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INSTITUTIONS AND THE HISTORICAL ROOTS OF LATIN AMERICAN DIVERGENCE

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ABSTRACT

Institutions and the Historical Roots of Latin American Divergence*

In this essay we analyze the relation between long-term growth and institutional development. Relative backwardness has been a constant feature of the history of Latin America. In the wake of Independence the gap between Latin America and the industrializing world was already wide and widened during the first decades after Independence. While Latin America resumed growth after the 1870s, the absolute gap continued to grow, as it did in 1913-1950 in spite of relatively good growth rates. In the last decades of the 20th century, the Latin American economies diverged even more from those of the West.

We argue in favor of the Neo-institutionalist approach to Latin American economic history in the sense that the colonial institutional setting had a long-lasting impact on Latin American development. We criticize Neo-institutionalist writings for being excessively focused on original colonial institutions and their lasting effects, and for neglecting to some extent how these institutions changed in relation to a profound transformation in international relations and technological environments, as symbolized by the Industrial Revolution. While Neo-Institutionalist propositions on Latin America are not really new, they are sometimes less nuanced than previous contributions to the topic

We also argue that many reactions against Neo Institutionalist approaches seem to be exaggerated, proposing artificial breaks in the historical process. Inequality was at a high level by the end of the colonial times. The kind of social and power relations underlying economic life and the distributional and technological dynamics they involved, before and during the First Globalization boom, could hardly be considered good for growth. By then the world economy had gone through not one but two industrial revolutions. International trade was increasingly moving towards skill-intensive products, inequality gave rise to serious shortcomings in terms of human capital accumulation, and the pattern of specialization reinforced a path of slow rates of technical change and social relations not particularly conducive to technical change. The colonial heritage mattered but was reshaped in more informal ways in interaction with domestic institutional developments.

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Introduction

There is no doubt that Latin America has fallen behind the more developed countries as regards per capita income, but there is still much debate about when and why this happened.

In this essay we analyze the relation between long-term growth and institutional development in Latin America. Our motivation is a certain dissatisfaction with the state of the art concerning general theories on Latin American development, as expressed both by today's very widespread neo-institutional approach, which considers that institutions created during colonial times were responsible for backwardness, as well as by most of the reactions against it. We propose some guidelines to interpret long-run Latin American development that try to capture the contributions of recent research, but that also find some inspiration in previous Structuralist and Marxist writings on Latin America.

In the first part of this essay we will present a few stylized facts about Latin American relative performance, to which the institutional discussion is related. The second section starts with a conceptual discussion of institutions and relations of production and discusses different applications to the Latin American context. We finish the essay summarizing our conclusions.

1. When did Latin America fall behind?

Latin America, the West and the Rest

Since 1500, Latin America's per capita GDP fluctuated in a range of +/- 20% of average world per capita income (Table 1). However, differences of world per capita GDP between countries and regions has been steadily increasing. Thus, while the gap between Latin America and the West continuously widened, so did the gap between Latin America and Africa until now, and so did the gap between Latin America and Asia until the 1950s.

International relative growth rates have been increasingly discussed in terms of the little and the great divergence. **The Western countries** moved from a relatively slow growth path dominated by population expansion in 1500-1820, to a fast and intensive growth path since the 1820s, in which per capita GDP growth clearly dominated over population growth (Figure 1). During the first period, **the rest of the world** only grew extensively, and at slower rates than the West, giving rise to the so called little divergence. During the second period, GDP growth rates accelerated, but population growth remained high and explained half of total growth. World productivity, as measured by per capita GDP growth rates, grew at only 60% of the growth rate of the West, giving rise to the so called great divergence.

After independence**, Latin America** (LA) followed a similar path as the rest of the world: it showed slightly higher growth rates but with the same structure, which is that population growth explained 60% of total growth. Latin America's per capita GDP growth was only 70% of that of the West. Relative growth, however, may blur the size of the gap. Between 1820 and 2001 the absolute size of the gap increased by a factor of forty and in relative terms it became 2.9 times higher than average LA per capita income. As regards colonial times, it is very difficult to estimate GDP and population. Based on very fragile assumptions such as those of Maddison, we might guess that there really was a non-negligible gap between Latin America and the West, but it did not widen significantly during this period.

To sum up, while the West was growing extensively and somewhat slowly, the gap between the West and the Rest (Latin America included) was not negligible but increased moderately. When the West shifted to an intensive growth pattern LA lagged further and further behind and the gap became huge, in spite of LA having continued and even accelerating growth. Therefore, while the original gap and colonial heritage deserve considerable attention, new growth patterns emerged and the scene changed dramatically after the Industrial Revolution.

We can identify different periods in the life of the independent Latin American countries.

The “cost of independence” seems to have been huge in terms of relative development. This is a traditional view, represented for example by Halperin Donghi (1985). This point is also implied in Bates, Coatsworth & Williamson’s (2006) descriptive name “Lost Decades”. However, more recently Prados de la Escosura (2009:306) concludes that between 1820 and 1870 Latin America grew “at a similar rate to the global average, matching that of the European periphery and proving far higher than that occurring in Asia and Africa. ‘Lost decades’ seems to be an inadequate description of aggregate performance in post-independence Latin America.”

We find it difficult to agree with this author. 1) While world average annual growth was 0.6%, 12 Western European countries (Europe 12) were growing at 1% and the USA at 1.3%, the Latin American rate was only 0.5%. 2) The gap between Latin America and Europe 12 increased from 0.9 to 1.6 of Latin America’s per capita GDP; the gap between the USA and Latin America increased from 0.9 to 2.0 of Latin America’s per capita GDP. Some countries were growing fast and many former colonies were taking advantage of that. While Latin America was not a stagnant or sclerotic society, the decades following independence were lost in terms of relative performance and potential growth. Gelman (forthcoming) states that during this period disparities increased significantly in Latin America, as the commodity lottery allowed some regions to grow fast while others remained stagnant, thus making it difficult to generalize. Even if true, this statement does not change the general view: diverse performance is not a special feature of this period in Latin America.

Within two quite different environments Latin American performance in 1870-1950 seems, at first glance, to have been reasonably good. While the gap between the West and the Rest increased from 2.3 in 1870 to 4.5 in 1913 and to 5.6 in 1950, Latin America went up from 0.8 of the world average to 1 in 1913 and 1.2 in 1950. The gap between LA and both Africa and Asia increased considerably. However, there is no reason to be smug or satisfied with this performance because the absolute gap between per capita income in the West and that of Latin America increased by 81% in 1870-1913 and by a further 52% in 1913-1950 (it widened by 176% in the 1870-1950 period!). It increased from 131% to 148% of LA’s GDP between 1870 and 1913, but narrowed to 125% in 1950.

The trend has changed since the 1950s. During the Golden Age (when the West grew as never before) and after (when Asia started to grow faster and the communist world was still doing well), Latin America lagged behind, although the gap between it and Africa continued to widen. Latin America’s performance after the 1970s was relatively poorer, in spite of a slower growth rate in the West.

Latin American diversity

Latin America is diverse and its development and growth have been uneven. As can be seen in Table 2, in 1820 the combined per capita GDP of Argentina and Uruguay may have been double that of the rest of the continent combined. The trend until the 1950s was of increasing disparities between countries, probably since the early years of independence (Gelman (forthcoming), with Chile already in the high income group in the 1870s, Cuba too, and Venezuela joining in the 1950s.

However, starting in the 1950s, the Latin American economies began to converge. This was due to sluggish growth in the relatively high income countries and to fast growth in Brazil, Mexico and Colombia, for example. Today no Latin American country rates as a developed country, but this does not mean that some of them, at certain points in time and under special circumstances (often related to the so called "commodity lottery") have had high income levels and high growth rates. However, Latin American countries have not been able to sustain high growth rates over time. Instead of steadily approaching the levels of the world's leading economies they have tended to experience "truncated convergence" (Ocampo …) and shifted between convergence and divergence regimes (Bértola & Porcile 2006).

Relative backwardness, however, is not stagnation or total inertia. Since the time of the conquest per capita income in the region has grown by a factor of 14 and since independence it has grown eight-fold. If we add population growth to these figures, total GDP has grown by a factor of 423 while GDP in the West increased by a factor of 365 in the same period. This kind of growth must mean that far-reaching structural and institutional changes have taken place. No doubt the kinds of growth mechanisms have changed over time and so the institutional determinants of growth and the impact of growth on institutions probably changed as well. And in both cases, these changes affected both the domestic and the international arena.

2. Institutions in the Latin American context

In the last decade, the Latin American experience has been re-examined with neo-institutional approaches including work by North, Summerhill & Weingast 2000; Landes 1999; Engerman & Sokoloff 1997, Sokoloff & Zolt 2007; Acemoglu, Johnson & Robinson 2005; Robinson 2006; Lange, Mahoney & vom Hau 2006. With some nuances, even Coatsworth (2008) can be included in this group. These studies involve the basic idea that the fundamental causes of Latin America's long-run backwardness are to be found in the institutions that were set up shortly after the Spanish conquest, which promoted a high concentration of wealth and political power. Regardless of their disagreement about the factors that ultimately determined the nature of these institutions, or even the timing, these authors all seem to trace Latin American backwardness to its colonial roots. This is a traditional subject in Latin American historiography, an issue that the new literature generally ignores (see, for example, Stein & Stein 1970; Sunkel & Paz 1982; Furtado 1974, Cardoso & Pérez Brignoli 1979, and many, many others).

Nevertheless, this is a very important development because when this new line of research re-emerged in the 1990s the dominant approach to Latin American backwardness centered on the idea that these countries developed in a perverse way in the middle decades of the 20th century largely because the scene was dominated by state-led growth and import-substitution strategies. Neo-institutional approaches also had important policy implications: as institutions are path-dependent and very prone to inertia, no policy recommendation imposed from the outside is able to easily change long-run trends unless considerable domestic changes also take place. The development prospects that this view implies are not particularly optimistic.

Institutions: New Institutional Economics and Marxism

Institutional analysis is not new, and it is worth recapitulating what is new in neo-institutional approaches so as to grasp their contributions and eventual shortcomings. Many of the previous theories about Latin American economic history have some kind of Marxist inspiration. In order to compare the new contributions with previous ones it would be interesting to compare New Institutional Economics with Marxism.

New Institutional Economics is the result of three decades of refining definitions and formal approaches. This movement combines two complementary sets of ideas (Dye 2006: 170): North's contributions (1990, 1994), which define institutions as rules of the game, and Acemoglu and Robinson's approach (2006), which conceptualizes institutions as producers of sustained or equilibrium behavior.

According to North, "Institutions are the humanly devised constraints that structure human interaction. They are made up of formal constraints (e.g. rules, laws, constitutions), informal constraints (e.g. norms of behavior, conventions, self-imposed codes of conduct), and their enforcement characteristics. Together they define the incentive structure of societies and specifically economies." (North 1994: 360-360).

Informal institutions are awarded an important role in the theory. Formal institutions may be imposed on different societies or different formal settings and may be adopted in enthusiastic response to what has been applied in other societies. However, unless these institutions are also embedded in informal institutions, ways of behavior and beliefs, the probable outcome could be quite different to what was expected (Dye 2006).

The New Institutional Economics approach to institutions mainly boils down to two distinct sets of institutions, which are almost sufficient to explain modern economic growth. One set has to do with property rights, and there are two dimensions to this, the economic and the political. The economic dimension is the defense of property rights. The political dimension involves attaining and defending civil rights, i.e. the right to a political voice to defend the interests of the people of the country, and in particular the right to defend property and income from abuses by wealthy and politically powerful elites and dictators. What matters here is capital accumulation. The second set of institutions has to do with inequality. When power and wealth are highly concentrated this makes for a context in which it is easier for elites to expropriate wealth and income and abuse power, but this kind of situation hampers the accumulation of human capital. A skewed distribution of income and wealth will probably impose limits on the accumulation of education and knowledge by the great mass of the population and thus impede growth.

Most New Institutional Economists have in mind the Solow-type growth model extended with human capital. The institutions considered by New Institutional Economists are concentrated at the macro-level. However, there is no clear consideration of the institutions that regulate the micro-level or all the different institutions that regulate the innovation process. Innovation seems to be seen as an outcome of human and physical capital accumulation. Based on the concepts of scarcity and competition, good institutions are those that foster fair competition. As in the Solow-type model, productivity growth is obviously important, but no clear explanation is put forward for it.

It seems paradoxical that New Institutional Economics should focus so much on domestic relations and avoid too many references to international relations, because in neo-classical economics the main focus in development economics has been to promote free trade, globalization, and integration into international factor and commodity markets. It seems that New Institutional Economists share with neo-classical approaches the idea that international integration naturally has a positive impact on development. However, the main idea is that, no matter how powerful global forces might be, their contribution to development largely depends on the domestic institutions each country has, since it is institutions that can cause slow-growth equilibrium even when international conditions are supposedly favorable.

The Marxian view is that economies develop as the result of the interaction between the productive forces (people, techniques, knowledge, physical capital, land, particular geographical and climatic conditions) and the social relations of production, i.e., relations between different social groups involving power and ownership of natural resources, physical capital, knowledge and labor. Marx differentiates between the structure and the super-structure. The structure is composed of relations of production and productive forces (endowments). The relations of production are themselves institutional arrangements, i.e. relations between individuals and groups of individuals who have different positions with respect to the ownership of land, capital and labor. Formal institutions (the super-structure) are based on informal, pre-existing relations of forces, social relations, and they constitute the legal apparatus and its enforcement mechanisms, the State or other organizations that play this role, and also ideology, religion, culture.

What is the connection between the relations of production and institutions? Is it possible to produce a conceptual interface? These concepts have many similarities. What North calls institutions is what Marx calls social relations of production. The relations of production exist at both the informal and the formal level. In the latter case, they become part of the super-structure of the society.

What is probably more important is to see how these different levels of analysis interact with each other, and what their hierarchies are. The comparison between the two groups of theories is made difficult by the variety of approaches within each school of thought. In order to make the discussion easier, we will focus on how these different views appear in the Latin American context.

The colonial heritage

<u>Neo-institutionalism and the colonial heritage</u>

Most New Institutionalists seem to agree that colonial institutions are the fundamental cause of Latin America's backwardness. However, they do not agree on the origin of these institutions.

Landes (1999) and North, Summerhill & Weingast (2000) state that Latin American institutions are mainly the result of some kind of cultural and political transfer from the colonizing power. On a list of alternative features, Latin America (unlike North America) is always on the wrong side: federalism v centralism, democracy v monarchy, transparency and accountability v privileges and arbitrary decisions, free trade v monopolistic policies, religious freedom v official doctrine, cultural pluralism v mono-culturalism and racism. This point was recently reformulated by Lange, Mahoney, and Matthias (2006), who maintain that the differences arise from two different economic doctrines, the liberal view and the mercantilist stance.

In a joint article, Sokoloff and Robinson agree in their opposition to this view.

> "Following Engerman and Sokoloff (1997, 2000, 2002) and Acemoglu, Johnson, and Robinson (2001, 2002), the authors of this chapter argue that the contemporary situation cannot be understood without recognizing that extreme inequality emerged soon after the Europeans began to colonize the Americas half a millennium ago, and has been reflected in the institutions they put in place. Both this initial inequality and institutions were shaped largely by the factor endowments that the Europeans found in Central and South America, rather than the nature of the colonial powers themselves. Although these colonies ultimately gained independence and the development of technology and the world economy brought about important changes, extreme inequality persisted into the 19th and 20th centuries because the evolution of political and economic institutions tended to reproduce and reinforce highly unequal distributions of wealth, human capital, and political influence." (World Bank 2003, Chapter 4, written by Kenneth Sokoloff and James Robinson).

But these two authors later disagree. The Engerman and Sokoloff argument may be labeled as endowment deterministic:

> "…various features of the factor endowments of the three categories of New World Economies, including soils, climates, and the size or density of the native population, may have predisposed those colonies toward paths of development associated with different degrees of inequality in wealth, human capital, and political power, as well as with different potentials for economic growth. Even if, later on, institutions may ultimately affect the evolution of factor endowments, the initial conditions with respect to factor endowment had long, lingering effects" (Engerman & Sokoloff 1997: 275-6).[2]

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[2] The three categories here are (1) Tropical crops like sugar that yield increasing returns to scale and promote the concentration of property. This was reinforced by the introduction of slave labor. (2) Corn production, which never had increasing returns to scale and which led to a farmer society. (3) The Andean and Mesoamerican societies, with their high concentration of land, natural resources and domestic labor, i.e. a similar structure of incentives as those prevailing in the tropical regions. (Engerman and Sokoloff 1997).

In subsequent papers, Sokoloff with other co-authors make further studies of institutional architecture, but now with reference to education, political participation and suffrage, fiscal policy, local government, etc. However, the basic idea remains: perverse institutions rely on the features of domestic resource endowments.

Acemoglu and Robinson's approach differs from this. Rather than emphasizing natural resources in the different regions or dwelling on the supposedly different technical features of the different kinds of production with respect to increasing returns to scale, they mainly focus on one kind of endowment, which is labor. Their arguments boil down to quite a simple idea: in places where the native population is numerous or immigration is hampered by a fear of diseases, there are incentives for the colonial elite to develop coercive labor relations. This leads them to set up "bad" institutions that further foster the concentration of wealth and political power. The opposite scenario pertains when colonists form the majority of the population: they create good institutions for themselves, thus promoting the accumulation of physical, human and "political" capital. The origin of the colonists does not really matter, and nor do the geographical determinants of technical aspects of society, but the environment in which colonists settle does have weight. To support the notion that institutions rather than geography or natural endowments play a decisive role, Acemoglu and Robinson use the "reversal of fortune" argument. This is the idea that regions with high development levels in 1500 had lower per capita income at the end of the 20th century, and what geography probably explained in 1500 institutions reversed as time went by.

According to Acemoglu and Robinson (2005), the distribution of wealth and the political regime at a certain point of departure is the *de jure* and tacit political framework which determines the prevailing formal and informal economic and political institutions.

In short: two assertions feature Neo-institutionalist thinking on Latin America: that early colonial institutions are the main explanation of Latin American backwardness; these institutions were inert to a large extent and tended to reproduce themselves over time. However, there are still big disagreements about the origin of institutions, between a resource-determinism that can be said to be exogenous, a cultural or political determinism that is also exogenous and is dependent on the kind of colonial power, and an endogenous socio-political determinism.

Marxist and structuralist approaches to the colonial heritage

Marx considers the distributional outcomes of previous processes as the starting point for prevailing social relations. Probably the Marxist emphasis is on the fact that, logically, the real tacit relations of production emanating from power relations are the ultimate determinants of the shape that formal institutions take. In the Marxian approach, social relations are embedded in power relations and wealth distribution, which according to Acemoglu and Robinson constitute the given equilibrium variables at time zero.

Differences between Marx and North may be more important. When North's institutions ultimately rely on culture, North turns Marx upside down. If North's institutions are more related to daily experience and particular local conditions, then the gap gets smaller.

However, even within Marxism different approaches may be found. One widespread view is to see development as the unrestricted unfolding of productive forces, which use social relations as a vehicle for progress. Once the social relations that previously powered growth starts hampering it, progressive social forces introduce revolutionary changes to power relations and new social relations of production appear, and this frees productive forces so they can develop and clear the way for further progress (Lange 1980). While in North, performance is the result of institutions (institutions are the ultimate causes of growth; the accumulation of physical capital, labor and human capital are the proximate causes of growth), according to this deterministic Marxist view we might conclude that the development of productive forces is the ultimate cause of growth.

Marx's own studies of capitalism can be read to mean that capitalist social relations are the real forces that, through their economic reproduction, have the power to produce the unprecedented development of productive forces. This is what happened during the Industrial Revolution, a specific product of capitalism. It might be said that in Marx the relations of production determine the rate and direction of the development of productive forces. Other Marxist approaches, such as those of Robert Brenner, emphasize the role played by social and political power relations to explain the different paths of capitalist development and economic performance in Europe (Brenner 1990). Acemoglu and Robinson can be placed close to this point of view.

Let us take a look at one example of the Marxist approach to Latin American growth and "institutions". Ciro Flamarión Santana Cardoso and Héctor Pérez Brignoli's *Historia Económica de América Latina* (C&PB, 1979, I and II) is a book that has been almost completely ignored by New Institutional Economics as it was neither translated into English nor presented in New Institutional language. The reason to choose this work as an example, among many others, is that it is a very good synthesis of varied earlier contributions from many.

In short, C&PB's argument is as follows. Latin American colonial societies are based on three components: the European economy, African pre-colonial societies, and obviously the pre-Columbian civilizations. These components combined in different ways in different parts of the region in response to local environmental and social conditions. Societies developed as a part or extension of the European economy, but they also developed structures and dynamics of their own. For example, the fact that there was no second agrarian revolution in Latin America can hardly be explained by the dominance of Spain or Portugal alone, as no colony of any other colonial power had such a revolution either (p. 150). The different regions are identified by four different criteria: a) the colonial power (weak explanatory power, as compared to North); b) the degree of linkage with world markets (export centers, subsidiary economies and marginal regions often overlap in the same space); c) the kind of products, highly dependent on geography (mining centers, tropical products, the production of foodstuffs and consumer goods for domestic markets), with big impacts on techniques and social organization; and d) labor relations and the character of the colonization process. In this last type, authors distinguish, first, Euro-Indian regions, which were the core areas of the pre-Columbian civilizations and were where colonization meant a redistribution of productive factors and the imposition of forced labor on reorganized peasant communities in many different and heterogeneous forms. Second, there were Euro-African societies, i.e. more homogeneous slave societies in regions suitable for tropical crops. Third, there were Euro-American societies in temperate regions with low native population densities and increasing European immigration. The various combinations of all these factors gave rise to a wide variety of regional cases.

The land was owned by the Crown and was bestowed on individuals to promote conquest and colonization. Occupied land could be bought from the Crown, and the Indian communities had to have enough land to live on, reproduce and pay taxes. In the wake of the demographic catastrophe and the decline in silver production, the hacienda system came into being. This was based on large tracts of land owned by the Church or other landlords, mine owners, merchants and bureaucrats. The *mestizos* were not allowed to own land.

A *hacienda* might be more or less market-oriented, but the hacienda system seems not to have been particularly prosperous. Most fortunes were made in mining and trade. Colonial Latin America was technologically backward. In spite of technology transfers from Europe, production was quite primitive and the technological path was more oriented to the extensive use of land based on exploiting unskilled forced labor than to the intensive use of land as such. Colonizers adapted to the prevailing local conditions instead of making use of up to date European technology. Thus the Indian-European mix led to technological stagnation or even involution.

The more market-oriented plantations combined two agrarian sectors, namely production by slaves for their own consumption, and the production of goods for the market. Even though the division of labor was more advanced, the technological pattern was equally backward as it was based on the extensive use of labor and land. Technical change was not impossible, but slave economies were not a particularly susceptible environment in this respect. Plantations were firmly inserted into trade flows and closely linked to European markets. Profits depended on the cost of labor through high levels of self-sufficiency and international commodity prices. Plantations were also highly dependent on the supply of labor through the slave trade, and on the severe application of enforcement mechanisms. As regards land, the Spanish, Portuguese and French colonies preserved the patrimonial character of land ownership, unlike the system in the British and Dutch colonies, where land markets came into being quite early.

In short, C&PB gather many of the nuances that would later appear in the varied range of new institutionalist approaches into a single view. However, while in Neo-institutional approaches most of the story is already written, this is not the case with C&PB. As we will see, other Neo-institutionalist writers, as John Coatsworth, also share this view.

Latin America, the Industrial Revolution and the National State

C&PB consider that the period 1750-1870 was when the relation between Latin America and the world economy was reformulated, a process that can also be viewed as a transition to peripheral capitalism, i.e., a kind of capitalism lacking the structural and technological dynamics that feature in the central economies. These authors concentrate their analysis on the late colonial period and on the second half of the 19th Century, when a process with three components took place: the abolition of slavery, the liberal reforms (which involved the expropriation of Church land, the control and privatization of public land and the control of the labor and land of indigenous peasant communities) and expansion into new areas. The C&PB study is particularly weak when it deals with the role of independence. It seems that one volume of the book is missing. The “great delay”, as it was called by Halperin Donghi (1985), is a vacuum. According to most studies this was a period of disorder and of sluggish and discontinuous economic growth. This period was also neglected by the main body of neo-institutional writing because the most important part of the story had already been written.

According to C&PB, in the context of the independence of the British colonies, the Industrial Revolution and the Napoleonic Wars, Latin America enjoyed relatively fast economic growth and institutional re-organization which, following Lynch (1992), has been called “the second conquest”. The Bourbon and Pombalian reforms were aimed at extracting as much profit as possible from the colonial system, and in this process the previous inward-looking trend was reversed and the Latin American economy became more closely linked to the international economy. Thus, the colonial heritage is not mainly a matter of what happened during the early years of colonization. These international links, formal and informal, were not an original sin at time zero but an ongoing determinant of economic, social and political developments. While in New Institutional writing the colonial powers and the colonizers play the role of initiators, and afterwards domestic institutions keep on reproducing themselves, in C&PB’s approach the colonial powers remain as an important and dynamic factor. It is worth noticing that C&PB’s approach constituted a frontal attack on the extreme versions of dependency approaches, which saw external links as the main source of underdevelopment and the exploitation of the periphery as the main explanation of capitalism’s development at the core. Domestic relations are seen to play a key role in the explanation of European development and also in that of Latin America. However, external relations do not disappear.

This is an important point. New Institutional Economics mainly developed in the USA, and it seems to export to Latin American studies some features of the North American experience and to reproduce that pattern of analysis. Most of the successful development experience of the US is that of a large, independent nation (see Haber’s Introduction to Haber 1997). Most studies of US development assign the decisive and outstanding role to domestic forces. It seems that when studying Latin America, New Institutional Economics is prone to some kind of path dependence. The shift towards the study of domestic forces is not exclusive to Neo-Institutionalists. The so-called dependency school (Hettne 1990) started by focusing almost completely on external forces, but slowly moved to consideration of domestic barriers to growth. ECLAC’s pioneering works from the 1950s mainly focused on the so-called centre-periphery system and had some kind of naive view about the underlying potential of Latin American society and the capacities of the State, but in the 1960s domestic structural barriers to growth and development (agrarian structures, trade mechanisms, patterns of consumption, etc.) came to the forefront of the analysis, although the center-periphery approach was not neglected (Rodríguez 2007). New Institutional approaches are another example of this movement. However, New Institutional Economics seems to have focused too much on domestic circumstances and to have forgotten the role played by the changing dynamics of international relations. The recent book by North, Wallis and Weingast (2009) is almost completely about the creation of "open access economies" but in a closed economy framework.

John Coatsworth is an experienced Latin America specialist. His view (2008) differs from others and is full of insights. He shares with C&PB the idea that 1750-1870 was an important period of missed opportunities. He seems to take the side of the branch of new institutional tradition that believes Latin American backwardness is closely linked to Iberian institutions. Coatsworth's view is similar to that of North, Wallis & Weingast (2009) insofar as the Industrial Revolution is seen as the result of previous institutional changes in Holland and England.

> "… the Portuguese and Spanish empires had failed to adapt to the revolution in property rights that produced a Commercial Revolution and sustained economic advance in Britain and the Netherlands at least a century earlier. The Iberian failure to modernize property rights and other institutions affected elites as well as commoners. As generations of Spanish and Portuguese policymakers understood, the survival of their empires depended crucially on the maintenance of a fragile equilibrium in which the authority of weak and distant monarchs depended as much on keeping settler elites insecure in their rights and properties as it did on keeping the lid on discontent from below. By clinging to absolutist principles and colonial hierarchies of race and caste, the Iberian World had already lost the opportunity to make an Industrial Revolution on its own." (Coatsworth 2008: xx).

According to Coatsworth, Latin American elites were not as powerful as North American ones because the peasant communities were able to keep control of their land, which contrasts with the drastic land expropriations that were implemented in North America and in Australia and New Zealand, for example. This weakness in Latin America made local elites dependent on the protection of the colonial power, and this in turn meant that colonial power in Latin America was more long-lived than in North America. The elite were taxed by the colonial power in many different ways, which differs from what happened in North America. The colonial powers were partly responsible for the weakness of the local elites, as the Iberian colonial powers were careful not to give local elites sufficient autonomy or property rights over land or even over labor.

Coatsworth goes even further with a highly controversial statement: economic growth did not require institutions that encouraged the poor to invent and invest, but rather institutions that made it possible for people of means to do so. Latin America was not unequal enough to promote accumulation by the local elites.

This point is interesting for two different reasons. First, it tacitly confronts the idea that the institutions that are good for growth are always the same. We firmly share this view. Capitalist development is not always a story about increasing equality. Industrialization led to an increase in inequality, the so-called first phase of the Kuznets curve. However, there is a second aspect with which we disagree: the fact that peasants kept part of the land does not necessarily mean that elites lacked a degree of control. Quite the contrary, the presence of large numbers of peasants is what makes it possible to extract labor from them and to maintain an unequal social structure. Peasants were assured a piece of land because they worked it for their own subsistence, and the existence of this peasant community made it possible to generate a workforce that paid taxes to the haciendas, the Church and the Crown. We are not talking about free peasants who were able to accumulate, get richer, buy new land, and so on, but people who lived close to subsistence levels and produced surplus labor for the elite, both domestic and colonial, and were dominated by an oppressive class, race and caste system. We are still not in a position to say how severe inequality was by modern standards. However, an awful lot of work would have to be done before the idea of a not too unequal colonial society could be acceptable. What really matters is not merely inequality measures such as the Gini-coefficient, but the kind of inequality that prevailed and the underlying social relations and their dynamic implications. And in this discussion of inequality, international relations have to be included since it was not only the domestic elite that were involved.

Coatsworth also emphasizes that the efforts of the Iberian empires were mainly devoted to defending their territories, repressing internal rebellions and extracting tax revenues to do both, and they did not have enough energy to invest in public services, physical infrastructure or human capital. The weak national states in Latin America that had to cope with these tasks were faced with a much harder situation because the Industrial Revolution had already changed the international arena, and what was expected from peripheral regions was that they would produce raw materials. In every field of industrial production there was now tougher competition from the industrialized world and easier access to world markets thanks to the transport revolution.

> "To resist such pressures, Latin America would have needed strong and effective governments committed to promoting modern industry, that is, not less inequality and exploitation, but perhaps much more of both, including subsidies to business and efforts to keep wages down. Until late in the nineteenth century or later, any country or colony that had not already made its own industrial revolution faced insuperable difficulties trying to import one from elsewhere".

Instead of strong national states, Latin American societies had highly volatile formal institutions. What really matters are the underlying, informal institutions and not the successive formal constitutions that were introduced from time to time and later on changed. A self-reinforcing institutional process repeatedly restored political power to the conservative elite as governments were not expected to last for long and as informal institutions interacted with the formal ones, and in fact changed the original aims of the latter (Dye 2006).

A similar point was made by C&PB (1999-1979, pp. 92-93) with reference to liberal reforms. Constitutions were designed to extend rights to the broad mass of the population, but ultimately they were limited and constrained by underlying forces and in the end they gave political rights only to the white elites. On a more abstract level, this is a good example of the particular way in which existing, real, and informal social relations have an impact on the form that formal institutions take.

According to Coatsworth “The pace of nineteenth century institutional modernization, with its socio-economic correlates, performs better as a predictor of long term economic performance than colonial extraction and exploitation, as is proposed by Acemoglu, et al..”. Coatsworth further states that the pace was quickest in the temperate zone colonies populated mainly by European settlers and their descendants (i.e. the expansion of the frontier), and that the areas that were slowest to modernize their institutions included Brazil and the centers of Pre-Columbian civilizations: “The duration and depth of the post-independence civil conflicts depended on the nature of colonial social conditions: conflicts tended to deepen and last longer in places where the power and status of settler elites was most challenged from below. International competition often exacerbated the persistent internal conflicts.”

We can make two comments on this, following what we said above. 1) What Coatsworth is saying about the 19th Century is not very different from the C&PB argument about the way in which economic reforms advanced in different areas in Latin America. 2) However, it is striking that Coatsworth makes an attempt to disconnect 19th century processes from colonial institutions, given the fact that his own reasoning makes it clear that the socio-institutional context he mentions is described precisely according to the features these institutions adopted during the colonial time. Once again, what we see is an artificial attempt to isolate forces and causes in limited time and conceptual frameworks, while what we have in front of us is a process in which new domestic and external forces transform and maintain features of the past. It is impossible to disconnect the pace at which reforms advanced in the 19th century from the ways in which the different socio-economic structures and institutions evolved during the colonial period.

Institutions and the first globalization boom

Some general features of economic performance in different Latin American regions have been described elsewhere (Furtado 1974, Cardoso & Faletto 1979, Sunkel & Paz 1982, Bulmer-Thomas 1994; Bértola & Williamson 2006). Latin American growth performance improved but growth was unequally distributed. The regions that expanded their frontiers in temperate zones with high shares of immigrant labor had higher growth rates and higher levels of foreign investment, literacy, exports per capita, etc. Plantation economies, especially those on the Atlantic coast, were further behind in all these respects, and the core colonial regions come at the bottom of the performance list, but not too far behind the tropical regions.

This ranking clearly reflects what was mentioned above about the pace at which institutional modernization took place in the different regions. However, as we have noted, the causal chains are not simple. Institutional modernization had to do with previous economic and institutional developments in a process with deep historical roots, closely linked to colonial structures that were based on extracting a surplus from the native population, where this population was large enough, and from slave plantations in areas where native labor was not available and where free immigration was not attracted.

There is general agreement about the broad institutional features of the period of export-led growth. This period ended the “larga espera” (long wait) and authoritarian, exclusive, elitist regimes succeeded in imposing order and stimulating progress. In spite of the high institutional volatility described by Dye, this period was different from the 50 years following independence in that the central power of the states was really strengthened and the property rights of the elite were more efficiently preserved.

The provocative arguments put forward by Coatsworth (2009) are again a good starting point for our discussion:

> "The nineteenth century ended … by committing the sins that much of the new political economy erroneously attributed to the colonial era: relatively high economic inequality, dominance of government by narrow economic elites, exclusion of competing interests and groups from political influence, and "bad" institutions that fail to protect the property and human rights of majorities. Unfortunately for our theorists, and for the region, the nature and timing of Latin America's sinning clearly indicates that it was good for economic growth, not bad. The conditions that Engerman-Sokoloff and Acemoglu, Johnson, and Robinson saw as blocking economic growth were in fact the conditions that made it possible."

Let us consider some of these interesting assertions one by one:

These "bad" institutions were good for growth. Latin America grew somewhat faster than world averages and improved its position relative to Asia and Africa. However, as mentioned in Section 2, the absolute gap between the per capita income of the West and that of Latin America increased by 81% in 1870-1913 and from 131% to 148% of LA's per capita GDP in the same period. This gap may be used as a proxy for the technological gap, and it reflects the ability to compete in world markets with skill-intensive products. It follows that in the wake of the first globalization boom Latin America's prospects of catching up were considerable worse. As Coatsworth correctly stresses, the Industrial Revolution led to a new institutional order based on exchanging raw materials for manufactured goods. As the Latin American structuralist tradition repeatedly stressed, export-led growth itself was never a guarantee that the golden road to growth and development would be found.

What was supposed to happen in terms of inequality in the 18th century really happened in the late 19th century. At the present time there is an interesting debate about this subject. Most people agree that Latin America had relatively fast growth in the second half of the 18th century. This process was not particularly egalitarian and the majority of the population was not given property or political rights. It is undeniable that the late 19th century had its own characteristics. There was a transport revolution that made new regions economically competitive and prosperous, labor systems were transformed, there was investment in infrastructure which produced many changes in relative productivity, and there was a redistribution of land in favor of the elites and at the expense of peasant communities, the Church and State-owned land. However, there is a big gap between these phenomena and the assertion that colonial society was not unequal and that inequality was a late 19th century process. Both Williamson (2009) and Coatsworth (2008) think that inequality in Latin America was not particularly high when compared to Europe at the same time. Williamson bases his arguments on the Milanovic, Lindert & Williamson (2007) idea that inequality cannot be so great if per capita GDP is low, because there will not be a sufficiently large surplus for the elite to appropriate. However, there seems to be agreement that inequality was high in Latin

America at the end of the colonial period (not only and not principally in terms of income) and some new estimates show that inequality was already high on the eve of the first globalization boom. The evolution of inequality during the first globalization is also a matter of debate (Bértola, Castelnovo, Rodríguez Weber & Willebald 2009).

Inequality was good for growth. All classical authors assumed that capital accumulation meant the concentration of income and wealth in the hands of “Schumpeterian” capitalists (not rent-earners *a la* Ricardo). The Lewis model also meant there was a first phase of increasing inequality linked to growth, and this paralleled the idea of the Kuznets curve. This is a good point against the universal neo-institutionalist growth model. And this is also compatible with world history as it presents industrialization as going hand in hand with increasing domestic AND international inequality, adopting the form of uneven development and even imperialism, plunder, invasions, expropriation and so forth. While the first globalization boom increased growth rates in Latin America, the kind of growth that took place conditioned future patterns. Modern economic growth is characterized by the systematic use of knowledge to transform nature and society. The first globalization boom was made possible not by a sudden reduction in transport costs, but by a steady, continuous, cumulative increase in technical capabilities, which strongly affected international competitiveness. Latin American growth was based on the exploitation of natural resources. Technical change was often quite limited. Contrary to what pro-global theorists have believed, the first globalization boom was not strong enough to break with the informal and formal institutions that had evolved so slowly and were so deeply rooted in the Latin America social network. Quite the contrary in fact, as the structuralist tradition and C&PB have correctly stressed, the first globalization boom often ended up interacting with or even strengthening the power of landed, commercial and political elites. And in doing so, the kind of development and the kind of inequality produced was a long way from the inequality trends that tended to empower a technologically dynamic industrial sector. The colonial heritage, based on the exploitation of natural resources using large numbers of dependent and slave labor, was almost ubiquitous; economic development during the first globalization boom was path dependent to a high extent. The elitist societies and the patterns of development imposed by colonial rule constrained the transformation of these societies leading to what C&BP correctly characterize as peripheral capitalism, where land was highly concentrated and labor relations did not evolve into free labor relations but towards a continuum of very varied forms of dependent labor, in a context characterized by sluggish technological change.

These kinds of societies are able to grow, but IN MOST CASES not to converge. And if convergence happened to be possible, as in the countries of the Rio de la Plata, it seems that it did not happen on a sustained basis but only as long as some positive impacts of globalization lasted.

The Latin American settler economies, such as those of Argentina and Uruguay, were the most successful ones. There, many positive situations combined: the production of goods competing with European producers on the basis of free labor and with a good location close to the coast, and the relative weakness of colonial institutions due partly to low population density. However, even in these cases the pattern of land appropriation differed significantly from other apparently similar settler societies such as Australia and New Zealand. The way in which land was appropriated is the combination of new forces and patterns of behavior and institutional features that clearly show the colonial heritage, more in informal relations than in formal ones. The result made for big differences in the innovative capacities of the two groups of economies and in the way the factorial distribution of income took place between land-owners, capitalists and workers, favoring land rents in the Rio de la Plata (Alvarez, Bértola & Porcile 2007). Besides, it is difficult to neglect the role played by close links to a dynamic central economy, as was the case with the former British colonies.

Concluding remarks

Relative backwardness has been a constant feature of the history of Latin America. In spite of the important technological transfers consequent upon the conquest and of not negligible growth during the colonial times, in the wake of Independence the gap between Latin America and the industrializing world was already wide. The gap widened during the first decades after Independence, due to the diffusion of the Industrial Revolution from Britain to the European continent, increasing growth rates in the West and institutional volatility in the new Latin American Republics. While Latin America resumed growth after the 1870s, the absolute gap continued to grow, as it did in 1913-1950 in spite of relatively good growth rates. In the last decades of the 20th century, the Latin American economies diverged even more from those of the West.

Throughout this process there were far reaching domestic and international changes. New actors appeared and technological revolutions took place, and social relations as well as formal institutions were transformed.

We have argued in favor of the Neo-institutionalist approach to Latin American economic history in the sense that the colonial institutional setting had a long-lasting impact on Latin American development. We further stressed, however, that most of the varying and even contradictory assertions made by different Neo-institutionalist writers had already been advanced, in Marxist language, in works such as that of C.F.S. Cardoso and H. Pérez Brignoli.

We have criticized Neo-institutionalist writings for being excessively focused on original colonial institutions and their lasting effects, and for neglecting to some extent how these institutions changed in relation to a profound transformation in international relations and technological environments. The Industrial Revolution symbolizes these far reaching transformations, which radically affected the way in which the Latin American countries were integrated into the world economy. The Borbon and Pombalian reforms, Independence, the Liberal Reforms, the abolition of slavery and the expansion to new areas, were followed by radical changes in social relations, political institutions and international relations. The pace at which these changes came about depended on several particular circumstances and to a large extent on the previous development path in colonial times in what came to be different independent Latin America states, and this had a huge impact on the increased disparity in economic performance among these new republics.

We have also argued that many reactions against New-Institutional (Neo Institutionalist??) approaches seem to be exaggerated. The idea that some contemporary features of Latin America such as high income inequality are products of the late 19th Century and not of colonial times, makes a similar mistake to the idea attributed to Neo-institutionalist writings: instead of omitting important historical changes that were continuous in the historical process, an artificial break in this process is introduced, negating the almost obvious institutional inertia that was present in many aspects of Latin American economic life. In this respect we have argued that Latin American inequality was at a high level by the end of the colonial times and that this kind of inequality can hardly be estimated merely in terms of a Gini-coefficient. What really matters is the kind of social and power relations underlying economic life and the distributional and technological dynamics they involved. We have further argued that the kind of inequality produced during the First Globalization boom could hardly be considered good for growth. While the idea that growth prospects were not always linked to diminishing inequality constitutes a good and frontal criticism of some Neo-institutional writings, the kind of inequality produced in Latin America was not necessarily good for growth. By then the world economy had gone through not one but two industrial revolutions. International trade was increasingly moving towards skill-intensive products, inequality gave rise to serious shortcomings in terms of human capital accumulation, and the pattern of specialization reinforced a path of slow rates of technical change and social relations not particularly conducive to technical change.

Globalization studies -that almost completely focus on resource allocation, factor movements and price convergence- usually underestimate the institutional context in which globalization forces expand, and underestimate the negative impact of globalization on the domestic economy in terms of institutional development, patterns of specialization and technical change.

State-led growth led to many mistakes, but most current analyses of this period ignore the problems the Latin American economies were facing at the end of the first globalization boom, and the deep historical roots of these problems. The search for structural change, associated to radical institutional and social changes and the enhanced capacity of the national state, first appeared as a spontaneous reaction to negative external demand shocks. When this was developed as a more explicit theory, its reach was clearly conditioned by several economic, social, political and institutional constraints, which widened the gap between theory and practice. Thus, excessive protectionism, biased structural change towards light industry, a lack of policies aimed at deepening technological spillovers from foreign investment and autarkic nationalism, were all features that hampered technological and structural change. However, a good assessment of the achievements and limits of state-led growth can only be accurately made in the light of the historical roots of Latin American divergence.

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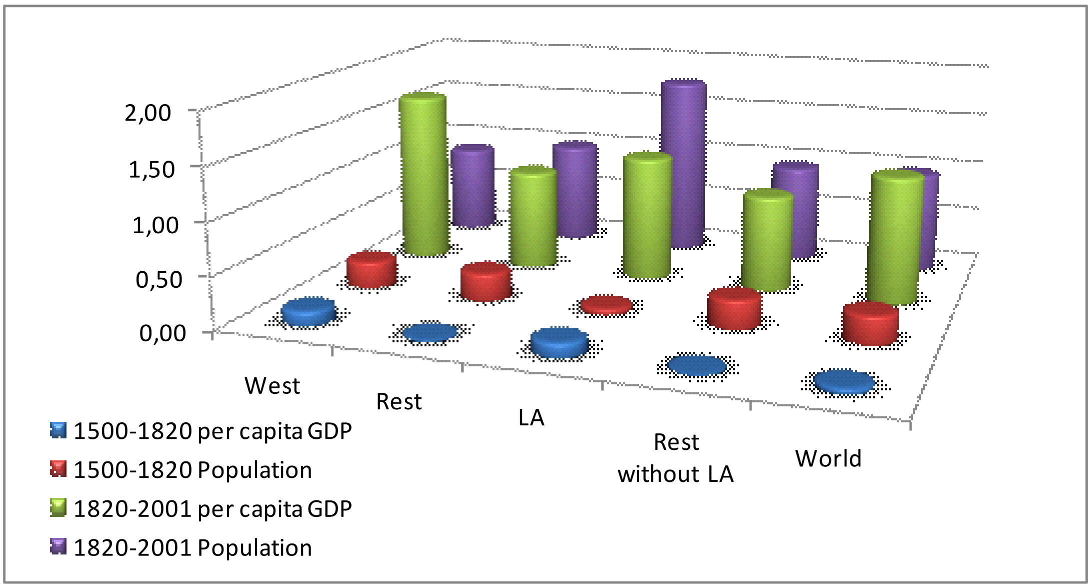
TABLE 1. Per capita GDP, Population and GDP 1500-2003 by regions (1990 International dollars) and relative to world average.							
	1500	1820	1870	1913	1950	1973	2001
Per capita GDP (dollars)							
West	702	1109	1882	3672	5649	13082	22509
Rest	538	578	606	860	1091	2072	3372
LA	**416**	**648**	**813**	**1481**	**2506**	**4504**	**5811**
Rest without	545	576	597	821	960	1809	3105
World	566	667	875	1525	2111	4091	6049
West-LA gap	286	461	1069	2191	3143	8578	16698
West-LA gap	0,69	0,71	1,31	1,48	1,25	1,90	2,87
Per capita GDP (world average =1)							
West	1,24	1,66	2,15	2,41	2,68	3,20	3,72
Rest	0,95	0,87	0,69	0,56	0,52	0,51	0,56
LA	0,73	0,97	0,93	0,97	1,19	1,10	0,96
Rest without	0,96	0,86	0,68	0,54	0,45	0,44	0,51
World	1,00	1,00	1,00	1,00	1,00	1,00	1,00
Population (millions)							
West	75	175	268	424	565	718	859
Rest	363	867	1004	1367	1959	3198	5290
LA	18	22	40	81	166	308	531
Rest without	345	845	964	1286	1793	2890	4759
World	438	1042	1272	1791	2524	3916	6149
GDP (thousand millions)							
West	53	194,4	504,5	1556,9	3193	9398	19331
Rest	195,3	501	608,2	1175,2	2137	6626	17862
LA	7,3	14	33	119,9	416	1398	3087
Rest without	188	487	575,68	1055,3	1721	5228	14775
World	248,3	695,4	1112,7	2732,1	5330	16024	37193
Source: Maddison, A. (2003, Tables 1a-c) and for Latin America 1820 and 1870 Prados de la Escosura (2009, Table 6).							

Table 2. Per capita GDP of some Latin American countries, 1820-2003 (1990 International Dollars)							
	1820	**1870**	**1913**	**1950**	**1973**	**1990**	**2003**
Argentina	1249	1837	3797	4987	7962	6436	7666
Brazil	652	680	811	1672	3882	4924	5563
Chile	607	1295	2988	3670	5034	6402	10951
Colombia	423	539	1236	2153	3499	4840	5228
Mexico	693	720	1732	2365	4853	6085	7137
Uruguay	1004	1880	3310	4659	4974	6474	6805
Venezuela	347	529	1104	7462	10625	8313	6988
Average	**648**	**813**	**1618**	**2696**	**4875**	**5465**	**6278**
Basic data from Maddison (2005); Latin America 1820 and 1870: Prados de la Escosura (2009, Table 6).							

Figure 1. Growth rates of population and per capita GDP, 1500-1820 and 1820-2001, by regions



Source: Table 1.