 1855, but in the period 1863-1880 they increased until reaching 8% of GDP (Figure 2). The Constitution imposed a revenue division rule in which the federal state financed its spending with revenue from customs, salt monopoly and railways while local congresses had the possibility to create new taxes. The boom in exports since the mid-nineteenth century had a positive impact on the share of customs revenue in the total that went from 25% to 60% in 1880, and then remained relatively stable with a growing trend towards the end of the century. A large part of the taxes levied on textile imports, which produced a great inequality in the distribution of the tax burden because they were consumed by low and middle-income individuals. The monopoly of salt and the tax on the slaughter of large and small livestock restricted the consumption of these vital products for nutrition and the health of the population and made the distribution of income more unequal. Salt was a fundamental element in the care of livestock, so that price policies were often rejected by farmers (Van Ausdal, 2008, 65).

Figure 3



Source: Junguito 2010

2. Federalism in Cundinamarca

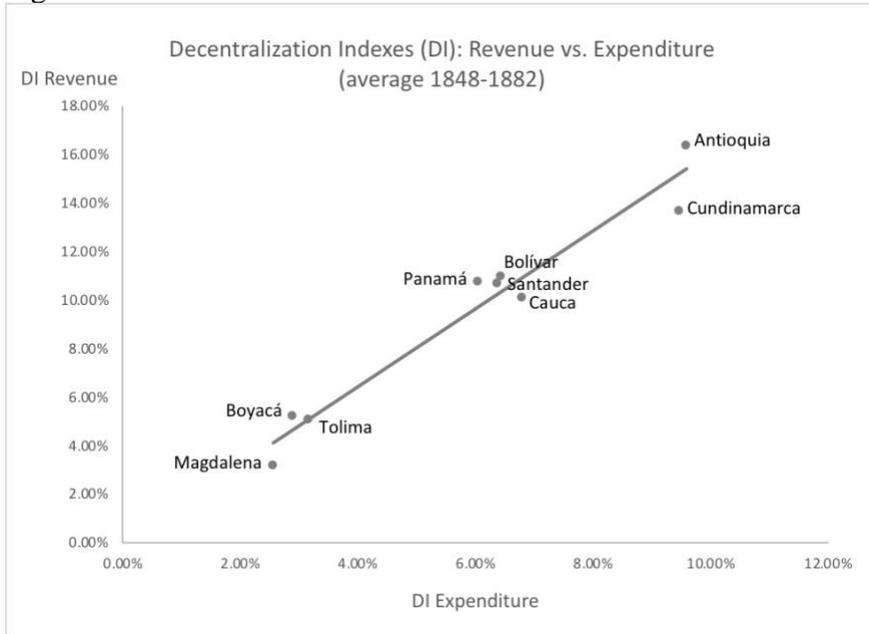
Legislatures at the local level began to replace the old colonial taxes by taxes on local trade and the production of liquors, as well as forms of direct taxation on incomes and real estate. They also created rents and specific contributions to fund public education, care for the sick, and care for children from poor families. The proportion of income of subnational governments in the total income of the country as a proxy for decentralization shows that fiscal autonomy increased for all the states of the union. In 1882, the states with the highest level of autonomy were Antioquia, Cundinamarca and Cauca (Figure). The average revenues of the states represented 6% of the total collection of the country and public spending 10%.

Figure 4

	Boyacá	Panamá	Cundinamarca	Bolivar	Cauca	Tolima	Magdalena	Santander	Antioquia
1848	0.4%	0.4%	0.9%	1.3%	1.1%	0.4%	0.3%	1.4%	2.1%
1851	1.9%	5.2%	4.5%	6.8%	5.1%	2.6%	1.5%	10.0%	2.6%
1856	2.2%	7.6%	4.3%	5.9%	6.2%	2.8%	3.1%	5.1%	7.6%
1870	4.0%	11.3%	13.1%	8.9%	8.1%	4.5%	2.7%	7.2%	13.1%
1873	3.1%	8.1%	11.3%	5.2%	4.1%	3.9%	2.0%	6.0%	10.2%
1874	3.2%	8.4%	11.6%	n.a	n.a	n.a	n.a	n.a	10.4%
1876	5.1%	5.8%	14.9%	8.1%	9.0%	4.6%	3.9%	n.a	14.6%
1882	3.4%	4.9%	15.2%	6.2%	14.2%	3.5%	4.3%	8.6%	16.2%

Source: State of Cundinamarca. Laws and Department Council Ordinances 1862-1911.

Figure 5



Source: State of Cundinamarca. Laws and Department Council Ordinances 1862-1911.

The state of Cundinamarca had important advances in regard to the building of the local administrative structure of its state institutions. By 1881, the executive branch of the executive branch consists of three offices: government, development and treasury. The Ministry of Development was responsible for public education, roads and public works, post and charity issues. The legislative branch was made up of representatives from all regions of the state and their expenses were paid by the executive.

The average tax revenue of Cundinamarca was the second highest during the period 1856 - 1886, which was not far from the level obtained by Antioquia that occupied the first place. Also, despite the fact that the Cundinamarca income in 1848 was very similar to that of the rest of the states, its growth in the same period was close to 10 percent annual average, the highest of all the sovereign states. In 1873, the majority of their tax revenues came from the collection of tolls (36%), the direct contribution (18%), consumption rights (17%) and *degüello* or slaughter tax (14%). The states of Santander and Cundinamarca were the precursors in the collection of the

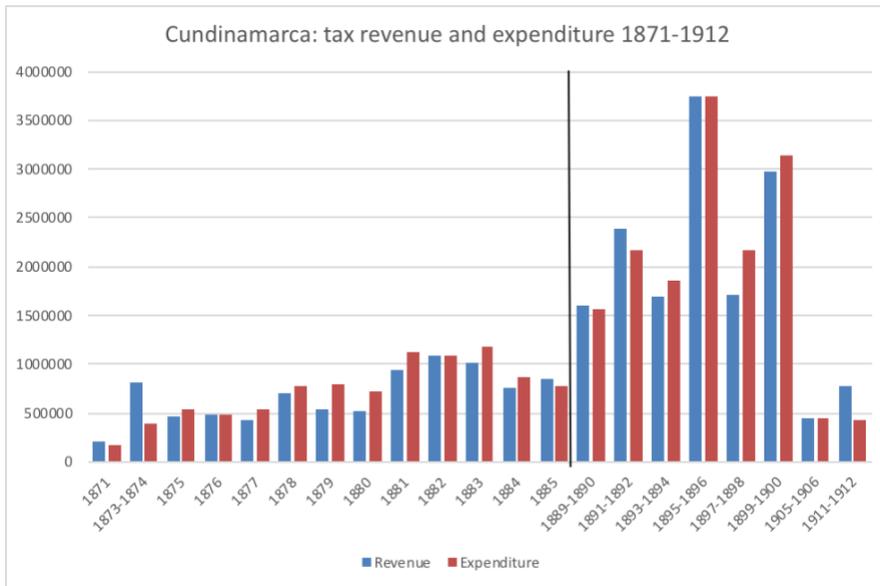
direct tax, which the central government would later adopt, through Law 56 of 1918 (Díaz 1997). However, the collection of tolls represented an additional obstacle to the development of an internal market.

Public spending was concentrated on operating expenses, defense, and improving the local road network. There was, also, an increase in the expenditure on public charity and education. From 1874 to 1885 the series of expenditure shows an increasing trend, which coincides with the war of 1876 - 1877. Several factors were combined to trigger this war. First, the global economic crisis that began in 1873 led to the fall of tobacco and gold exports in the 1870s. Also, after 14 years in power, the erosion of the governments of liberal radicalism was evident, as which was added the rejection of the conservatives to the liberal education project that sought to implement a secular education, mandatory and free. The State of Cundinamarca was an important scenario of the war, especially with the participation of the guerrillas of Mochuelos and Guasca (Ortiz, 2004).

Despite the increases in tax revenues, these were insufficient to pay for all of the state's expenses. The fiscal deficits caused the need to contract additional credits either with local lenders or by going to the national subsidy or resources provided as a loan by the central government. For example, funds from the loan contracted in 1879 were awarded to the judicial department to cover the expenses of the local prison. In 1874, the government allocated a considerable sum for the reparation of victims of the war of that year through expenditures generated by the treasury and charitable departments, which were financed with debt. Towards the end of the federal period, in 1884, the additional loan requested was used to cover the expenses of the department of communication channels and secondly for the executive. Once

again, political disorders explain the volatile income level and the continuous fiscal deficits in the state.

Figure 6



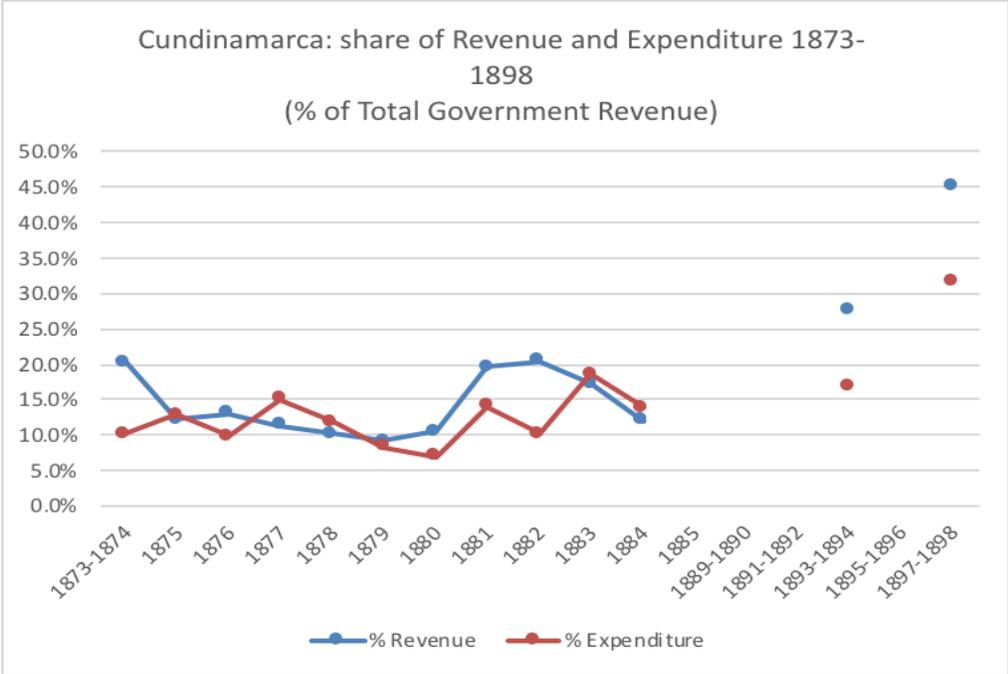
Source: State of Cundinamarca. Laws and Department Council Ordinances 1862-1911.

3. Centralization and “La Regeneración”

By 1880, the political pendulum began to swing away from Liberal anticlerical excess and toward a more Conservative-unitarian structure. This is the year when Rafael Nuñez appeared in the national political scene, by being elected president. A native from Cartagena, northern Colombia, his election represented an important regional shift away from traditional leader from the central region that traditionally dominated the federal politics. Nuñez was reelected in 1884 and in the following year, Radical Liberals initiated a revolt against him, which he used as a pretext to dissolve the 1863 Constitution. Nuñez’s “Regeneration” movement became the political platform that would represent a long period of Conservative rule, that sought to reinstall

a unitarian State governed from Bogotá, the capital city. The new Constitution proclaimed in 1886 returned the power to the central executive and restored the prestige and power of the Roman Catholic Church. Thus, the 1886 Constitution attempted to fix the problems originated by the decentralized, excessively federalist, anticlerical 1863 Constitution. The return to the central government’s monopolistic control caused great dissatisfaction, particularly among Radical Liberal in the local states. In the 1890s the cattle slaughter revenue returned to the central government and in 1892 domestic taxes were levied on cigarettes and others were allotted to the central government. In 1897, though, the states recovered the slaughter revenue without offering additional services in return, as the national police had been founded in 1891 and the central government took over high school education. Customs duties continued to be the main revenue followed by salt mine leases.

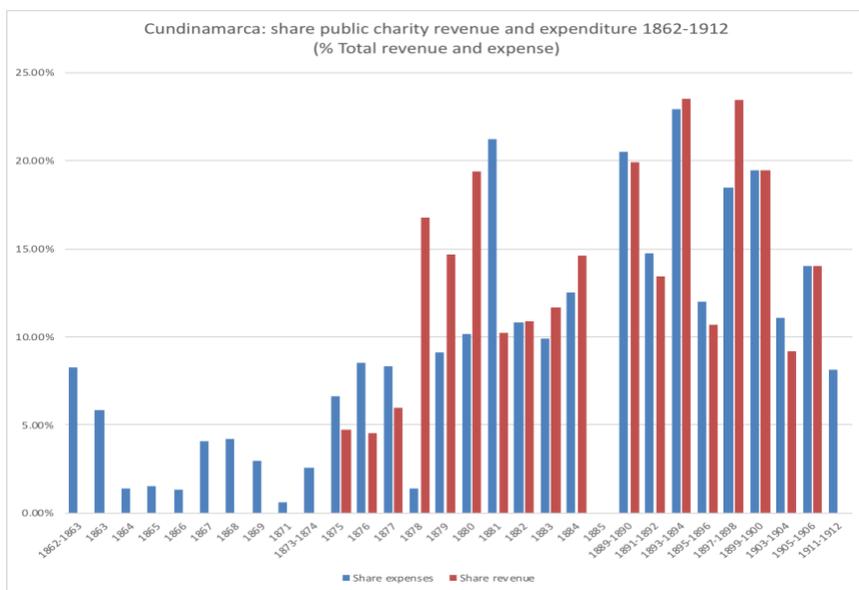
Figure 7



Source: State of Cundinamarca. Laws and Department Council Ordinances 1862-1911.

Despite the changes in the central government, the transition to the centralist fiscal state was not immediate. At least it was not for the state of Cundinamarca. Both fiscal revenues and public expenditures increased as a proportion of central revenues and expenditures. The fiscal structure changed little, and the local legislature continued to authorize the collection of direct taxes, and slaughter tax, as well as the creation of subsidies to maintain some public schools, hospitals, and lazarettos. Although civil wars continued during the federal period, each of the nine states advanced more in the construction of their institutions in this period than they had done in previous years. It was not easy for the central government, once power was centralized, to take charge of all the expenditure items created at the decentralized level. It was also hard to organize the tax system. This difficulty allowed a *de facto* decentralization that continued in operation at least until 1910 when substantial reforms were introduced to the constitution of 1886.

Figure 8



Sources: State of Cundinamarca. Laws and Department Council Ordinances 1862-1911.

In the Latin American context, decentralization processes were more common than centralization of public finances. Thus, the Colombian case shows that decentralization was a process that took place *pari passu* with the nineteenth-century building state process. For geographic and institutional reasons, federalism took root in local development, delaying the process of decentralization undertaken from the center. Although Colombian federalism was not necessarily a state building process "from the bottom up" - after all, it was implemented by the constitution of 1863 - it was much easier adapted to the local economic structure. Decentralization was deeply rooted in the localities, which delayed the implementation of centralism in Colombia, which finally consolidated in the 1910-1980 period.

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