Ponencia

Elites económicas e imposición sobre la renta en Argentina (1930-1945)

RESUMEN:
Este trabajo analiza las actitudes de las elites económicas argentinas frente al impuesto a la renta y otros instrumentos fiscales progresivos desde principios de la década de 1930 —cuando la primera legislación sobre el impuesto a la renta fue aplicada en el país— hasta el momento en que Juan Domingo Perón comenzaba su ascenso al poder. A mediados del siglo XX, el impuesto a la renta se convirtió en la principal fuente de ingresos impositivos para el estado argentino. Este trabajo parte de la hipótesis de que el impuesto a la renta fue un instrumento fiscal exitoso en Argentina gracias a la cooperación de las elites económicas. Durante la década de 1930, el estado argentino modernizó sus estructuras burocráticas y se convirtió en un recaudador de impuestos eficaz, incluyendo la recaudación del impuesto a la renta. Al mismo tiempo, el sistema impositivo se hizo más progresivo y probablemente más equitativo entre las distintas clases sociales. Aunque las elites económicas no favorecían en principio esa transformación, la modernización del sistema fiscal argentino no hubiera sido posible sin su cooperación. A principios de la década de 1940, sin embargo, la cooperación empresarial se empezó a debilitar y las elites miraron con creciente sospecha las políticas estatales. Este trabajo tiene por objetivo analizar tanto las razones de la cooperación original como las de la desconfianza final.
Paper

Economic Elites and Income Taxation in Argentina (1930-1945)

This paper focuses on the Argentine economic elites’ attitudes towards the income tax and other progressive tax devices in Argentina from the early 1930s –when the first income tax law was implemented in the country- until the moment just before the rise of Juan Domingo Perón to power. In mid-twentieth century Argentina, the income tax became the single largest source of revenue for the state. This paper argues that the income tax became a successful fiscal tool in Argentina thanks to the cooperation of the economic elites. During the decade of 1930 the state modernized its bureaucratic structures and was more capable of collecting taxes, including the income tax. At the same time, the taxation system became more progressive and probably more equitable among social classes. Although economic elites did not favour such a transformation, the modernization of Argentine fiscal system would not have been possible without their cooperation. At the beginning of the 1940’s, however, the businessmen cooperation began to vanish and the state was increasingly seen with suspicion by the economic elites. This paper explores the reasons for both the original collaboration and the final distrust.
This paper will focus on the Argentine economic elites’ attitudes towards the income tax and other progressive tax devices in Argentina from the early 1930s—when the first income tax law was implemented in the country—until the moment just before the rise of Juan Domingo Perón to power. The income tax is a particularly fascinating case because, unlike other kind of taxation as excises or sales taxes, implies a direct relation between civil society and the state and therefore allows us to pose questions about how the citizens perceive their duties toward the authorities. In mid-twentieth century Argentina, the income tax became the single largest source of revenue for the state. Its posterior transformation and almost substitution for other taxes was to some extent related to the high level of non-compliance that the income tax suffered. This makes its study more interesting, because even today Argentina has not found the alternative to the income tax in terms of efficiency.

This paper argues that the income tax became a successful fiscal tool in the 1930s in Argentina thanks to the cooperation of the economic elites. In this position, I follow the assertion of an abundant literature which has related the success or failure of a tax device to the ability of the state to gain the citizens’ trust and their will to cooperate “voluntarily.” This process depends on several factors among them the perception of the tax system as fair, that is, as a contract in which all the parts fulfil their compromises. Thus, citizens must trust the state but also they must trust each other. If citizens, individuals or some social sector, suspect either the state is not neutral among social classes or other citizens are not fulfilling their duties they probably give up their compliant attitude. Voluntary’s compliance could be sustained also on an ideological factor: the idea that tax payment is a citizen’s moral duty. This factor is usually associated with the above mentioned perception of state’s neutrality and tax fairness. Finally, if a state wants to maximize voluntary compliance it should consider its relative bargain power in comparison to other actors. That was the case of the economic elites in Argentina during the 1930s.

During the 1930’s, Argentina’s state was able to gain economic elites’ cooperation for its tax project, but was less successful in imposing an image of fairness among social classes. However, taxpayers’ voluntary compliance is an unstable and fragile situation, as the Argentine’s case demonstrated. Therefore, to explain how that

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2 M. LEVI, op. cit, 17 and ff.
The precarious equilibrium of voluntary compliance is achieved –or lost- becomes paramount.

The rise of income tax

The first income tax law was introduced in Argentina in 1932, and steadily achieved a significant role within the Argentine fiscal system becoming the single largest source of revenue for the Treasury since 1942. Moreover, although we lack reliable data about evasion or fraud, the data about collection seem to proof that the tax became more efficient and progressive as the decade of 1930 went by. At the beginning of 1930s, the new fiscal devices introduced by the government, the income tax and a sales or consumption tax (impuesto a las transacciones), were only challenged by the Socialists and some trade unions linked to the Socialist party on two grounds. First of all, the Socialists claimed against the inclusion of wages and incomes derived from labour into the categories of taxable incomes: “wages are not income but a payment to work (…) there are many sources of wealth in the country (particularly the privilege) without necessity of taxing worker’s wage”3.

Secondly, the income tax and the impuesto a las transacciones were both created by the so called provisional government in 1931. The provisional government was the de facto authority established by the general Uriburu after toppling Hipolito Yrygoyen’s democratic rule in 1930. As the new elected government of 1932 inherited the tax legislation of the provisional government, the Socialists accused the new pieces of legislation of being illegal, originated in the dictatorship4. This claiming of illegitimacy of the government to impose fiscal burdens upon the citizens was not significant at the beginning of the 1930s, when both, the depression and the still recent memories of the unsuccessful Yrygoyen’s rule favoured the economic reform. Nonetheless, the continuous use of electoral manipulation during the decade of 1930 became a major drawback in the government’s aspirations to legitimacy. In turn, the absence of legitimacy influenced the design of its tax policy, as it will be shown below.

The implementation of the income tax in 1932 was a success, at least from the point of view of the state’s revenues. Graph 1 shows the evolution of tax collections in Argentina of the five main sources of revenue between 1932 and 1945. Since its implementation, the income tax became the third largest source of revenue for the

3 La Vanguardia, 23-2-1932, p. 6.
4 See, for instance, La Vanguardia 23-1-1932, front page.
federal government and since 1942 became the largest single one. In 1932 the income tax meant 8.5 per cent of the total amount collected by the federal government. In 1944, more than 34 per cent of the state’s revenue came from the income tax. Of course, one reason for this evolution is related to the weak performance of the customs duties due first to the impact of the depression and later to the trade restrictions caused by WWII. Nonetheless, it is not possible to explain the important rise in the collections from the income tax only as a result of the decline of another form of taxation.

Graph 1: Argentine Federal Government Revenue (main sources, 1932-1945)

Source: Dirección General del Impuesto a los Réditos, Memorias, (various years).

How was the evolution of the income tax rates during those years? As it could be seen in table 2, the actual rates were moderate and stable during the decade the 1930s. The lowest incomes never paid more than 5 per cent and those over 200,000 pesos annually never paid more than 12 per cent of their revenue to the Treasury. In 1943 the rates increased for the highest incomes and decreased for the lowest ones. Thus, the wealthiest people in the country paid an average rage of 20 per cent of their annual income in lieu of the former 12 per cent. The lowest ranges of incomes benefited from a decline in their rates from a 5 to a 3 or 3.4 per cent. In general, everyone earning more than 15,000 pesos annually saw an augmentation in the rates at the beginning of the 1940s. Nonetheless, the maximum rate of 20 per cent was still mild for international standards.5

5 In Britain, the standard rate (without the surtax) of income tax was already close to the 30 per cent. See: M. DAUNTON, Just Taxes. The Politics of Taxation in Britain, 1914-1979, Cambridge University Press, 2002, p. 14.
Does this stability of rates mean that the income tax did not encourage a greater progressiveness in the Argentine fiscal system? Not necessarily. Some figures are given in table 3. At the beginning of the period (1934), the lowest bracket of incomes, those who earned less than 5,000 pesos per year, contributed 11 per cent of the total income tax collections, whereas those who obtained more than 200,000 pesos annually paid the 15 per cent of the total collected. In 1937, without any alteration in the rates, 19 per cent of the total amount collected came from the highest incomes, whereas the contribution of the less affluent taxpayers was lowered to around 7 per cent. In 1943, after a reform that increased the rates for the wealthiest, their contribution skyrocketed up to almost 38 percent of the total. It is worthy noting, however, that this last jump was not only the result of an increase in the rates but in the actual number of taxpayers in the upper bracket. Another salient feature is the important contribution of a group of middle class taxpayers (between 25,000 and 50,000 pesos) who paid a greater global amount of taxes than some better off brackets. Nonetheless, this situation ameliorated as the decade went by.

Therefore, the income tax, even without major alteration in the actual rates, provided a useful tool for making the Argentine fiscal system more progressive. Of course, this is only a partial picture. The existence of excises, increasingly significant in the total revenue of the state, altered the possible benefits of the income tax as far as the progressiveness of the system was concerned. Nonetheless, it is worthy underlining that the income tax became more progressive without altering rates due to the increase in collections and efficiency.

In 1933, the Socialists deputies challenged the income tax as it had been devised by the national government. They claimed that the system was not going to achieve its objective of social justice. The minimum taxable income had been fixed in 2,400 pesos annually in lieu of the 3,600 set up in a former project. For the Socialists, 2,400 pesos were a meagre sum that was not possible to consider an income at all. They considered that the actual wealth resided in the hands of few privilege ones, the landlords, and for the Socialists’ amazement, the rate applied to the incomes derived from land had been lowered to a 5 per cent since the original 6 per cent of the 1932’s project⁶.

Table 2: Actual rates of the income tax according to income brackets:

<table>
<thead>
<tr>
<th>Income (pesos)</th>
<th>1932</th>
<th>1933</th>
<th>1934</th>
<th>1935</th>
<th>1936</th>
<th>1937</th>
<th>1939</th>
<th>1940</th>
<th>1941</th>
<th>1942</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 4,999</td>
<td>4.5</td>
<td>4.7</td>
<td>4.7</td>
<td>4.6</td>
<td>4.8</td>
<td>4.9</td>
<td>4.9</td>
<td>4.9</td>
<td>4.9</td>
<td>5.0</td>
</tr>
<tr>
<td>5,000-9,999</td>
<td>4.4</td>
<td>4.6</td>
<td>4.7</td>
<td>4.6</td>
<td>4.7</td>
<td>4.7</td>
<td>4.6</td>
<td>4.7</td>
<td>4.7</td>
<td>4.7</td>
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<tr>
<td>10,000-14,999</td>
<td>4.5</td>
<td>4.7</td>
<td>4.6</td>
<td>4.6</td>
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<td>4.7</td>
</tr>
<tr>
<td>15,000-19,999</td>
<td>4.6</td>
<td>4.8</td>
<td>4.7</td>
<td>4.7</td>
<td>4.8</td>
<td>4.8</td>
<td>4.8</td>
<td>4.8</td>
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<td>20,000-24,999</td>
<td>4.6</td>
<td>5.0</td>
<td>5.1</td>
<td>5.0</td>
<td>5.0</td>
<td>4.9</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>25,000-49,999</td>
<td>5.7</td>
<td>5.7</td>
<td>5.7</td>
<td>5.7</td>
<td>5.7</td>
<td>5.6</td>
<td>5.6</td>
<td>5.7</td>
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<td>5.7</td>
</tr>
<tr>
<td>50,000-74,999</td>
<td>7.1</td>
<td>7.1</td>
<td>7.1</td>
<td>7.1</td>
<td>7.1</td>
<td>7.1</td>
<td>7.1</td>
<td>7.1</td>
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<td>7.1</td>
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<tr>
<td>75,000-99,999</td>
<td>8.3</td>
<td>8.3</td>
<td>8.2</td>
<td>8.2</td>
<td>8.2</td>
<td>8.1</td>
<td>8.2</td>
<td>8.2</td>
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<td>8.2</td>
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<tr>
<td>100,000-149,999</td>
<td>9.6</td>
<td>9.6</td>
<td>9.6</td>
<td>9.6</td>
<td>9.6</td>
<td>9.5</td>
<td>9.5</td>
<td>9.6</td>
<td>9.6</td>
<td>9.6</td>
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<tr>
<td>150,000-199,999</td>
<td>10.9</td>
<td>11.1</td>
<td>11.1</td>
<td>11.1</td>
<td>10.9</td>
<td>10.9</td>
<td>10.7</td>
<td>10.7</td>
<td>10.7</td>
<td>10.7</td>
</tr>
<tr>
<td>Over 200,000</td>
<td>11.1</td>
<td>11.5</td>
<td>11.8</td>
<td>11.7</td>
<td>12.0</td>
<td>11.8</td>
<td>11.5</td>
<td>11.7</td>
<td>11.7</td>
<td>11.7</td>
</tr>
<tr>
<td>Average</td>
<td>5.9</td>
<td>6.1</td>
<td>6.3</td>
<td>6.4</td>
<td>6.5</td>
<td>6.7</td>
<td>6.4</td>
<td>6.7</td>
<td>6.9</td>
<td>7.8</td>
</tr>
</tbody>
</table>

Source: Dirección General del Impuesto a los Réditos, Memorias (various years).

Table 3: Distribution of tax efforts among taxpayer brackets: (sample)

<table>
<thead>
<tr>
<th>Ranges</th>
<th>1934</th>
<th>1937</th>
<th>1940</th>
<th>1943</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>n. taxpayers %</td>
<td>Tax paid %</td>
<td>n. taxpayers %</td>
<td>Tax paid %</td>
</tr>
<tr>
<td>Up to 4,999</td>
<td>66.9</td>
<td>11.4</td>
<td>57.7</td>
<td>6.9</td>
</tr>
<tr>
<td>25,000-49,999</td>
<td>3.7</td>
<td>15.2</td>
<td>5.5</td>
<td>15.7</td>
</tr>
<tr>
<td>Above 200,000</td>
<td>0.2</td>
<td>15.6</td>
<td>0.3</td>
<td>19.4</td>
</tr>
</tbody>
</table>

Source: Dirección General del Impuesto a los Réditos, Memorias (Various years).

The Socialists’ attitude was not unique. The members of the government coalition who supported the fiscal reform were conscious of its mildness. At the
Congress, the conservative deputy Martínez stated: “Probably, with this system we have moved away from its spirit of justice and its technical design as a truly income tax”\(^7\). José María Rosa, a conservative politician and a rural entrepreneur, also observed: “Later on, and given the increase of the turnouts of the income tax, the fiscal policy could be transformed in a social justice fashion, making disappear gradually the domestic burdens upon consumption, and substituting them for those levied on wealth”\(^8\).

The Socialists not only complained about the low rates but pinpointed the fact that the upper echelons of income had greater options to evade the payment. In the Congress, they required from the Income Tax General Administration (Dirección General del Impuesto a los Réditos) a report about “the affluent classes’ resistance to pay it [the income tax]”\(^9\). The possibility of a greater evasion of the wealthiest taxpayers was apparent for everyone since the income tax was always accompanied of technical difficulties for its implementation and collection. The Ministry of Economy, in its annual *Memoria* of 1932 stated that fact by emphasising the obstacles to complete the collection of those non-salaried incomes in contrast to “the tax on the wage-earners, that responded generously to the foreseen figures; it has been withheld without major difficulties since February”\(^10\).

Nonetheless, the new tax became a rapid success. The more affluent classes had more opportunities to “cheat” because, unlike salaried people who saw their payments withheld, businessmen had to make a personal return of their incomes. In spite of this, the upper classes were willing to cooperate. As the Minister of Economy, Federico Pinedo reported to the Socialists deputies: “Obviously, the retention system …makes extremely difficult to elude the payment of the tax for the incomes [derived] from personal work. (…) But to suppose that the rest of taxpayers are unwilling to the fulfilment of the law (…) is adventurous”\(^11\). In fact, wages’ contribution meant only a 14 per cent of the total collected in the first year of the income tax existence. Some other figures show the willingness to cooperate of the Argentine taxpayers. The taxpayers were required to register themselves in an income tax national registration list in order to pay their taxes. During the first half of the 1930s the number of registered

\(^7\) *DS*, 19-4-1932, v. I, p. 650.
\(^8\) *Revista de Economía Argentina*, no. 165 (March 1932), p. 201.
\(^10\) *Ministerio de Hacienda de la Nación, Memoria*, 1932.
citizens rose. In 1933 there were 345,919 taxpayers registered what included 270,891 new taxpayers registered in the last twelve months. In 1934, the figure climbed up to 383,188, and in 1935 to 407,192. At the beginning of 1937 there were 432,400 taxpayers already registered and at the beginning of 1938 460,309.

Two main factors account for the success of the income tax in Argentina in the 1930s. Firstly, the bureaucratic tool devised for the implementation and collection of the new tax. Secondly, the cooperation of the Argentine’s economic elite. In order to implement the fiscal reform of 1932 the government created an administration office called the Dirección General del Impuesto a los Réditos (DGIR) that became the main collector of revenue for the Treasury at the end of the decade. The success of the DGIR was based upon the improvement of its bureaucratic skills and upon the DGIR’s gradually gained, although limited, autonomy. One of the main goals of the DGIR was to form a body of inspectors to monitor the compliance of the citizens’ fiscal duties. Their results were positive in terms of collections: in 1935, for instance, the inspectors’ activities produced 20 million pesos out of the 84 collected for income tax payments.13 Their work was becoming more and more professional and specialized. During the first years of application of the new tax they devoted most of their time to collect the tax and give advice to the taxpayers, but soon they developed their expertise in monitoring taxpayers’ compliance. The DGIR was proud of their employees’ skills: “The 50 per cent of the inspectors has degrees on commercial studies; there are also some persons who although do not have a title, demonstrated -in the tests they did- competence (…) for the functions they should carry out”14.

Of course, this could have been a propaganda device of the institution, but some factors pinpoint the efficient of this bureaucratic body. First of all, even the opposition acknowledged the DGIR’s efficiency. Thus, the Socialists representatives, at the same time that criticized the upper classes lack of solidarity, supported the DGIR practices: “I must do acknowledge this, because I have attended in several occasions to the mentioned bureau [DGIR] and I have checked that the [bureau] and all the employees show a great enthusiasm in solving the already famous doubts of the bad taxpayers”15.

Secondly, the increase in the number of taxes collected by the DGIR shows the government’s reliance in its efficiency. In the four first years of its existence the DGIR

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14 Dirección General del Impuesto a los Réditos, Memoria año 1935, p. 37.
collected the revenues coming from income tax, sales tax, *patentes* (licence tax) and *sellos* (stamp duty). Since then, almost every new tax or duty created by the national government was collected by the DGIR. Thus, in addition to the original attributions, the Dirección General was in charge of a duty on the professional soccer tickets, of oil and mine duty, of a duty on the inspections of corporations. In 1942, it assumed the collection of the surtax on fuel and coal sales. Moreover, as the administration office for the control of foreign currency exchange was suppressed, the DGIR took over its functions. In 1943, as a result of an important tax reform, the DGIR started to collect the revenues from two new taxes: the emergency duty on horse races bets and the so-called transitory tax on extraordinary profits. The DGIR became the most important fiscal tool of the federal state. Its growing importance and the bigger revenue allowed it to reduce the rate of expenses incurred in the collection of taxes. Thus, the rates of expenditures to amount collected were around the 3 per cent for most of the decade, but in 1942 the revenue was so high that the rate decreased to 2.6 per cent.

The Dirección General was reinforced by the federal government financially and bureaucratically as well. In 1940 the *Memoria* of the DGIR complained about the scarcity of resources it received from the government:

“This amount [collection] would have been even greater, if the Dirección were provided of enough personnel and elements (...) It is unfortunate that this has not been possible, losing for the Treasury important quantities...and also the opportunity of fixing in the public opinion the conviction that the constitutional rule about equitable and egalitarian application of the public burdens is truly complied.”

This complaint shows both, a dissatisfaction with the situation but also a willingness to present the government as a neutral agent in the social conflict able to apply a fair tax system. This purpose did not emanate from the very DGIR but from the federal government itself. At using the same language than the government, the DGIR was trying to guarantee its request’s success. In 1943, the DGIR obtained two important measures from the national government: first of all, an increase in its budget that was a response not only to the Dirección’s petitions but also to the necessities arisen from the implementation of the new taxes. Secondly, and equally important, the right to act in justice courts with its own representatives. This was a traditional DGIR’s demand and it was perceived as key in order to obtain favourable results in the different judicial cases.

in which the nation and some taxpayers were involved. As the DGIR stated, “The fate of an entire fiscal policy could even depend on the interpretation that ultimately the Justice gives to the laws whose execution this Office is in charge”\textsuperscript{19}. This juridical autonomy, nonetheless, did not lead to a greater political autonomy. Unlike the British Inland Revenue, the DGIR lack of any voice in the design of the government’s taxation policy and simply followed governmental directions\textsuperscript{20}. This could explain, to some extent, the quick collapse of the taxation system established in the 1930s, later on.

But the bureaucratic efficiency alone can not provide the entire picture of the early success of the income tax system in Argentina. Another significant factor lies behind it: the cooperation of the economic elites. A system based upon voluntary statements of income and the withholding of taxes by the employers required a certain degree of collaboration. Which are the reasons that account for the elite’s willingness to cooperate? First of all, the economic depression meant that the national government had a wide margin to elaborate major fiscal reforms. Moreover, the rates of the income tax for the first years of implementation were not very high and the income tax was even better than other alternatives. Thus, in 1934, the Unión Industrial Argentina –the main association of the manufacturers in the country- complained about the new sales tax because affected mainly to the industrial producers and offered to the government an alternative to its fiscal necessities: “an increase in the upper rates of the income tax, because this tax affects those who have profits”\textsuperscript{21}.

The rural sector had also reasons for feeling at ease with the new tax. Apart from a mild rate, the rural sector obtained in an early reform of the income tax law at the beginning of 1933 some advantages. In the original law of 1932, the landowners who did not work the land by themselves paid a basic rate of 6 per cent whereas those who worked their plots contributed with the 5 per cent of their incomes. In addition to this, the small landowners, those whose properties were worth less than 25,000 pesos, had to pay the 4 per cent, which introduced a degree of progressiveness. Lastly, it was considered that there was always a minimum land rent of 5 per cent of the value of the land, which was based upon the idea of a differential rent of the land in Argentina. The new law of 1933 eliminated the differences among categories of landowners by establishing an uniform basic rate of 5 per cent for all rural producers and also it made

\textsuperscript{19} Dirección General del Impuesto a los Réditos, Memoria Año 1943, pp. 18-19.
\textsuperscript{21} AGN, Archivo Justo, Caja 43, Doc. 38, 25-10-1934.
disappear the minimum income on the grounds that the difficult economic situation provoked that the income tax was on “non existent incomes, that is (…), it is not a tax on income, but in reality on patrimony or capital”\textsuperscript{22}. Moreover, the rural sector enjoyed some other advantages in comparison to the manufacturers in the taxation system. When the sales tax substituted the \textit{impuesto a las transacciones} in 1935, the rates were 1.25 per cent for the sales in the domestic market and the imports (the majority of them made by industrial producers) and 3 per thousand for the exporters, many of them rural producers.

In fact, the income tax had a greater incidence on urban than in rural activities (table 4). Since the beginning of the income tax, commercial and industrial activities represented a larger part of the total taxable income than the rural activities. In 1934, trade and industry filled the returns for 27 per cent of the total taxable incomes. In 1942, the importance of the commercial and mainly industrial activities as far as the income tax was concerned was even greater, almost half of all the taxable rents. Rural incomes, on the contrary, represented in many occasion a contribution inferior to wages\textsuperscript{23}. This pattern reflected to some extent the transformation of Argentine economic structure. As the decade went by, industry gained importance at the expense of agriculture and ranching. However, even with the addition of trade activities, it is not probable that manufactures represented 45 per cent of the national income in 1940 or that the rural production meant only 13 per cent\textsuperscript{23}.

\textbf{Table 4: Taxable income by activity (percentages)}

<table>
<thead>
<tr>
<th>Type of activity</th>
<th>1934</th>
<th>1935</th>
<th>1936</th>
<th>1937</th>
<th>1938</th>
<th>1939</th>
<th>1940</th>
<th>1941</th>
<th>1942</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and industry</td>
<td>27.1</td>
<td>29.58</td>
<td>29.24</td>
<td>34.37</td>
<td>34.4</td>
<td>29.13</td>
<td>37.67</td>
<td>39.1</td>
<td>45.04</td>
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<tr>
<td>Salaries of professionals</td>
<td>5.2</td>
<td>4.83</td>
<td>5.14</td>
<td>5.25</td>
<td>6.03</td>
<td>6.57</td>
<td>6.16</td>
<td>5.65</td>
<td>5.29</td>
</tr>
<tr>
<td>Employees’ wages</td>
<td>19.9</td>
<td>18.99</td>
<td>15.52</td>
<td>14.35</td>
<td>15.26</td>
<td>17.43</td>
<td>16.06</td>
<td>15.74</td>
<td>13.82</td>
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</table>

\textsuperscript{22} DS, 1932, Tomo VII, 28-12-1932, p. 769.
Two reasons explain the advantages that the rural producer obtained from the national taxation system. First: the sophisticated accountant system required by the income tax allowed the landowners to claim that they were not ready to face the same demands faced by other producers. The rural entrepreneurs argued that their situation was more vulnerable than the rest of economic activities as far as the income tax was concerned: “The farmers and cattle ranchers are, without a doubt, one of the sectors more affected by these questions (…) the difficulties for making inventories, the annual expenses, the deductions on investments”\(^{24}\). The government accepted these arguments and in 1938 implemented a specific system of returns for the rural producers that avoid the monitoring of the account balances: “These modifications are specially addressed to the small farmers and in general to the rural areas taxpayers (…) it [the reform] aims at giving them maximum guarantees in the way in which the taxable income is determined without requiring accountancy, and it tries to avoid that taxes be paid on expected profits, which could become deceptive because of a falling of prices”\(^{25}\).

The other advantage of the rural produces lay on their reluctance to incorporate their enterprises. Being a corporation made easier for the authorities monitor the accounts of the company and therefore the process of collection of the tax. The corporations, as the individuals, had to register themselves in the DGIR for the payment of the income tax. In 1935, only 9 agricultural corporations were registered in the income tax administration, contributing 2 per cent of the total paid by corporations. That year, the 621 industrial corporations contributed 44.9 per cent of the total amount\(^{26}\). In 1940, there were already 349 rural companies register in the income tax administration representing 8 per cent of the net taxable income. There were also 1,877 commercial and 907 industrial corporations. But the commercial enterprises were 32 per cent of the net taxable income and the industrial companies represented 40 per cent of the total\(^{27}\).

Therefore, the growing of the income tax collection along the 1930s was based upon the rise of industry: “The net income of commerce and industry is the one that receives more intensively the incidence of the measure adopted in order to maintain the collective capacity of payment”\(^{28}\). This was not only the result of the economic changes, but also due to the increased number of corporations and the higher contribution of the industrial enterprises.

\(^{24}\) Anales de la Sociedad Rural, LXXIV, March 1940, p. 199.
\(^{25}\) Dirección General del Impuesto a los Réditos, Memoria Año1938, p. 20.
\(^{26}\) Dirección General del Impuesto a los Réditos, Memoria Año 1936, p. 36.
\(^{27}\) Dirección General del Impuesto a los Réditos, Memoria Año 1941, p. 44.
\(^{28}\) Dirección General del Impuesto a los Réditos, Memoria Año 1941, p. 14.
transformation of the nation, but also a deliberate state’s policy. Thus, the basis for the promotion of industrial activity were established because to some extent the state increased its revenues thanks to the development of manufacturing enterprises.

Besides these advantages for the rural sector, businessmen in general obtained a favourable treatment. For instance, the possibility of deducting from their incomes as shareholders of some corporation the taxes already paid by the corporation itself. That system was inspired by the British income tax. However, this was not an extended practice, and most countries in which the income tax was enacted applied both tax on dividends and tax on corporation profits, without allowing further deductions. Other loopholes in the legislation guaranteed further benefits to the corporations. The Argentine law authorized the existence of anonymous shareholders who easily evaded its payment of the income derived from those assets. This encouraged the formation of corporations as a way to evade taxation. To sum up, corporations rather than individuals were benefiting from the income tax legislation. This could have meant a regressive effect in the distribution of wealth. Nonetheless, wealthy individuals were paying a higher part of their incomes at the end of 1930s than at the beginning and their contribution to the Treasury was growing.

In 1942, the relations between the state and the economic elites started to deteriorate, in part as a result of the fiscal reform launched by the government to cope with the fiscal imbalance provoked by WWII. In that moment, the main business associations, the Sociedad Rural Argentina, the Buenos Aires Stock Market, the Unión Industrial and the Confederación Argentina del Comercio, la Industria y la Producción, recalled their former cooperation with the Treasury and their support for the beginnings of the income tax in the country: “Having maintained the same taxes of 1934 and with a rational and moderate growth of expenditures, the budget would have balance itself automatically at the arrival of the better years” and “to some degrees, it is correct the progressive taxation on the total incomes of the taxpayer, because (…) it applies the known economic principle of the decreasing utility of the additional quotas of wealth and the social principle of the solidarity among social classes”. Therefore, until 1942,

30 Dirección General del Impuesto a los Réditos, Memoria Año 1942, p. 32
31 Anales de la Sociedad Rural Argentina, año LXXVI, vol. LXXVI, n 9, September 1942, pp. 719 and 744.
when the rates of the income tax were low, the economic elites were disposed to tolerate it and even to consider it a good fiscal device compared to other forms of taxation.

But there were other reasons beyond the mere agreement on tax measures and the mildness of the income tax that account for the elite’s cooperation. Mainly, the Argentina’s entrepreneurs found a more amicable government than ever in the conservative coalition that ruled the country during the 1930s. The decade of 1930, for the economic elites and the government was to some extent a honeymoon after the precedent troublesome radical period and the not less conflictive posterior peronist one. One good example of this it is the attitude of the business class towards the growing state intervention in the economy. Although the entrepreneurs did not favour a step backward from the old liberal rhetoric, they did not look with suspicion the changing role of the state either. Although to some extent bewildered by the growing complexity of the economic decisions, the upper classes could not avoid perceiving the government sympathetic attitudes toward their requirements. The very participation of the entrepreneurial groups in the different bodies created to deal with economic policies, as the Comisión de Fomento Industrial (Commission for Industrial Foment), the Junta Reguladora de Vinos (Junta for the Wine Regulation), the Comisión Reguladora de la Producción y Comercio de Yerba Mate (Commission for the Regulation of Paraguayan Tea Production and Commerce) or even the Central Bank and the Corporation in charge of the transport system in the city of Buenos Aires, reinforced the convergence between the government and the economic elites.

This vision could be easily found in the publication of the Buenos Aires Stock Market, a conspicuous mouthpiece of the most affluent businessmen in the nation: “The Stock Market has always opposed to any state’s intervention that could damage the freedom of commerce… but it also understands that facing the terrible present moment, full of uncertainties, in which the economic science’s basic rules have been subverted (...) we have to try new factors and methods”33. But overall, the state intervention was positive because was devised to take care of the economic elites’ interests. “We must point out that the national government has been active in all the difficult moments of the industries, by trying through (the creation of) organizations and by any kind of

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33 Memoria de la Bolsa de Comercio de Buenos Aires, 1933, pp. 29-30
measures to favour the producers”\textsuperscript{34}. These favourable state policies could be understood as a “side payments” or selective incentives to the affluent groups in society whose cooperation was essential for the adequate functioning of the system and for the required increase in revenue\textsuperscript{35}.

As it was shown, the taxation system became more progressive during the 1930s and at the beginning of the 1940s. This outcome was not, unlike the fiscal reform itself, a by-product of the elites’ cooperation. In part this was the result of the growing efficiency of the collectors but also it was linked to some intentional purposes. One example is the sales tax that substituted the “impuesto a las transacciones” in 1935. The sales tax (called tax on first sale) was not a cascade sale tax, but it affected only the first sale of a product and allowing for the deduction of the expenses incurred in buying raw materials and other inputs. That is, the sales tax was a clear antecedent of the modern value added tax and it is possible to describe it as more progressive than the usual sale or consumption tax.

In fact, the sales tax aroused considerable protests among the big industrialists represented in the Unión Industrial. They complained that the sales tax charged mainly the manufacturers, and they were right: in 1935, out of 6,616 individuals or firms responsible for the payment of the new tax, 4,047 were industrialists\textsuperscript{36}. Also, they claimed that the tax was distributed unevenly: “the former tax (transacciones) should be paid by more than 200,000 merchants and industrialists and the one that is now projected only affects 12 or 13 thousands. We understand quite well that the fiscal criterion finds enormous advantage in that difference, that will ease the collection, but we can not understand what benefit will the sales tax bring (...) to those 12 or 13 thousands merchants and industrialists who will receive all the burden of a contribution than formerly should be paid by 200,000 taxpayers”\textsuperscript{37}. The manufacturers also complained that the new tax would produce an insurmountable fiscal burden: “a new charge that will produce between 50 and 70 million pesos”\textsuperscript{38}.

The industrial producers were right at pointing out that the new tax shrunk the number of taxpayers and probably this made collection easier for the state. Nonetheless, the new tax affected mainly big producers (more of 60 per cent of the revenue came

\textsuperscript{34} Memoria de la Bolsa de Comercio de Buenos Aires, 1936, pp. 9-10
\textsuperscript{35} On “selective incentives” see: M. LEVI, Of Rule and Revenue..., p. 64.
\textsuperscript{36} Dirección General del Impuesto a los Réditos, Memoria Año 1935, p. 19.
\textsuperscript{37} Anales de la Unión Industrial Argentina, December 1934, year XLVII, n. 792, p. 43-44.
\textsuperscript{38} AGN, Archivo Justo, Caja 43, Doc. 38, 25-10-1934
from industrial firms in 1936, 1937 and 1938\(^{39}\)) and was more difficult to transfer to consumers than a regular sales tax. From that point of view, the new device had a progressive aspect. On the other hand, the manufacturers exaggerated the quantitative importance of the sales tax. In 1935, the amount collected by the sales tax was around 24 million pesos and in 1942 it had not reached the 50 millions yet. (See Graph 1).

In 1942 the national government reformed the income tax, increasing the higher rates and diminishing the lower ones and introduced a new tax on excess profits. This reform produced a crisis in the relationships between the government and the economic elites but reinforced the tendency toward greater progressiveness of the Argentine fiscal system. Why did a government so committed to the business class interests pursue this policy? There are two political and ideological factors that account for this governmental attitude. Firstly, the governments of the decade of 1930 faced an important problem of legitimacy. They had their roots in the coup d’état of 1930 and they could not entirely clean the spot of their original sin due to the persistence of the electoral fraud during the 1930s. The governments were conscious of this “legitimacy deficit” and try to offset it with a more progressive fiscal policy.

Secondly, the political and social atmosphere was increasingly favourable to policies concerned with the distribution of wealth in society. The growth of industry and the obstacles of a not entirely legitimate government to deal with working class’ activism only through repression were becoming apparent. Moreover, Roosevelt’s government in the United States created a model that would be emulated worldwide. These aspects were clear at the end of WWII, when both Perón and his opponents toyed with social justice issues in the electoral campaign\(^{40}\). But they had been developing along the 1930s and acquired a crucial importance even before peronism. Since the 1920s, the idea of altering the distribution of wealth through a specific fiscal policy was behind those who supported the introduction of the income tax\(^{41}\). This notion became increasingly important during the 1930s and 1940s.

In some provinces, the very conservative party displayed a populist rhetoric and policy that led to conflicts with the upper classes. The most known case is the

\(^{39}\) Dirección General del Impuesto a los Réditos, *Memoria Año 1938*, p. 64.


\(^{41}\) See: José Antonio SÁNCHEZ ROMÁN, “El poliedro de la igualdad. Nociones de justicia impositiva en Brasil y Argentina en las década de 1920 y 1930”, *Boletín del Instituto de Historia Argentina y Americana Emilio Ravignani*, (2005:2).
conservative party of the Province of Buenos Aires that tried to gather popular support and at the same time increased the revenue of the provincial government. In 1942 the conservative government of Buenos Aires introduced a progressive tax on plots of land bigger than 10,000 hectares provoking the landowners’ ire. The Minister of Economy of the province did not hesitate in proclaiming: “We understand [this is the way] of fulfilling the program of the political party we represent (…) a party of clearly popular origin, with positive roots among the working classes of Buenos Aires, unconnected to whatever means unfair privilege”\textsuperscript{42}. As in the past, the fiscal policies were aimed to maximize revenue, but unlike in the past the possible effects of any tax on the distribution of wealth among social classes could not be neglected.

\textbf{The beginnings of a crisis?}

In 1942 the income tax was the first source of revenue for the Treasury. The elites’ cooperation had allowed the national authority to establish the quasi-voluntary compliance required for the success of the system. The efficiency of the collection and the political and social pressures produced a more egalitarian taxation system. However, in 1942, a bitter conflict between the conservative government and the entrepreneurial classes arose out of a taxation reform launched that year with the purpose of reducing the fiscal deficit provoked by WWII. The government projected three mechanisms to tackle the situation. First: an increase in the higher rates of the income tax. Second: the creation of the so called excess profits tax. And third: a mobile duty on exports that tried to fix a maximum price for the export products and therefore created a surplus of income for the state\textsuperscript{43}. The entrepreneurial groups claimed against the new proposals and launched a campaign aimed at its rebuttal in the Congress. The entrepreneurs analysed the new reform in detail in several articles and manifestos. On the income tax reform they applauded the possibility of compensating loses and profits in different annual balances and also the augmentation of the minimum taxable income. But they claimed that to tax in the same way the incomes coming from industry or commerce and those coming from “capital” (that is, from public bonds, bank deposit, etc) did not make


\textsuperscript{43} As Ricardo SIDICARO, *Los tres peronismos...*, p. 43, has pointed out this fiscal device was a clear antecedent of the program of control of rural exports under the IAPI created by Perón.
economic sense. Moreover, they argued that the increase in the higher rates was of 100 per cent and that the economic situation did not allow such an effort.44

One important issue was related to the taxation of dividends and companies’ profits. The entrepreneurs asked for an exemption of the non-distributed profits or at least for a minimum tax on them, on the grounds that these profits were the required capital accumulation for future investments and therefore they were the economic bases of the future nation’s welfare. This petition was obliquely linked to a new disposition in the law that obliged the withholding agents (the firms) to retain 25 per cent of the dividends paid to anonymous share holders and those dividends paid abroad. That was a serious concern for the government, because the existence of non-identified share bearers opened the gate to an important process of evasion.45 Therefore, the objective of the entrepreneurs, in addition to the mentioned problems of efficiency, was to obtain a compensation for the new burden on the dividends.

A more pungent question surrounded the excess profits tax. The economic elites claimed against what they perceived as a political objective in the new tax: “the new excess profits tax seems to propose a social and distributive justice goal as far as the state’s action is concerned… In reality, instead of reaching that better social order, it creates a disorder because provokes envies and foments the fight among social classes”46. The government also recognised the social objective in its new legislation or at least used the social justice rhetoric as an opportune justification: “the project pursues also—and this is one of its main concerns—, a more equitable distribution of the fiscal burden”47.

The problem was beyond the distribution of wealth and affected the elite’s ideas about power and fairness. In fact, as the government emphasised the new rates were moderate.48 That was also guaranteed by a sentence of the Supreme Court of Justice that stated that any tax rate over 33 per cent was considered a confiscation and therefore banned. This extraordinary sentence for the international standards meant a major obstacle for future reforms and protected the upper classes against the state’s fiscal voracity. That the level of the rates was not the main concerned of the entrepreneurial

45 Dirección General del Impuesto a los Réditos, Memoria Año 1942, pp. 32-33.
46 “Consideraciones sobre los proyectos…”, p. 745.
47 Dirección General del Impuesto a los Réditos, Memoria Año 1942, p. 27.
groups is also confirmed by their main conclusions on the reform of 1942. An article of La Nación, republished also in the Anales of the Sociedad Rural, asserted: “The country will not elude the taxes if they are just, necessary and clear in their goals and bases”

49. Thus, the elites were not willing to tolerate the reform because it attacked some moral principles of fiscal justice and in doing that altered the balance of power: “What is serious and certain is that this accumulation of laws is giving the ruling of the country to a new class, truly state within the state, completely divorced from its problems… The country runs the risk that its ruling forces become subalterns (de una subalternización de sus fuerzas rectoras)”

50. In order to solve the problem, the main entrepreneurial associations demanded the creation of a fiscal council made up of members of their institutions and representatives of the government in charge of dealing with fiscal issues.

How to interpret the 1942’s taxation conflict? Ricardo Sidicaro has asserted that the conflict was the result of the increasing state’s autonomy. This is an accurate analysis as far as the state’s bureaucratic organization is concerned. As it has been shown, the success of the tax collection during the 1930s depended to an important degree on the efficient of a recently established bureaucratic body. Beyond fiscal policies, other economic policies and the growing state’s intervention in economy demanded the improvement of the bureaucratic capacities. This bureaucratic autonomy was an important concern for the economic elites. In 1942 La Nación published an article with the title “El peso de la burocracia”, later republished in the Anales de la Sociedad Rural Argentina. In that article, the author alerted on the excessive power of the new bureaucrats: “a bureaucracy that has everyday bigger attributions, helped by experts frequently theoreticians with biased and artificial orientations”

51. Nonetheless, it is more disputable which the limits of this bureaucratic autonomy were. Sidicaro has stated that “the very autonomy of the state’s apparatus vis-à-vis the society stimulated the independence of the conservative politicians from the entrepreneurs’ organized representations”

52. However, the correlation between bureaucratic and political autonomy seemed not to be so straightforward. The bureaucracy was not entirely autonomous itself. As it has been said, the DGIR did not

49 “El fin y forma de los impuesto”, La Nación, 10 de junio de 1942, also in Anales de la Sociedad Rural Argentina, año LXXVI, vol. LXXVI, junio de 1942, p. 479.


52. R. SIDICARO, Los tres peronismos..., p. 54.
display any tendency toward the formulation of its own political line, as it is usual in similar offices in other countries. In no moment or circumstances, did de DGIR try to alter or influence on political decisions.

Moreover, the recollections of the 1930s pinpointed a close cooperation between government and entrepreneurs. It has been already shown the sympathetic view of the governments of the 1930s displayed by the economic elites. In 1942, with occasion of the tax reforms, the Socialists recalled those good relations too and emphasised the new aspects of the situation. In that moment, the Socialists supported the government in the Congress and criticized the elite’s discontent as a proof of hypocrisy: “When the state projects the needed taxes to face the expenses, such interventionism is resisted on behalf of the property rights. But it is forgotten the state interventionism that supports, feeds and increases the profits of the Argentine’s affluent class”\textsuperscript{53}. In addition to that, the Socialists tried to justify their sudden support of the conservative government underlining the differences between the new policy and the former ones: “Fortunately, now we can say that our budget offers different features from the (...) past years. It starts to have a social purpose”\textsuperscript{54}.

Therefore, the 1942’s crisis could have meant a turning point in the relations between state and the business class. In any case, the crisis was not definitive and the good memories of the 1930s were a powerful incentive to reconstruct the former alliance. However, the political crisis was going to dictate the rhythm of the successive tax reform. In 1943, a new coup d’état ended the conservative period of manipulated democracy. The new military authorities tried to impose the tax program of 1942 and to some extent followed the social justice rhetoric displayed by the previous conservative rulers. Thus, the measure proposed to solve the issue of the non identified share bearers was justified by appealing to the unfairness of the system:

“In the Argentine legislation, the fiscal inequalities are many times apparent (...) It is the Government of the Revolution (the de facto government of 1943) who accepts the responsibility and the satisfaction of fulfilling the task of rectifying the legal mistakes, correcting unfair situations and forcing those who enjoyed a comfortable freedom to a bigger or safer contribution (...) Today, this inequality has disappeared. The Decree 31712/43 has created a system through which the share bearers living in the country will pay the adequate rate or the maximum payable (...)”\textsuperscript{55}.

\textsuperscript{53} Américo GHIOLDI and Rómulo BOGLIOLO, Los socialistas, los gastos público, las cuestiones impositivas, Buenos Aires, 1942, p. 31.
\textsuperscript{54} A. GHIOLDI and R. BOGLIOLO, Los socialistas..., p. 41.
\textsuperscript{55} “Conferencia pronunciada por el Presidente del Consejo de la Dirección General del impuesto a los Réditos, Sr. José P. Hernández, el día 6 de junio del corriente año en la exposición de la obra realizada
Nonetheless, and beyond the rhetoric, there were still space for agreement between the new owners of the state and the economic elites. The new government did not have a clear political or economic line yet. It faced a difficult economic situation and received as a legacy a conflict between the past administration and the economic elites on the key issue of taxation. The proprietors’ classes, in turn, did not have any guarantee about their position either. The change of government might have meant a change in the rules of game and a greater vulnerability.

As far as the taxation issues were concerned, the entrepreneur associations looked with suspicion over the new authorities. Aware of this, the government essayed a strategy of appeasement and accepted to create the fiscal council claimed by the interest groups. Only one month after the coup, July 1943, the Comisión Honoraria Asesora del Gobierno Nacional (Advisory Honorary Commission of the National Government, from now on Comisión Honoraria) was founded by a governmental decree “in order to study the financial problems provoked by the present fiscal imbalance”\(^{56}\). The members of this Comisión Honoraria were: Ernesto Aguirre, president of the Stock Market; José María Bustillo, president of the Argentine Rural Society; Eustaqui Méndez Delfino, President of the Center of Traders of National Products (Centro de Consignatarios de Productos del País), Luis Colombo, President of UIA; Otto E. Frederking, President of the Association of Real Estate Owners (Asociación de Propietarios de Bienes Raíces); Nemesio de Olariaga, President of the Confederation of Rural Associations of Buenos Aires and La Pampa (Confederación de Asociaciones Rurales de Buenos Aires y La Pampa); Tomás Amadeo, President of the Argentine Chamber of Commerce (Cámara Argentina de Comercio); José Mazzei, representative of the CACIP and Ernesto Mignaquy.

The conclusions offered by the Comisión Honoraria to the Minister of Economy showed interest in building a strong relation with the state and in recovering the fluent communications that had characterized the relations between government and entrepreneurs during the 1930s. On the taxation and the possible solutions to the fiscal constraints produced by the war, the interest groups followed the ideas developed

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\(^{56}\) Decreto de 6 de Julio de 1943, constituyendo la Comisión Honoraria Asesora del Gobierno Nacional, Buenos Aires, July 6, 1943.
during the 1930s by recognizing the important role of the state in the economy and the obligation of supporting it: “(The Commission) considers that if the state has contributed to maintain economic stability, all labour and productive sectors should contribute, not with an equivalent effort, but with one progressive and proportional to their volume of income, and never inferior to the burden that at present they bear”\(^{57}\). That is, the economic elites recognized the important work accomplished by the national governments during the 1930s and their commitment to continue paying taxes in order to maintain a similar kind of policies. At the same time, they criticized the income tax reform promoted by the last administration because it widened the exceptions for incomes derived from salaries and for lower incomes. According to the Comisión Honoraria, there was a problem of lack of equity in the reform: “Neither the former Executive Power nor the Budget and Treasury Commission of the Honourable Chamber of Deputies understood it in that way. At the same time they projected an increase in rates for some income brackets and strong deductions for others, which alleviated the administration’s tasks by eliminating the hard… task of monitoring the smallest (taxpayers) but reduced the burden of a great mass of taxpayers”\(^{58}\). Therefore, the Comisión Honoraria proposed to postpone the global reform of the income tax and to carry out only minor adjustments.

The main issue concerning the taxation debate was however the excess profits tax. And here the Comisión Honoraria and therefore the economic elites obtained an important victory. The members of the Comisión wrote a new project of excess profits tax and eliminated the aspects of the former project that were considered more harmful. The main issue was the discussion of what was considered an extraordinary profit. In 1942, the excess profit was a fixed percentage over a supposed normal profit. In the economic elites’ proposal, the taxpayer could choose a base year from a list of years before the war as the criterion for establishing a “normal” profit\(^{59}\). In December 1943, the Decree 18,230 established an excess profits tax that turned out to be an exact copy of the project elaborated by the Comisión Honoraria. Proudly, the members of the Comisión declared: “The work of the Commission has been described by the Minister

59 *Dictamen de la Comisión...*, p. 28.
of Finance as hard-working, patriotic and conscious and its projects, as far as the taxation system is concerned… have been totally adopted<sup>60</sup>.

Therefore, rather than a complete rupture, the process opened in 1942 was an impasse. The solution to the crisis was uncertain. On the one hand, both the state and the economic elites perceived that they needed each other. The state had built a modern and efficient tax system based upon the sole support of the entrepreneurial groups. The economic elites realized that the amicable policies displayed by the 1930s’ governments were only possible if the state had a solid fiscal basis. On the other hand, the political turmoil accelerated since 1943 created a fertile soil for uncertainty and mutual distrust.

**Conclusions**

As it has been shown in this paper, the income tax introduced in 1932, achieved a reasonable success in that decade and became the main source of revenue for the state. The case of the income tax is quite relevant, because it is one conspicuous example of a tax that depends on voluntary attitudes for its adequate working. The income tax -as democracy- is a complex device that demands citizen’s cooperation. Of course, as power and resources are unevenly distribute within societies, some actors or groups could have a singular importance in the process of building voluntary compliance. The Argentine government that introduced the income tax was aware that the success of its system depended to a large extent on the cooperation of the most affluent classes in the country. As the governments of the 1930s showed a clear commitment to the elite’s necessities, that goal was fairly achieved.

However, that was not enough. The extension of an ideology supporting the income tax as a duty or a broad consensus surrounded the taxation system would have reinforced the reform. But to deal with this problem meant to deal with the problems of legitimacy of the governments of 1930s. Originated in a coup d’état in 1930 and surviving thanks to the rigging of elections, the 1930s rulers had a difficult task in convincing their citizens of their legitimacy. As far as the legitimacy of the tax system was concern, the government’s intimacy with the upper classes made things more complicated. The authorities were aware of these hindrances, and improved the income tax system by increasing its progressiveness as time went by. At the same time, they combined repression with some social policies to compensate their deficit of legitimacy. These efforts did not solve the question. At the beginning of the 1940s, the governments

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<sup>60</sup> Dictamen de la Comisión..., p. 1.
were considered illegitimate and the state was far from being considered a neutral agent among social classes.

Besides these problems, WWII affected the Argentine public finances and the government attempted to restore the fiscal balance by reinforcing the taxation system based upon progressive and wealth taxes. This attempt made the national executive vulnerable to the criticism of its main societal allies: the business groups. Since 1942, the national government and the representatives of the economic elites contended around the definition of the national tax system. That crisis meant a new paragraph in the history of the relationships between the state and the Argentine entrepreneurs but it did not mean a definite rupture.