

Structural Transformations and State Institutions in Latin America, 1900-2010

HÉCTOR BAHAMONDE

*PhD Candidate • Political Science Dpt. • Rutgers University

e:hector.bahamonde@rutgers.edu

w:www.hectorbahamonde.com

28th January, 2017

Abstract

There is a long-standing agreement on that economic growth and political development are mutually related to each other. Most explanations focus on institutional constraints, mainly property rights. While this paper recognizes this theoretical channel, it proposes an alternative one for the Latin American cases. Historically, agriculturalists had been a hegemonic group protected by institutions that originated in colonial times. These norms had survived due to institutional inertia, perpetuating their advantaged position. Building on the fiscal sociology and dual sector models I argue that a structural transformation marked by a secular decline of agriculture and substantial expansion of manufacturing helped political development by promoting the emergence of an industrial political elite. Industrialization altered the status quo not by rising incomes (*à la* modernization theory) but by rising a political challenger. Importantly, the structural transformation required both sectors to grow in a balanced fashion, leveling both elites in their relative political capacities. Economic equality led to subsequent inter-sectoral political agreements. I use the Chilean and Argentinean cases to illustrate the theory. In an effort to suggest that this hypothesis could be generalized to other countries in Latin America, I provide a number of time series analyses (VAR models, impulse response functions and Granger-causality tests) for a dataset spanning approximately 100 years on agricultural and industrial sectoral growths to support my theory.

Please consider downloading the last version of the paper [here](#).

*I thank Bob Kaufman, Dan Kelemen, Doug Blair, Paul Poast, John Landon-Lane, Mark Pickup, Paul Kellstedt and Ira Gang for all the useful comments. I also thank the School of Arts and Sciences and the Political Science Department at Rutgers for granting me a Pre-Dissertation Award (2016) that helped me to continue with this project. All errors are my own.

I. SECTORAL CONFLICTS AND DEVELOPMENT

Practically all governments are engaged in promoting one [group]. There are [...] landlord governments against the peasants and the industrialists

Lewis [1965, 410]

The literature on the relationship between political and economic development is vast. Without trying to survey all of it, there seems to be an agreement in that strong institutions cause better economic performance. For example North [1990, 3] asserts that the idea that “institutions affect the performance of economies is hardly controversial.” Most of the explanations focus on institutional constraints and property rights.¹ When property rights are secured via the state² or social norms,³ there will be incentives to invest in infrastructure, research and development.⁴ This is usually the case when political and military elites are constrained by institutions such as constitutions and parliaments.

This paper contributes to this literature by adding an alternative channel. Particularly, it complements our understanding of political and economic development from the sectoral conflict framework, specifically by (re)introducing and empirically testing the *dual sector economy model*. The political development literature has traditionally focused on socio-economic cleavages and potential alliances between a *homogeneous* ruling elite and politically excluded segments of the society, traditionally peasants or other disenfranchised groups such as the bourgeoisie. Moore [1966], Tilly [1992], Boix [2003], Stasavage [2008] and Acemoglu and Robinson [2009] are among the most prominent examples supporting this view. In this paper I focus on political divisions among the elite. This sectoral approach is hardly new. Just to mention some examples, O'Donnell and Schmitter [1986] emphasized the positive impact of elite outsiders on democratic transitions, Ansell and Samuels [2014] and Boix [2015] argue about the role of economic inequality/equality among the elite on political development, Waldner [1999] studies how the formation of a modern state should coincide with the incorporation of lower classes to produce developmental states, while Saylor [2014, 8] looks at the “coalitional basis of state building” and Mares and Queralt [2015] examine how income taxation in Europe is associated with inter-elite conflicts, particularly between the landed elite and the industrial elite. While the relevance of different economic and social elites has already been recognized, this paper complements this literature by bringing in the *dual sector model*. This model is a theory of why industrialization occurs⁵ which by emphasizing the importance of

Cite A&R's book chapter where they briefly consider two elites.

¹Johnson and Koyama [2016].

²North and Weingast [1989].

³Greif et al. [1994].

⁴Leblang [1996], Weingast [1997], Iyer and Banerjee [2005]. However see Clark [2009] and Mokyr [2016].

⁵Gollin et al. [2002, p. 160].

macro-structural transformations explains the mechanics of economic growth. I link and empirically test the association between macro-economic transformations, the emergence of a disenfranchised industrial class with both political and institutional development.

The crux of the argument is that an economic structural transformation characterized by “a secular decline of agriculture and substantial expansion of manufacturing”⁶ imposed tight constraints on the way politics was run by the incumbent landowning class. An elite divided on an *economic* cleavage should be at the same time divided on their *political* preferences, particularly regarding their attitude towards state centralization.⁷ Consequently, an elite split along economic interests will use state power to influence certain policies and hence, growth and state building. I argue that the emergence of an efficient and productive industrial sector altered not only the structure of the economy (causing *growth*) but also the inter-sectoral balance of *political* power, making unsustainable the political monopoly run by the landed elites enabled by institutionalized practices inherited from the colonial period. Different preferences over state institutions, in the presence of equally efficient economic sectors (and consequently equally leveraged political elites), gave way to a series of inter-elite compromises. In this paper I identify one such compromise, the income tax law, and explain how it helped countries to construct a path of economic and political development. Elsewhere I have argued that the implementation of the income tax law in the early 20th century in Latin America was the keystone of sectoral conflicts and compromises, triggering a series of other state-*building* institutions.⁸ While the process of state-building had started earlier,⁹ the implementation of the income tax was an important building block in this process. Building on the fiscal sociology paradigm,¹⁰ it was argued that income taxation around the 1920s contributed to form the Latin American state.¹¹ The faster the industrial growth, the higher the pressures to impose a tax to capture increasing industrial incomes and to develop skilled bureaucracies to administer and collect the tax. The income tax did not contribute to the state in revenue, it did so by triggering other state institutions and inter-elite alliances that generated long term political development.¹² In this paper I expand on this idea by arguing that *political* institutions of state-building such as the income tax law set in motion a path of long-term *economic* development.

As it will become evident, the argument differs deeply from modernization theory. What causes political development is not industrialization *per se*, but the development of a productive landed elite which supplied labor and cheap foodstuff to the modern sector, promoting *balanced* economic development between the *two* sectors. In turn, balanced growth politically empowered *both* economic

⁶Johnston and Mellor [1961, 567].

⁷See for example Llavador and Oxoby [2005].

⁸Bahamonde [2017].

⁹See particularly Kurtz [2013] and Soifer [2016].

¹⁰Schumpeter [1991].

¹¹Indirect taxes are easier to collect, consequently they are typically administered by weak states (Moore [2004, 14]). For example, customs administrations have always been concentrated in a few critical locations, especially ports, requiring a less elaborated fiscal structure (Bertola and Ocampo [2012, 132]).

¹²See Bahamonde [2017] and Saylor [2014].

elites. In fact, in cases where biased ISI policies were implemented later around the 1950s, too much industrialization was generated, affecting negatively the agricultural sector and overall growth. In these polities, *long-term* economic growth was not achieved or it could not reach its productivity frontier (Argentina). However, when both elites were about of the same economic size, biased sectoral policies were more difficult to implement, setting a path of long-run economic and political development (Chile). In sum, when the elite structure was faint and the agricultural sector could not fulfill its role of labor and foodstuff supplier, the emergence of the industrial sector was compromised or delayed. Landowners were never challenged and there were less pressures to centralize the state, making less likely further institutional investments. Critically, industrialization and economic development caused political development because it created a political challenger not because it rose incomes.

The argument considers that agriculturalists had been a hegemonic group protected by practices inherited from institutions originated in colonial times, and that the modern strong industrial elite challenged those privileges. However, others have argued that the independence wars around the 1800s contributed to the collapse of all colonial institutions, including the privileges the landowning sector had. For example Mahoney [2010, 191] explains that the “wars of independence were violent and destructive; they saw the collapse of the colonial fiscal system [...] and the elimination of the colonial political order.”¹³ However, the collapse of a number of institutions does not necessarily mean the collapse of the legacies of *the* colonial political economy. Capoccia and Kelemen [2007, 349] argue that “[e]ven where various institutions are interconnected, the occurrence of a critical juncture for one institution need not constitute a critical juncture with respect to all of its counterpart.” Following their advice of finding “the decision-making process, [and] identify[ing] which decisions were most influential,” I find in this paper that in Chile and Argentina the landed elites did have privileges that the industrialists did not have *because* of the inertia of colonial institutions. In fact, elsewhere I find that the implementation of the income tax was product of a series of inter-elite compromises that aimed to equate the political privileges of the two sectors, putting countries in a path of political development.¹⁴ In this paper I focus on the intertwined relationship between political *and* economic development. The following [section](#) introduces the *dual sector model*, where I explain the mechanics of the emergence of the industrial sector and why it is relevant for political development. Next I present the Chilean and Argentinean [cases](#) to illustrate the theory and to provide some historical context. Then, in an effort to suggest that this hypothesis could be generalized to other countries in Latin America, in the econometric [section](#) I provide evidence of different vector autoregressive models (VAR), Granger-causality tests and impulse response functions (IRFs) for a subset of Latin American countries and explain why when there were economic structural transformations there were also sectoral political conflicts and subsequent investment in institutional capacities. Lastly, I

Here read all essays in Uribe-Uran:2001aa as they discuss the break in general. Sacar una cita.

Argentina: Do I have support for this?

¹³See also Saylor [2014, 55], Uribe-Uran [2001] and López-Alves [2000, 27-28, 35-36].

¹⁴Bahamonde [2017].

provide some final [remarks](#).

II. STRUCTURAL TRANSFORMATIONS AND THE DUAL SECTOR ECONOMY MODEL

When by the improvement and cultivation of land [...] the labour of half the society becomes sufficient to provide food for the whole, the other half [...] can be employed [...] in satisfying the other wants and fancies of mankind

[Smith \[1904, I.11.59\]](#)

The *dual sector* or *balanced growth* model argues that the economic system is divided into two sectors loosely defined as ‘advanced or modern sector’ or ‘manufacturing sector,’ and as ‘backward or traditional sector,’ or ‘agriculture.’¹⁵ The basic intuition of this paradigm is that in order for the industrial sector to develop, it needs *first* an efficient and strong agricultural sector. Contingent on efficient agricultural productivity, the emergence of the industrial sector goes from a low-production sector eventually surpassing the agricultural sector. If the agricultural sector lacks economic efficiency, the industrial sector will hardly develop, leaving the country in an economic trap. This model is relevant for political development since it explains the rising of the industrial economic sector which in turn, as I argue, nurtured the emergence of an industrial political elite. Here I explain the mechanics of this model to then test it against political development in the econometric [section](#).

It was [Lewis \[1965, 151\]](#) who popularized the idea that “[t]he secret of most development problems is to maintain a proper balance between sectors.” The dual nature of the economy has been widely accepted and forms part of “a long tradition in development economics.”¹⁶ And while dichotomizing the entire economy in just two sectors might sound as too much of an oversimplification, I follow [Dixit \[1973, 325\]](#) in that the dual economy model provides a significantly better description of the economy because “it reflects several vital social *and* economic distinctions.”¹⁷ [Johnston and Nielsen \[1966, 280\]](#) also explain that “[t]he reality found in most underdeveloped countries approximates this dichotomy [...] sufficiently.” In fact, [Lindert and Williamson \[1985, 354\]](#) explain that the dual-sector model is ‘the dominant paradigm used by Third World observers.’ However, “balanced growth is

¹⁵[Jorgenson \[1961, 311\]](#). Importantly, I follow [Kuznets \[1967, 87\]](#) in that “mining is combined with [...] industry because of the large scale of its productive unit, its close connection with manufacturing, and the distinctive trend in its share in product and resources.” Similarly, [Debowicz and Segal \[2014, 237\]](#) includes mining within the industrial sector.

¹⁶[Kelley et al. \[1972, 8\]](#).

¹⁷Emphasis is mine.

More recent bibliog.: Tif-fin2003 (first pages has modern lit review)

almost axiomatic as a desirable objective, for both developed *and* under-developed countries.”¹⁸ For example, Bergquist [1986, 8] explains that “Colombia’s two traditional political parties crystallized in the 1840’s and reflected in many respects the dual nature of the Colombian economy.” While this is a stylized model which proportionates a good-enough description of reality, Dixit [1973, 326] is right in that a “major drawback of dualistic theories [...] is the total neglect of the service sector.” However, the literature is consistent in that the third sector necessarily develops *after* the industrial sector is developed.¹⁹

Economic development depends on the emergence of the industrial sector which in turn depends on the development of a productive agricultural sector.²⁰ As Kuznets [1961, 59] puts it, “economic growth is *impossible* unless there is a substantial rise in product per worker in the agricultural sector.”²¹ Following Jorgenson [1961, 311], Ranis and Fei [1964, 59], Jorgenson [1967, 291], Skott and Larudee [1998, 279-280] and Vollrath [2009, 290], the industrial sector uses capital and labor and has increasing returns to scale, while the agriculture sector uses only land (which is fixed) and labor (only input). This implies that the industrial sector is *structurally* protected: even when the agricultural sector is efficient, *ceteris paribus*, it cannot grow faster than an efficient industrial sector. The fixity of land requires countries to industrialize in order to grow, and for that they need first an efficient agricultural sector. This insight is shared by many other development economists. Hayami and Yamada [1969, 105] for example argue that “[i]ndustrialization and modern economic growth are basically *conditioned* by the level of agricultural productivity.”²² There are two main reasons for why agricultural development is a prerequisite of industrial development: efficient agricultures are more likely to supply the industrial sector with cheap foodstuff and cheap labor. In Johnston [1951, 498]’s words, “[e]xpanded agricultural productivity releases people from the land for employment in industry [and] provides food for the growing population.” This structural transformation is the key of economic growth. If the expansion of the agricultural sector is compromised, it will necessarily compromise the expansion of the industrial sector as well.²³ The political correlate is that weak *economic* sectors engender uncontested weak *political* elites.

The first reason for why a productive agricultural sector is key to industrial development is that more efficient agricultural techniques make agricultural production less labor intensive, allowing landowners to free workers which the industrial sector can rely on. The need for an improvement in agricultural production as a necessary step prior to industrialization “has been termed the

¹⁸Streeten [1959, 169]. Emphasis is mine.

¹⁹Galenson [1963, 506-507, 513] and Baer and Herve [1966, 95-96].

²⁰Johnston and Mellor [1961, 567] argue that this process “seems to be a necessary condition for cumulative and self-sustaining growth.”

²¹Emphasis is mine.

²²Emphasis is mine.

²³In fact Landon-Lane and Robertson [2003, 2] find that an important source of growth in developing economies is “derived through the reallocation of resources [particularly] by drawing labour moving out of traditional sector employment into the modern sector.”

'prerequisite' hypothesis."²⁴ Technologies such as "crop rotation, pest control, seed breeding [and] fertilizer use [represent] the major potential source of agricultural labor productivity."²⁵ Nicholls [1961, 339-340] shows that advanced industrial countries initially had relatively more developed and productive agricultural sectors. In fact, Gallo [1991, 57] finds that in Bolivia, a primarily agricultural economy, "[t]he tools employed in production were few and rudimentary, the use of fertilizers was minimal, and methods for conservation of the soil were practically unknown until the beginning of the 1950s." However, highly industrialized countries such as Japan, the U.K., the U.S.S.R. and Taiwan adopted *prior industrialization* very efficient agricultural technologies such as higher-yielding varieties, fertilizers and other activities that improved farm practices.²⁶

Surplus of labor naturally leads to a reallocation of redundant workers into the industrial sector, which is the crux of economic development.²⁷ Nurkse [1953, 33] in fact argues that development *means* "to employ the 'surplus labor' on the construction of capital."²⁸ The literature coincides in that the 'natural role' of the agricultural sector is to provide labor to the industrial sector.²⁹ For example, Dixit [1973, 326] argues that the "agricultural sector *must* fulfill [...] its dual role of supplier of labour to industry and of food for the industrial labour force."³⁰ While Lewis [1954] in his canonical work argued that there existed an 'unlimited' supply of agricultural labor, a word of caution is in order. The meaning of the supposedly 'unlimitedness' of labor should *not* be taken literally, as in reality means *redundant labor force*.³¹ In fact, Nurske [1961, 225] points out that the concept "is commonly used to denote all types of rural unemployment."³²

The second reason for why a productive agricultural sector is key to industrial development is because efficient techniques in agricultural production are able to supply cheaper foodstuff.³³ "It is *self-evident* that without increasing food output, the capitalist sector must remain in a stationary state."³⁴ Food surplus is a direct consequence of efficiency, and it is just as important as labor reallocation. In sum, as Kuznets [1961, 60] explains it, if "output per worker in agriculture does not rise substantially, economic growth in the first case will be stopped by scarcity of agricultural products, and in the second case by scarcity of labour."

²⁴Kelley et al. [1972, 133].

²⁵Ranis and Fei [1964, 62].

²⁶Johnston and Mellor [1961, 571] and Johnston [1951, 507-508]. Similarly Caselli [2005, 723] explains that poorer economies have inefficient agricultural sectors which at the same time are the mayor source of employment.

²⁷Ranis and Fei [1964, 7] and Leibenstein [1957b, 51].

²⁸Similarly, Matsuyama [1991, 621-622] points out that "[i]ndustrialization [*consists of*] a shift of resources from agriculture to manufacturing."

²⁹Ranis and Fei [1964, 114] argues that "labor reallocation [...] is the *inevitable* and *natural* consequence of the continuous expansion of agricultural labor productivity." Emphases are mine.

³⁰Emphasis is mine.

³¹See Ranis and Fei [1964, 203] and Jorgenson [1967, 289].

³²Or as Leibenstein [1957a, 102-103] puts it, "where the existing labor supply could cultivate more land without loss of efficiency." In any case, Sen [1966] explains that a number of important predictions made by the dual sector model do not need this assumption to hold for the model to work. Ranis and Fei [1964, 99], Skott and Larudee [1998, 280] and Fields [2004, 730] argue that a pool of *redundant* agricultural workers (a 'reserve army') is what prevents a rise in industrial wages.

³³See Jorgenson [1961, 312] and Ranis and Fei [1964, 157].

³⁴Ohkawa [1961, 21]. Emphasis is mine.

Double-check if the page number is correct

This structural transformation affects the labor structure as well. In fact, [Harris and Todaro \[1970, p. 134-135\]](#) explain that while “the creation of an additional job in the urban area reduces agricultural output through induced migration,” however the opposite is not true.³⁵ This implies that agriculture-industry productivity differentials “may even increase with development.”³⁶ Actually, [Serrano and Pinilla \[2016\]](#) find that in Latin America there has been a declining role of agricultural exports as industrialization levels have increased. That said, it is important to say that “the agricultural sector declines relative to the overall economy but continues to expand absolutely.”³⁷ In other words, it is the “the proportional contribution of agriculture to the growth”³⁸ what decays, implying that the in the long run the agricultural sector “must also grow,”³⁹ specially given the continuing dependence on a constant supply of food.⁴⁰ Next [section](#) presents two cases with special references to structural transformations and political development.

III. BRIEF HISTORICAL REFERENCES: CHILE AND ARGENTINA

Chile: A Story of Elite Competition and Compromises Historically, Chilean agriculturalists had been a hegemonic group protected by norms and institutions that originated in colonial times. Those norms had survived due to institutional inertia, perpetuating their advantaged position. As [Collier and Collier \[2002, 106\]](#) argue, the “national government was dominated by [...] owners of large agricultural holdings,”⁴¹ while [Zeitlin \[1984, 13\]](#) explains that “landowners controlled both the vote and the labor power of the agrarian tenants [and] peasants [...] and this was the *sine qua non* of their continuing political hegemony.” Similarly, [Baland and Robinson \[2008, 1748\]](#) explain that “[c]ongressional representation was heavily weighted in favor of rural districts.” In the presidency also, landowners were the single most represented group.⁴²

While on the one hand institutions, policies and other practices were biased against industrial elites, on the other, rapid industrial growth incentivized industrial elites to form pressure groups to offset the bias against them. The little public infrastructure that existed benefited the agricultural sector only. [Zeitlin \[1984, 41\]](#) explains that “the Montt regime did invest in the construction of Chile’s railways but only in the Central Valley and south-central zones [b]ut there was no public investment [...] in railroads built in the Norte Chico mining provinces.” To revert this situation, industrialists started to “form trade associations to engage in lobbying and propaganda.”⁴³ Eventually, these

³⁵See also [Johnston and Nielsen \[1966, 280\]](#).

³⁶[Kelley et al. \[1972, 110\]](#).

³⁷[Nerlove \[1994, 14\]](#).

³⁸[Kuznets \[1961, 45\]](#).

³⁹[Ranis and Fei \[1961, 534\]](#).

⁴⁰[Nicholls \[1963, 2\]](#).

⁴¹See also [McBride \[1936, 15\]](#) who argues that “Chile’s people live on the soil. Her life is agricultural to the core. Her government has always been of farm owners. Her Congress is made up chiefly of rich landlords. Social life is dominated by families whose proudest possession is the ancestral estate.”

⁴²[Bauer \[2008, 45\]](#).

⁴³[Weaver \[1980, 107\]](#).

interests groups turned into political parties. Collier and Collier [2002, 109] explain that the *Alianza Liberal* was “the political expression of the new groups that began to emerge in the late 19th century with the expansion of the commerce and industry and [...] mining [eventually emerging] as a political force.” These new groups, backed by their economic leverage, put pressures to open the political system in a way that allowed industrial elites to gain egalitarian political conditions and equal access to state power. While initially both elites confronted each other in two civil wars,⁴⁴ war was not sustainable over time. Given their relative *similar* degrees of economic development, both elites could mobilize armies with *similar* capabilities.⁴⁵ War was then more likely to exhaust all existent resources without producing positive outcomes for either sector. Consequently, Chilean agricultural and industrial elites opted for a political compromise. The keystone of these inter-elite compromises was the implementation of the income tax in 1924, which marked the beginning of an institutionalization path. As others have observed, “[t]here was visible bargaining: [the non-agricultural sector] (reluctantly) accepted taxation, *while demanding state services and expecting to influence how tax revenues were spent*.”⁴⁶ The expansion of political rights *among the elite* and the rise of the industrial sector shared the same timing. As Collier [1977, 683] has pointed out, “the real story of Chilean industrialization belongs to the Parliamentary period,” which goes from 1891 to 1925.

Both sectors were efficient. While some have argued that the agriculture sector was a backwards sector,⁴⁷ Robles-Ortiz [2009, 511] has been the main referent to argue the contrary. He explains that agriculturalists adopted different mechanization processes, remarkably increasing its productivity. For example, “the value of output per worker grew from \$216 in 1885 to \$492 in 1930 (in real pesos of 1910/1914), while the physical output per worker increased from 1,030 to 2,579 kilograms.” As predicted by the dual economy model, this led to a reallocation of labor, “especially in the 1870s with the onset of the nitrate economy [when] thousands of men left the countryside.”⁴⁸ In fact, Segall [1962, 18] explains that the mining sector attracted so much labor that the countryside eventually run out of enough labor. He explains that by 1843, the landowning elite taking advantage of its advantaged political position would, through their political representatives, implement a law granting policeman the duty to force unemployed individuals without a known contract to work forcefully in the fields.⁴⁹ The scarcity of rural labor around 1873 forced to pay laborers “twice as much as peons earned in the winter.”⁵⁰

⁴⁴Zeitlin [1984, 23] argues that the civil wars challenged a “large landed property [elite against a] productive capital [elite].”

⁴⁵Boix [2015].

⁴⁶Carmenza Gallo, in Brautigam et al. [2008, 165]. Emphases are mine. She refers specifically to nitrate producers, one of the first industrial productions.

⁴⁷Keller [1931, 231] argues that there existed in Chile a “falta de conocimientos técnico-científicos” in the agricultural sector.

⁴⁸Robles-Ortiz [2009, 499].

⁴⁹Segall [1962, 18].

⁵⁰Robles-Ortiz [2009, p. 503].

Argentina: A Story of Structural Imbalances In Argentina, there were two elites as well. Traditionally, it has been argued that the economic cleavage was between an export-oriented sector and an import-oriented sector. Based on the observation of others, I consider the overlap between the export and agricultural sectors, and the overlap between the import sector and the industrial sector. As Díaz-Alejandro [1966, 25] argues in his classic series of papers, “while the correspondence between exports and rural products, and between imports and manufactured goods has not been perfect [...] such correspondence has been quite close.”

This case presents an interesting paradox. The Argentinean industrial sector was weaker compared to the Chilean industrial sector, however the former grew faster than the later. As some have argued, there “is little disagreement among economists that the period from 1875 to the eve of World War I [was] the Golden Age [...] of Argentinean economic history.”⁵¹ However, as Bulmer-Thomas [2003, 136] puts it, Argentina “had a relatively backward industrial structure for a country of its income and wealth. *Indeed, industrial labor productivity was lower than in Chile [...] despite Argentina’s superior income per head.*”⁵² The paradox can be explained by Argentina’s weak inter-elite structure, but particularly by the weakness of the industrial elite. The literature seems to agree on this point. Bulmer-Thomas [2003, 188] explains that among the factors that explain Argentina’s failure was “a social infrastructure geared to agroexports [and] a powerful rural elite.” An excessively powerful traditional sector suffocated the full potential of the modern sector, denying industrialists “the same status [the] agroexports” had.⁵³ And while the landed elites did promote industrialization via protectionist tariffs, they did so by imposing “modest tariff protection”⁵⁴ which moreover were “not always consistent.”⁵⁵ As predicted by the dual economy model, the industrial sector was that weak (i.e. did not develop its full potential despite their relative rapid growth) because the agricultural sector was also inefficient and the landed elite weak. As others have argued, landowners had a hard time obtaining “certain types of inputs (fertilizers, tractors, etc.) which could conceivably have allowed it to react to the decline in the real prices [...] by increasing productivity.”⁵⁶ Agricultural research was very limited too.⁵⁷ Not surprisingly, “in 1952 Argentina even had to spend precious foreign exchange to import wheat,”⁵⁸ suggesting a complete mis-allocation of agricultural resources, and overall, supreme inefficiency regarding food production. Another clear example that illustrates the dualistic sectoral linkages between both sectors, is the case of the textile industry. While the entire sector did poorly, the one that performed the worst, representing a big portion of the total agricultural output, was the textile sector. As Bulmer-Thomas [2003, 142] explains, the “outstanding

⁵¹Campos et al. [2016, 209].

⁵²Emphases are mine.

⁵³Bulmer-Thomas [2003, 143].

⁵⁴Bulmer-Thomas [2003, 188].

⁵⁵Bulmer-Thomas [2003, 143].

⁵⁶Díaz-Alejandro [1967, 157].

⁵⁷Díaz-Alejandro [1970].

⁵⁸Díaz-Alejandro [1967, 157].

weakness of Argentine industrialization was in the textile and clothing sectors,” which heavily depended on raw materials supplied from an inefficient agricultural sector. In sum, these remarks suggest that *unbalanced* economic growth causes inter-sectoral political disparities, compromising long-term economic growth and further investments in state institutions. In an effort to suggest that this hypothesis could be generalized to other countries in Latin America, next [section](#) provides evidence of different time-series models where I explain why when there were economic structural transformations there were also sectoral political conflicts and subsequent investment in institutional capacities.

IV. TIME SERIES ANALYSES: VECTOR AUTOREGRESSIVE MODELS AND GRANGER CAUSALITY TESTS

*what a sector does is not fully attributable
or credited to it but is contingent upon
what happens in the other sectors*

[Kuznets \[1961, 41\]](#)

*Structural change is clearly an endogenous
process, driven by a variety of economic
forces [...] also in the statistical sense*

[Temple and Wölkemann \[2006, 212\]](#)

Granger-causality Tests The emergence of a new industrial sector rose a new politically disenfranchised elite who demanded political and economic reforms beneficial to them, ending years of political sectoral unbalance. In exchange for these demands, the industrial sector accepted to be income-taxed, setting countries in a path of both political and long-run economic development. To confirm this hypothesis, the theory should pass a number of tests. First, *before* the inter-sectoral compromises and before the income tax law was implemented, political institutions and social norms inherited from the colonial period were designed to allocate economic inputs (and hence *growth*) in a way that benefited the landowning class only. Hence, I expect the transference of economic inputs went *from* the industrial sector *to* the agriculture sector, a *backwards* equilibrium as stated by the dual sector model. Second, *after* the income tax was implemented, we should see a *reversion* of the flow of inputs, generating growth *from* the agricultural sector *to* the industrial sector. In other words, the income tax, as an institution that contributed to develop further state capacities and institutional development, should be associated with a secular decline of agriculture and substantial

expansion of manufacturing causing long-term economic growth. In econometric terms, we should see that the income tax reverted the way in which one sector ‘Granger-caused’ the other.⁵⁹ Lutkepohl [2006, 42] explains that if some variable X forecasts variable Y (and not the other way around), X is said to ‘Granger-cause’ Y . According to Granger [1980, 349], this concept of ‘causation’ is based on the idea “that the future cannot cause the past.”⁶⁰

To test this hypothesis I utilize the MOxLAD data, particularly the *agriculture value-added* and *manufacturing value-added* variables.⁶¹ The dataset spans from as early as 1900 to as late as 2010.⁶² Using secondary information, Table A1 states *when* the income tax was implemented, what specific law it was, and its corresponding source(s).⁶³ Following Mahoney [2010, 5] I consider two ‘advanced’ economy countries (Chile and Argentina), two ‘intermediate’ countries (Mexico and Colombia) and two ‘less advanced’ countries (Guatemala and Nicaragua). Figure 1 shows the sectoral outputs for each country, both before and after the income tax law was implemented.

In Table 1 I test for Granger-causation, i.e. the directionality in which economic growth was produced both prior and after the implementation of the income tax law.⁶⁴ The table strongly suggests that the income tax caused a structural transformation in (almost) all ‘developed’ countries, namely Chile, Colombia and Mexico. In all these cases the income tax reverted the initial inter-sectoral growth equilibrium suggesting a contested elite structure, as the case of Chile conveys. Before the income tax law, industrial development Granger-caused agricultural development, and after the income tax law, the agricultural sector Granger-caused industrial development (all p-values are significant at the .05 level).⁶⁵ These results suggest that the implementation of the income tax was associated to the overthrowing of the political institutions and practices that permitted agricultural expansion at the expenses of the modern sector, and that the reversion of the original backwards macroeconomic structure set in motion a path of long-term economic development. In Nicaragua and Guatemala the tests suggest the exact opposite (all p-values are significant at the .05 level).⁶⁶ The implementation of the income tax in these countries did *not* revert the initial backward macroeconomic equilibrium because when implemented, it did not reflect the inter-sectoral tensions, challenges and compromises proper of the contested political economies. The industrial sector never had enough economic leverage to politically confront the landowning elite (see Figure 1)

⁵⁹Since this is not an experimental design, ‘causation’ does not mean these kinds of analyses allow us to make proper causal inferences. As Beck [1992, 241] explains, cointegration is not causal.

⁶⁰See for another definition Durr [1992, 197].

⁶¹The former measures “the output of the sector net of intermediate inputs and includes the cultivation of crops, livestock production, hunting, forestry and fishing.” The later “[r]eports the output of the sector net of intermediate inputs.”

⁶²According to Astorga et al. [2005, 790], this dataset provides extended *comparable* sectoral value-added series in constant purchasing power parity prices.

⁶³Some countries implemented some kind of income tax before, however these laws lacked enforcement, they were weak or not at all followed. In Table A1 in the Appendix section I establish the year that the literature seems to agree for when the law was implemented and properly enforced.

⁶⁴Specifically, the tests were computed after estimating the reduced form VAR specified in Equation 1.

⁶⁵Except for the Mexico after the implementation of the income tax (p-value = .06).

⁶⁶Except for the pre income tax period test of Guatemala, which is significant at the .1 level.



Figure 1: *Inter-Sectoral Conflicts and Structural Transformations: Sectoral Growths Before and After the Implementation of the Income Tax Law*

and hence industrialists never posed credible threats to the status quo, relaxing the endogenous incentives to invest in state institutions. The Argentinian case is different. In line with the historical references, the Granger tests are inconclusive, and no significant results were found, suggesting weak inter-sectoral linkages.

Vector Autoregressive Models (VARs) and Impulse Response Analysis (IRFs) Once we have determined the directionality of economic growth is associated with the imposition of the income tax law, it is necessary to establish the inter-sectoral long-run economic equilibrium. This relationship is an endogenous one. If this endogeneity is not accounted for, the error term and the regressors will be correlated, and so OLS will be inconsistent. Additionally, growth rates are usually integrated. ‘Unit root’ or ‘integrated’ $I(1)$ vectors⁶⁷ are time-series that “wander” up and down, yet they never revert to a given mean.⁶⁸ Moreover, two integrated vectors that are mutually

⁶⁷The order of integration could be higher than 1. However, for simplicity sake, I restrict my analyses to $I(1)$ processes, which is the most common strategy in applied econometric analyses of time series.

⁶⁸Box-Steffensmeier et al. [2014, 129].

Country	Pre/Post Income Tax	Sample	Directionality	chi2	P-value
Chile	Pre	1905 - 1924	Agriculture → Industry	3.55	0.47
			Industry → Agriculture	12.13	0.02
	Post	1928 - 2009	Agriculture → Industry	11.92	0.00
			Industry → Agriculture	5.37	0.07
Colombia	Pre	1902 - 1935	Agriculture → Industry	4.96	0.03
			Industry → Agriculture	10.44	0.00
	Post	1938 - 2009	Agriculture → Industry	4.32	0.04
			Industry → Agriculture	1.63	0.20
Argentina	Pre	1903 - 1933	Agriculture → Industry	4.19	0.12
			Industry → Agriculture	.42	0.81
	Post	1937 - 2010	Agriculture → Industry	.18	0.91
			Industry → Agriculture	1.37	0.50
Mexico	Pre	1902 - 1965	Agriculture → Industry	.73	0.39
			Industry → Agriculture	11.57	0.00
	Post	1969 - 2009	Agriculture → Industry	5.56	0.06
			Industry → Agriculture	1.32	0.52
Nicaragua	Pre	1923 - 1974	Agriculture → Industry	.48	0.79
			Industry → Agriculture	6.83	0.03
	Post	1977 - 2009	Agriculture → Industry	.014	0.91
			Industry → Agriculture	4.96	0.03
Guatemala	Pre	1924 - 1963	Agriculture → Industry	2.18	0.54
			Industry → Agriculture	6.72	0.08
	Post	1966 - 2009	Agriculture → Industry	.58	0.45
			Industry → Agriculture	6.05	0.01

Table 1: Granger Causality Wald Tests

endogenous, such as industrial and agricultural outputs, imply a ‘cointegrated’ relationship, or CI(1), imposing additional statistical restrictions.⁶⁹ A “set of integrated time-series is said to be cointegrated if some linear combination of the series in levels produces a stationary series,” or $I(0)$.⁷⁰ The economic literature generally coincides in that economic growth is an I(1) process, and that sectoral development is a CI(1) process. For example, [Hatton and Williamson \[1991\]](#) and [Blunch and Verner \[2006\]](#) study sectoral growth using cointegration methods.⁷¹ Consequently, I expect both industrial and agricultural growth to be *individually* integrated but also expect them to be *jointly*

cointegrated (as predicted by the dual sector model).

Integration and cointegration are assumptions that should be tested. The first step is to find strong evidence for integration in each of the series. In [Table A2](#) I show several unit root tests.⁷² The table indicates that all variables, periods, sectors and countries have I(1) processes. The second step is to find evidence for cointegration.⁷³ Substantively, cointegration would mean that there is a long-lasting mutual inter-sectoral economic *dependence*, allowing *both* sectors to grow in a balanced fashion. The political correlate of balanced growth is that both elites would have the same economic leverage to influence the state and consequently, policy outcomes via inter-sectoral compromises. In turn, failure to find evidence of cointegration would imply coordination failures between the two sectors (economic backwardness), the delayed emergence of a political challenger, the lack of a sectoral political conflict, and consequently a politically unchallenged landed elite. Given that the maximum number of cointegrated vectors is 1, I only test for the minimum number of cointegrated relationships.⁷⁴ I expect to find evidence of cointegration only in the ‘developed’ cases. Following [Johansen \[1988\]](#), [Table 2](#) indicates that all ‘developed’ and ‘semi-developed’ countries have cointegrated series, while ‘less developed’ countries do not have cointegrated series.⁷⁵

Cointegration “implies a particular kind of model” to estimate the series.⁷⁶ If traditional methods are used, given the interdependent relationship of these kinds of time-series, the results will be spurious.⁷⁷ I use the vector-autoregressive approach (VAR) specified in [Johansen \[1988\]](#) which among several advantages, is estimated via MLE. Another advantage is that VAR models do not need to specify the number of cointegrated vectors as opposed to error correction models.⁷⁸ Formally, I will model the next reduced form VAR in differences, one per country, both before and after the income tax law was passed:

$$\begin{aligned}\Delta M_{t_m} &= \alpha_m + \beta_m \Delta M_{t-l} + \beta_m \Delta A_{t-l} + \epsilon_{t_m} \\ \Delta A_{t_a} &= \alpha_a + \beta_a \Delta M_{t-l} + \beta_a \Delta A_{t-l} + \epsilon_{t_a}\end{aligned}\tag{1}$$

Notice that in both equations the different dependent variables are expressed as a function of

⁶⁹See [Granger \[1981\]](#) and [Engle and Granger \[1987\]](#).

⁷⁰[Durr \[1992, 193\]](#).

⁷¹Cointegrated vectors are widely common in political science too. See [Ostrom and Smith \[1992\]](#), [Krause \[1997\]](#), [Fish and Choudhry \[2007\]](#), [Haber and Menaldo \[2011\]](#), [Sobel and Coyne \[2011\]](#), [Herzer and Vollmer \[2012, 489\]](#) and [Blaydes and Kayser \[2011\]](#) for a few examples.

⁷²I show the test statistic and its associated MacKinnon approximate p-value in parenthesis for the ADF and Phillips-Perron tests. Both trend and drift were tested in all tests, when applicable. As I did not find any differences, I show the test statistic with no trend nor drift and one lag. The lags in the KPSS test were selected via an automatic procedure. “+” indicates that the test is barely significant or non-significant.

⁷³I use VAR regressions, which do not necessarily need cointegrated vectors (see [Box-Steffensmeier et al. \[2014, 161, 164\]](#)). Cointegration, however, is important from a substantive standpoint in this paper.

⁷⁴[Box-Steffensmeier et al. \[2014, 165\]](#).

⁷⁵Since I am interested in the long-run equilibrium, I do not split the sample before and after the implementation of the income tax.

⁷⁶[Wooldridge \[2002, p. 571\]](#).

⁷⁷[Ostrom and Smith \[1992, 142-143\]](#).

⁷⁸[Box-Steffensmeier et al. \[2014, 164\]](#).

Country	Number of Cointegrated Vectors (rank)	Restrictions	Lags	Log-Likelihood	Trace
Chile	at least 1		5	-1665.9736	0.3799
Argentina	at least 1		3	-1802.292	4.7657
Colombia	at least 1		2	-1805.6773	10.0076
Mexico	at least 1		4	-1978.1322	1.0274
Nicaragua	at least 0		2	-1020.221	11.5297
Guatemala	at least 0		3	-859.2802	16.5493

Table 2: *Johansen Tests for Cointegration*

the *same* set of lagged independent variables. Since the number of lags l varies by country *and* time-span (i.e. before/after the income tax law), the system of equations in [Equation 1](#) is in standard form. [Table A3](#) describes the optimal lags specified in each country regression.⁷⁹ Most tests give satisfactory results.

Given that “it is often difficult to draw any conclusions from the large number of coefficient estimates in a VAR system,”⁸⁰ econometricians usually turn to the analyses of *impulse response functions* (IRFs), which are derived from VAR analyses.⁸¹ “Impulse responses trace out the response of current and future values of each of the variables to a one-unit increase in the current value of one of the VAR errors.”⁸² [Figure 2](#) shows four panels for each of the six countries, one for the response of agriculture to industrial growth (left column), one for the response of industrial growth to agricultural growth (right column), both before (top row) and after (bottom row) the implementation of the income tax. Similar to the Granger-causality tests, I expect politically ‘developed’ countries to have gone through a process of structural transformation reverting the initial backwards development trap. However, this time I am able to observe the intensity of the responses and how long it took them to die out. The X-axis are years, and represent any year. The Y-axis is *not* growth, but response to equilibrium. That is, the reaction of one sector once the other one is shocked.⁸³

[Figure 2](#) suggests that all ‘developed’ countries switched from a backwards equilibrium to a modern economic growth strategy after the income tax was implemented. For example, agricultural growth in Chile before the income tax was nurtured by industrial development, suggesting that political institutions were oriented to channel all economic resources in a way such that to give advantage to the agricultural sector and the landed elites. This situation was reverted after the

⁷⁹The next information criteria were used to determine the appropriate lag length: final prediction error, AIC, Schwarz’s Bayesian information criterion, Hannan and Quinn criterion as well as the corresponding likelihood-ratio test statistics. The same criteria are used to compute the optimal lag length in [Table 2](#). The table also shows a summary of different post-estimation tests when the optimum lag length specified in the table was used. A check mark indicates that the tests was passed successfully, a check-minus mark indicates that the test was passed somewhat successfully, and a cross mark denotes failure to reject specification problems. Detailed results are available upon request.

⁸⁰Lütkepohl and Krätzig [2004, 159].

⁸¹The raw VAR regression tables are available upon requests.

⁸²Stock and Watson [2001, 106]. See also Lütkepohl [2005, 51].

⁸³That is why the “shape of the [IRFs] indicate [...] the dynamic responses of the variables [and since the variables] are I(0) the impulse responses [...] should converge to zero” (Enders [2014, 364]).

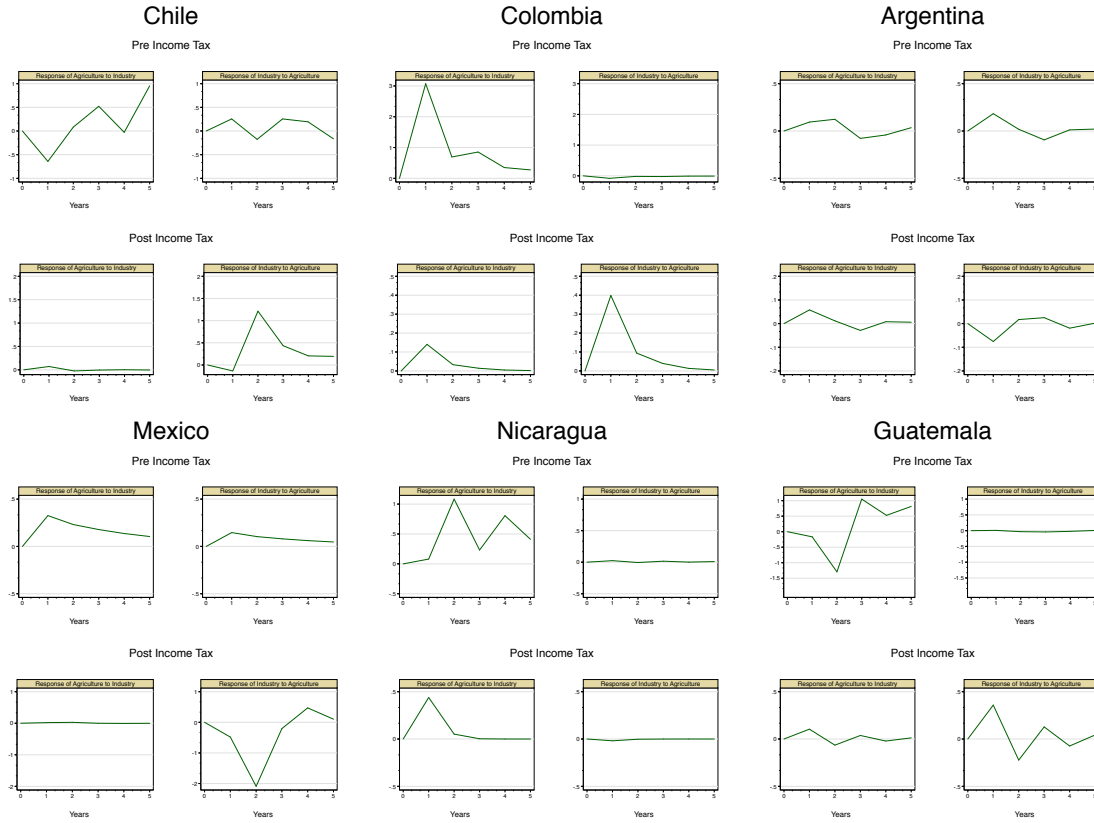


Figure 2: VAR Impulse Response Functions: Sectoral Responses to Each Other's Growths

income tax law. Colombia and Mexico show a similar pattern. While the analyses on the Argentinean case suggest that there is a long-term inter-sectoral relationship (Table 2), according to Figure 2 and Table 1 this relationship is weak. Nicaragua and Guatemala are the prototypical backward cases. In each case, the economy was designed to develop the agricultural sector completely at the expenses of the industrial sector. This goes in line with the null findings of cointegration in Table 2 and Granger-causality tests in Table 1. In these cases an *unbalanced* economic growth did not produce a strong challenger able to contest agricultural elites (Figure 1), suggesting that the income tax was not product of inter-elite challenges.

V. DISCUSSION

work in progress.

VI. APPENDIX

Country	Available Data	Year Income Tax	Law	Source
Chile	1900 - 2009	1924	<i>Ley 3996</i>	Mamalakís [1976, 20] and LeyChile.Cl (official)
Colombia	1900 - 2009	1935	<i>Ley 78</i>	Figueroa [2008, 9]
Argentina	1900 - 2010	1933	<i>Ley 11682</i>	Infoleg.Gob.Ar (official)
Mexico	1900 - 2009	1965	<i>Ley de Impuesto sobre la Renta</i>	Díaz González [2013, 130-133] and Diario Oficial (official)
Nicaragua	1920 - 2009	1974	<i>Ley 662</i>	Legislacion.Asamblea.Gob.Ni (official)
Guatemala	1920 - 2009	1963	<i>Decreto 1559</i>	Instituto Centroamericano de Estudios Fiscales [2007, 165]

Table A1: *Sample, Data Available and Year the Income Tax was Implemented*

Country	Time Frame	Sector	Augmented Dickey-Fuller	Phillips-Perron	KPSS	Conclusion
Chile	Pre	Agriculture	-1.185 (0.68)	-1.241 (0.66)	.107 ⁺	I(1)
		Industry	2.310 (0.99)	2.556 (0.99)	.113 ⁺	I(1)
	Post	Agriculture	4.557 (1.00)	5.40 (1.00)	.289	I(1)
		Industry	0.908 (0.99)	1.458 (0.99)	.249	I(1)
	All	Agriculture	5.521 (1.00)	6.722 (1.00)	.31	I(1)
		Industry	1.582 (0.99)	2.305 (0.99)	.314	I(1)
Colombia	Pre	Agriculture	2.709 (0.99)	2.414 (0.99)	.204	I(1)
		Industry	2.103 (0.99)	3.257 (1.00)	.183	I(1)
	Post	Agriculture	2.392 (0.99)	3.156 (1.00)	.282	I(1)
		Industry	0.520 (0.98)	1.044 (0.99)	.241	I(1)
	All	Agriculture	4.256 (1.00)	5.893 (1.00)	.372	I(1)
		Industry	1.674 (0.99)	2.707 (0.99)	.374	I(1)
Argentina	Pre	Agriculture	-0.849 (0.80)	-1.201 (0.67)	.0801 ⁺	I(1)
		Industry	-0.495 (0.89)	-0.378 (0.91)	.115 ⁺	I(1)
	Post	Agriculture	1.197 (0.99)	1.093 (0.99)	.277	I(1)
		Industry	0.228 (0.97)	0.381 (0.98)	.0901 ⁺	I(1)
	All	Agriculture	1.484 (0.99)	1.401 (0.99)	.332	I(1)
		Industry	1.007 (0.99)	1.237 (0.99)	.183	I(1)
Mexico	Pre	Agriculture	4.601 (1.00)	5.552 (1.00)	.288	I(1)
		Industry	5.803 (1.00)	10.776 (1.00)	.29	I(1)
	Post	Agriculture	0.599 (0.9876)	0.497 (0.99)	.109 ⁺	I(1)
		Industry	-1.255 (0.65)	-0.982 (0.76)	.113 ⁺	I(1)
	All	Agriculture	3.431 (1.00)	3.607 (1.00)	.341	I(1)
		Industry	0.672 (0.99)	2.020 (0.99)	.367	I(1)
Nicaragua	Pre	Agriculture	2.473 (0.99)	2.355 (0.99)	.25	I(1)
		Industry	4.958 (1.00)	9.100 (1.00)	.244	I(1)
	Post	Agriculture	-0.154 (0.94)	0.154 (0.97)	.2	I(1)
		Industry	-1.237 (0.6577)	-1.176 (0.68)	.189	I(1)
	All	Agriculture	0.636 (0.99)	0.759 (0.99)	.116 ⁺	I(1)
		Industry	-0.164 (0.94)	-0.090 (0.95)	.123	I(1)
Guatemala	Pre	Agriculture	-0.393 (0.91)	-0.343 (0.92)	.0639 ⁺	I(1)
		Industry	1.358 (0.99)	1.704 (0.99)	.199	I(1)
	Post	Agriculture	1.786 (0.99)	1.965 (0.99)	.162	I(1)
		Industry	-0.998 (0.75)	-1.352 (0.61)	.0915 ⁺	I(1)
	All	Agriculture	3.349 (1.00)	3.714 (1.00)	.321	I(1)
		Industry	0.413 (0.98)	0.017 (0.96)	.288	I(1)

Table A2: *Unit Root Tests for Agricultural and Industrial Growth*

Country	Time Frame	Number of Lags	LM	Normally Tests			Stability Condition
				Jarque-Bera	Skewness	Kurtosis	
Chile	Pre	4	✓	✓	✓	✓	✓
	Post	2	✓	✓ ⁻	✓ ⁻	✓ ⁻	✓
Colombia	Pre	1	✓ ⁻	✗	✗	✗	✓
	Post	1	✓	✓ ⁻	✓ ⁻	✓ ⁻	✓
Argentina	Pre	2	✓	✓	✓	✓	✓
	Post	2	✓	✓ ⁻	✓	✓ ⁻	✓
Mexico	Pre	1	✓	✓ ⁻	✓ ⁻	✓ ⁻	✓
	Post	2	✓	✓	✓	✓	✓
Nicaragua	Pre	2	✓	✓ ⁻	✓ ⁻	✓ ⁻	✓
	Post	1	✓	✓ ⁻	✓ ⁻	✓ ⁻	✓
Guatemala	Pre	3	✓	✗	✓ ⁻	✓ ⁻	✓
	Post	1	✓ ⁻	✓ ⁻	✓ ⁻	✓ ⁻	✓

Table A3: *Lag Length and Post-Estimation Results*

..... **Word count: 9,607**

REFERENCES

- Daron Acemoglu and James Robinson. *Economic Origins of Dictatorship and Democracy*. Cambridge University Press, 2009.
- Ben Ansell and David Samuels. *Inequality and Democratization: An Elite-Competition Approach*. Cambridge University Press, 2014.
- Pablo Astorga, Ame Berges, and Valpy Fitzgerald. The Standard of Living in Latin America During the Twentieth Century. *Economic History Review*, 58(4):765–796, nov 2005. ISSN 0013-0117. doi: 10.1111/j.1468-0289.2005.00321.x. URL <http://doi.wiley.com/10.1111/j.1468-0289.2005.00321.x>.
- Werner Baer and Michael Herve. Employment and Industrialization in Developing Countries. *The Quarterly Journal of Economics*, 80(1):88–107, feb 1966. ISSN 00335533. doi: 10.2307/1880581. URL <http://qje.oxfordjournals.org/lookup/doi/10.2307/1879592><http://qje.oxfordjournals.org/lookup/doi/10.2307/1880581>.
- Hector Bahamonde. Sectoral origins of income taxation: Industrial development and the case of chile (1900-2010). 2017. URL https://github.com/hbahamonde/IncomeTaxAdoption/raw/master/Bahamonde_IncomeTaxAdoption.pdf.
- Jean Marie Baland and James Robinson. Land and Power: Theory and Evidence from Chile. *American Economic Review*, 98(5):1737–1765, 2008. ISSN 00028282. doi: 10.1257/aer.98.5.1737.
- Arnold Bauer. *Chilean Rural Society: From the Spanish Conquest to 1930*. Cambridge University Press, 2008.
- Nathaniel Beck. The Methodology of Cointegration. *Political Analysis*, 4:237–247, 1992. URL <http://www.jstor.org/stable/23321238>.
- Charles Bergquist. *Coffee and Conflict in Colombia, 1886-1910*. Duke University Press, 1986.
- Luis Bertola and Jose Antonio Ocampo. *The Economic Development of Latin America since Independence*. Oxford University Press, 2012. URL [https://global.oup.com/academic/product/the-economic-development-of-latin-america-since-independence-9780199662142?cc=us&lang=en&}](https://global.oup.com/academic/product/the-economic-development-of-latin-america-since-independence-9780199662142?cc=us&lang=en&}{).
- Lisa Blaydes and Mark Kayser. Counting Calories: Democracy and Distribution in the Developing World. *International Studies Quarterly*, 55(4):887–908, dec 2011. ISSN 00208833. doi: 10.1111/j.1468-2478.2011.00692.x. URL <http://isq.oxfordjournals.org/cgi/doi/10.1111/j.1468-2478.2011.00692.x>.

- Niels-Hugh Blunch and Dorte Verner. Shared Sectoral Growth Versus the Dual Economy Model: Evidence from Cote d'Ivoire, Ghana, and Zimbabwe. *African Development Review*, 18(3):283–308, dec 2006. ISSN 1017-6772. doi: 10.1111/j.1467-8268.2006.00150.x. URL <http://doi.wiley.com/10.1111/j.1467-8268.2006.00150.x>.
- Carles Boix. *Democracy and Redistribution*. Cambridge University Press, 2003.
- Carles Boix. *Political Order and Inequality: Their Foundations and their Consequences for Human Welfare*. Cambridge Studies in Comparative Politics, 2015.
- Janet Box-Steffensmeier, John Freeman, Matthew Hitt, and Jon Pevehouse. *Time Series Analysis for the Social Sciences*. Cambridge University Press, 2014.
- Deborah Brautigam, Odd-Helge Fjeldstad, and Mick Moore. *Taxation and State-Building in Developing Countries: Capacity and Consent*. Cambridge University Press, 2008. ISBN 9781139469258. URL <http://books.google.be/books?id=yKqioeqwsTkC>.
- Victor Bulmer-Thomas. *The Economic History of Latin America since Independence*. Cambridge University Press, 2003. ISBN 9780521532747.
- Nauro Campos, Menelaos Karanasos, and Bin Tan. From Riches to Rags, and Back? Institutional Change, Financial Development and Economic Growth in Argentina since 1890. *The Journal of Development Studies*, 52(2):206–223, feb 2016. ISSN 0022-0388. doi: 10.1080/00220388.2015.1060317. URL <http://www.tandfonline.com/doi/full/10.1080/00220388.2015.1060317>.
- Giovanni Capoccia and Daniel Kelemen. The Study of Critical Junctures Theory, Narrative, and Counterfactuals in Historical Institutionalism. *World Politics*, 59(April):341–369, 2007.
- Francesco Caselli. Accounting for Cross-Country Income Differences. In *Handbook of Economic Growth*, volume 1, chapter 9, pages 679–741. 2005. ISBN 9780444520418. doi: 10.1016/S1574-0684(05)01009-9.
- Gregory Clark. *A Farewell to Alms: A Brief Economic History of the World*. Princeton University Press, 2009.
- Ruth Collier and David Collier. *Shaping The Political Arena: Critical Junctures, the Labor Movement, and Regime Dynamics in Latin America*. University of Notre Dame Press, 2002.
- Simon Collier. The Historiography of the "Portalian" Period (1830-1891) in Chile. *The Hispanic American Historical Review*, 57(4):660–690, 1977. URL <http://www.jstor.org/stable/2513483>.

- Dario Debowicz and Paul Segal. Structural Change in Argentina, 1935-1960: The Role of Import Substitution and Factor Endowments. *The Journal of Economic History*, 74(01):230–258, mar 2014. ISSN 0022-0507. doi: 10.1017/S0022050714000084. URL http://www.journals.cambridge.org/abstract/_/S0022050714000084.
- Carlos Díaz-Alejandro. An Interpretation of Argentine Economic Growth Since 1930 (Part I). *Journal of Development Studies*, 3(1):14–41, oct 1966. ISSN 0022-0388. doi: 10.1080/00220386608421206. URL <http://www.tandfonline.com/doi/abs/10.1080/00220386608421206>.
- Carlos Díaz-Alejandro. An Interpretation of Argentine Economic Growth Since 1930 (Part II). *Journal of Development Studies*, 3(2):155–177, jan 1967. ISSN 0022-0388. doi: 10.1080/00220386708421216. URL <http://www.tandfonline.com/doi/abs/10.1080/00220386708421216>.
- Carlos Díaz-Alejandro. *Essays on the Economic History of the Argentine Republic*. Yale University Press, New Haven and London, 1970.
- Eliseo Díaz González. La Reforma Del Impuesto Sobre La Renta Aplicado a Salarios. *Argumentos*, 26(71):127–148, 2013.
- Avinash Dixit. *Models of Dual Economy*. Models of Economic Growth: Proceedings of a Conference Held by the International Economic Association at Jerusalem. 1973.
- Robert Durr. An Essay on Cointegration and Error Correction Models. *Political Analysis*, 4:185–228, 1992. URL <http://www.jstor.org/stable/23321236>.
- Walter Enders. *Applied Econometric Time Series*. Wiley, 4th. edition, 2014. ISBN 8126515643. doi: 10.1198/tech.2004.s813.
- Robert Engle and Clive Granger. Co-Integration and Error Correction: Representation, Estimation, and Testing. *Econometrica*, 55(2):251–276, 1987. doi: 10.2307/1913236. URL <http://www.jstor.org/stable/1913236>.
- Gary Fields. Dualism in the Labor Market: A Perspective on the Lewis Model After Half a Century. *The Manchester School*, 72(6):724–735, 2004. ISSN 1463-6786. doi: 10.1111/j.1467-9957.2004.00432.x. URL <http://doi.wiley.com/10.1111/j.1467-9957.2004.00432.x>.
- Alfredo Lewin Figueroa. Historia de las Reformas Tributarias en Colombia. In *Fundamentos de la Tributación*, page 371. Universidad de los Andes Editorial Temis, Bogotá, 2008. ISBN 9789583507069.

- Steven Fish and Omar Choudhry. Democratization and Economic Liberalization in the Post-communist World. *Comparative Political Studies*, 40(3):254–282, 2007. ISSN 0010-4140. doi: 10.1177/0010414006294169.
- Walter Galenson. Economic Development and the Sectoral Expansion of Employment. *International Labour Review*, 87(6):505–519, 1963.
- Carmenza Gallo. *Taxes and state power: Political instability in Bolivia, 1900-1950*. Temple University Press, 1991.
- Douglas Gollin, Stephen Parente, and Richard Rogerson. The Role of Agriculture in Development. *The American Economic Review*, 92(2):160–164, 2002. URL <http://www.jstor.org/stable/3083394>.
- Clive Granger. Testing for Causality: A Personal Viewpoint. *Journal of Economic Dynamics and Control*, 2:329–352, 1980. doi: 10.1016/0165-1889(80)90069-X.
- Clive Granger. Some Properties of Time Series Data and Their Use in Econometric Model Specification. *Journal of Econometrics*, 16(1):121–130, may 1981. ISSN 03044076. doi: 10.1016/0304-4076(81)90079-8. URL <http://linkinghub.elsevier.com/retrieve/pii/0304407681900798>.
- Avner Greif, Paul Milgrom, and Barry Weingast. Coordination, Commitment, and Enforcement: The Case of the Merchant Guild. *Journal of Political Economy*, 102(4):745–776, 1994. ISSN 0022-3808. doi: 10.1086/261953. URL <http://www.jstor.org/stable/2138763>.
- Stephen Haber and Victor Menaldo. Do Natural Resources Fuel Authoritarianism? A Reappraisal of the Resource Curse. *American Political Science Review*, 105(01):1–26, feb 2011. ISSN 0003-0554. doi: 10.1017/S0003055410000584. URL http://www.journals.cambridge.org/abstract/_S0003055410000584.
- John Harris and Michael Todaro. Migration, Unemployment & Development: A Two-Sector Analysis. *American Economic Review*, 60(1):126–142, 1970. URL <http://www.jstor.org/stable/1807860>.
- Timothy Hatton and Jeffrey Williamson. Integrated and Segmented Labor Markets: Thinking in Two Sectors. *The Journal of Economic History*, 51(02):413, jun 1991. ISSN 0022-0507. doi: 10.1017/S0022050700039036. URL http://www.journals.cambridge.org/abstract/_S0022050700039036.
- Yujiro Hayami and Saburo Yamada. Agricultural Productivity at the Beginning of Industrialization. In Kazushi Ohkawa, Bruce Johnston, and Hiromitsu Kaneda, editors, *Agriculture and Economic*

- Growth: Japan's Experience*, pages 105–144. Princeton University Press and Tokyo University Press, Princeton, NJ and Tokyo, 1969.
- Dierk Herzer and Sebastian Vollmer. Inequality and Growth: Evidence From Panel Cointegration. *Journal of Economic Inequality*, 10(4):489–503, 2012. ISSN 15691721. doi: 10.1007/s10888-011-9171-6.
- Instituto Centroamericano de Estudios Fiscales. Historia de la Tributación en Guatemala. Technical report, Instituto Centroamericano de Estudios Fiscales, 2007.
- Lakshmi Iyer and Abhijit Banerjee. History, Institutions, and Economic Performance: The Legacy of Colonial Land Tenure Systems in India. *The American Economic Review*, 95(4):1190–1213, 2005. URL <http://www.jstor.org/stable/4132711>.
- Soren Johansen. Statistical Analysis of Cointegration Vectors. *Journal of Economic Dynamics and Control*, 12(2-3):231–254, 1988. ISSN 01651889. doi: 10.1016/0165-1889(88)90041-3.
- Noel Johnson and Mark Koyama. States and Economic Growth: Capacity and Constraints. *Explorations in Economic History*, dec 2016. ISSN 00144983. doi: 10.1016/j.eeh.2016.11.002. URL <http://linkinghub.elsevier.com/retrieve/pii/S0014498316301966>.
- Bruce Johnston. Agricultural Productivity and Economic Development in Japan. *Journal of Political Economy*, 59(6):498–513, 1951. URL <http://www.jstor.org/stable/1830239>.
- Bruce Johnston and John Mellor. The Role of Agriculture in Economic Development. *The American Economic Review*, 51(4):566–593, 1961. URL <http://www.jstor.org/stable/1812786>.
- Bruce Johnston and Soren Nielsen. Agricultural and Structural Transformation in a Developing Economy. *Economic Development and Cultural Change*, 14(3):279–301, 1966. URL <http://www.jstor.org/stable/1152435>.
- Dale Jorgenson. The Development of a Dual Economy. *The Economic Journal*, 71(282):309–334, 1961. URL <http://www.jstor.org/stable/2228770>.
- Dale Jorgenson. Surplus Agricultural Labour and the Development of a Dual Economy. *Oxford Economic Papers, New Series*, 19(3):288–312, 1967. URL <http://www.jstor.org/stable/2662328>.
- Carlos Keller. *La eterna crisis chilena*. Nascimento, Santiago, Chile, 1931.
- Allen Kelley, Jeffrey Williamson, and Russell Cheetham. *Dualistic Economic Development: Theory and History*. University of Chicago Press, 1972.

- George Krause. Voters, Information Heterogeneity, and the Dynamics of Aggregate Economic Expectations. *American Journal of Political Science*, 41(4):1170–1200, 1997.
- Marcus Kurtz. *Latin American State Building in Comparative Perspective: Social Foundations of Institutional Order*. Cambridge University Press, 2013.
- Simon Kuznets. Economic Growth and the Contribution of Agriculture: Notes on Measurement. *1961 Conference, August 19-30, 1961, Cuernavaca, Morelos, Mexico*, 1961. URL <http://ideas.repec.org/p/ags/iaae61/209625.html>.
- Simon Kuznets. *Modern Economic Growth: Rate, Structure and Spread*. Yale University Press, 1967.
- John Landon-Lane and Peter Robertson. Accumulation and Productivity Growth in Industrializing Economies. 2003. URL <http://econpapers.repec.org/RePEc:rut:rutres:200305>.
- David Leblang. Property Rights, Democracy and Economic Growth. *Political Research Quarterly*, 49(1):5–26, mar 1996. ISSN 1065-9129. doi: 10.1177/106591299604900102. URL <http://prq.sagepub.com/cgi/doi/10.1177/106591299604900102>.
- Harvey Leibenstein. The Theory of Underemployment in Backward Economies. *Journal of Political Economy*, 65(2):91–103, 1957a. URL <http://www.jstor.org/stable/1827366>.
- Harvey Leibenstein. *Economic Backwardness and Economic Growth*. John Wiley and Sons, 1st. edition, 1957b.
- Arthur Lewis. Economic Development with Unlimited Supplies of Labour. *The Manchester School*, 22(2):139–191, may 1954. ISSN 1463-6786. doi: 10.1111/j.1467-9957.1954.tb00021.x. URL <http://doi.wiley.com/10.1111/j.1467-9957.1954.tb00021.x>.
- Arthur Lewis. *The Theory of Economic Growth*. Harper and Row, 1965.
- Peter Lindert and Jeffrey Williamson. Growth, Equality, and History. *Explorations in Economic History*, 22(4):341–377, 1985. ISSN 00144983. doi: 10.1016/0014-4983(85)90001-4.
- Humberto Llavador and Robert Oxoby. Partisan Competition, Growth, and the Franchise. *The Quarterly Journal of Economics*, 120(3):1155–1189, aug 2005. ISSN 0033-5533. doi: 10.1093/qje/120.3.1155. URL <http://www.jstor.org/stable/25098765><http://about.jstor.org/terms><http://qje.oxfordjournals.org/cgi/doi/10.1093/qje/120.3.1155>.
- Fernando López-Alves. *State Formation and Democracy in Latin America, 1810-1900*. Duke University Press Books, 2000.

- Helmut Lütkepohl. *New Introduction to Multiple Time Series Analysis*. Springer, Berlin, 2005. ISBN 3540262393.
- Helmut Lutkepohl. *New Introduction to Multiple Time Series Analysis*. Springer, 2006. ISBN 9783540262398.
- Helmut Lütkepohl and Markus Krätzig. *Applied Time Series Econometrics*. Cambridge University Press, 2004. ISBN 9780521839198. doi: 10.1017/CBO9780511606885. URL http://books.google.com/books?hl=en&lr=&id=xe7NDY8leWwC&oi=fnd&pg=PP1&dq=Applied+Time+series+Econometrics&ots={_}88dV4qX5p&sig=N2ZBeAsV0i25ThJjVf7b2QSRXCA.
- James Mahoney. *Colonialism and Postcolonial Development: Spanish America in Comparative Perspective*. Cambridge University Press, 2010.
- Markos Mamalakis. *Growth and Structure of the Chilean Economy: From Independence to Allende*. Yale University Press, 1976.
- Isabela Mares and Didac Queralt. The Non-Democratic Origins of Income Taxation. *Comparative Political Studies*, 48(14):1974–2009, dec 2015. ISSN 0010-4140. doi: 10.1177/0010414015592646. URL <http://cps.sagepub.com/cgi/doi/10.1177/0010414015592646>.
- Kiminori Matsuyama. Increasing Returns, Industrialization, and Indeterminacy of Equilibrium. *The Quarterly Journal of Economics*, 106(2):617–650, 1991. URL <http://www.jstor.org/stable/2937949>.
- George McCutchen McBride. *Chile: Land and Society*. Octagon Books, 1936.
- Joel Mokyr. *A Culture of Growth: The Origins of the Modern Economy*. Princeton University Press, 2016.
- Barrington Moore. *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World*. Beacon Press, September 1966.
- Mick Moore. Taxation and the Political Agenda, North and South. *Forum for Development Studies*, 1:7–32, 2004. ISSN 0803-9410. doi: 10.1080/08039410.2004.9666262.
- Marc Nerlove. The Role of Agriculture in General Economic Development: A Reinterpretation of Jorgenson and Lewis. In *Agricultural Development, Population Growth and the Environment: Lecture Notes for AREC 445*, chapter 4. 1994.
- William Nicholls. Industrialization, Factor Markets, and Agricultural Development. *Journal of Political Economy*, 69(4):319–340, 1961. URL <http://www.jstor.org/stable/1828643>.

- William Nicholls. An "Agricultural Surplus" as a Factor in Economic Development. *Journal of Political Economy*, 71(1):1–29, 1963.
- Douglass North. *Institutions, Institutional Change and Economic Performance*. Cambridge University Press, 1990.
- Douglass North and Barry Weingast. Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century. *The Journal of Economic History*, 49(4): 803–832, 1989.
- Ragnar Nurkse. *Problems of Capital Formation in Underdeveloped Countries*. Basil Blackwell, 2nd. edition, 1953.
- Ragnar Nurske. *Equilibrium and growth in the world economy: Economic essays*. Harvard University Press, 1961.
- Guillermo O'Donnell and Philippe Schmitter. *Transitions from Authoritarian Rule, Vol. 4: Tentative Conclusions about Uncertain Democracies*. Johns Hopkins University Press, 1986.
- Kazushi Ohkawa. Balanced Growth and the Problem of Agriculture - With Special Reference to Asian Peasant Economy. *Hitotsubashi Journal of Economics*, 2(1):13–25, 1961. URL <http://doi.org/10.15057/8120>.
- Charles Ostrom and Renée Smith. Error Correction, Attitude Persistence, and Executive Rewards and Punishments: A Behavioral Theory of Presidential Approval. *Political Analysis*, 4(1):127–183, 1992. ISSN 1047-1987. doi: 10.1093/pan/4.1.127. URL <http://pan.oxfordjournals.org/cgi/doi/10.1093/pan/4.1.127>.
- Gustav Ranis and John Fei. A Theory of Economic Development. *The American Economic Review*, 51(4):533–565, 1961. URL <http://www.jstor.org/stable/1812785>.
- Gustav Ranis and John Fei. *Development of the Labor Surplus Economy*. The Economic Growth Center, Yale University. Richard D.Irwin, Inc, 1964.
- Claudio Robles-Ortiz. Agrarian Capitalism and Rural Labour: The Hacienda System in Central Chile, 1870-1920. *Journal of Latin American Studies*, 41(03):493, 2009. ISSN 0022-216X. doi: 10.1017/S0022216X09990162. URL http://www.journals.cambridge.org/abstract/_S0022216X09990162.
- Ryan Saylor. *State Building in Boom Times: Commodities and Coalitions in Latin America and Africa*. Oxford University Press, 2014.

- Joseph Schumpeter. *Joseph A. Schumpeter: The Economics and Sociology of Capitalism*. Princeton University Press, 1991.
- Marcelo Segall. *Las luchas de clases en las primeras décadas de la República de Chile: 1810-1846*. Santiago, Chile, separata d edition, 1962.
- Amartya Sen. Peasants and Dualism with or without Surplus Labor. *The Journal of Political Economy*, 74(5):425–450, 1966.
- Raúl Serrano and Vicente Pinilla. The Declining Role of Latin America in Global Agricultural Trade, 1963-2000. *Journal of Latin American Studies*, 48(01):115–146, feb 2016. ISSN 0022-216X. doi: 10.1017/S0022216X15001236. URL http://www.journals.cambridge.org/abstract/{_}S0022216X15001236.
- Peter Skott and Mehrene Larudee. Uneven Development and the Liberalisation of Trade and Capital Flows: The Case of Mexico. *Cambridge Journal of Economics*, 22(3):277–295, 1998. ISSN 0309166X.
- Adam Smith. *An Inquiry into the Nature and Causes of the Wealth of Nations*. Methuen & Co., Ltd., 5th. edition, 1904.
- Russell Sobel and Christopher Coyne. Cointegrating Institutions: The Time-Series Properties of Country Institutional Measures. *The Journal of Law and Economics*, 54(1):111–134, feb 2011. ISSN 0022-2186. doi: 10.1086/652304. URL <http://www.journals.uchicago.edu/doi/10.1086/652304>.
- Hillel Soifer. *State Building in Latin America*. Cambridge University Press, 2016.
- David Stasavage. *Public Debt and the Birth of the Democratic State: France and Great Britain 1688-1789*. Cambridge University Press, 2008.
- James Stock and Mark Watson. Vector Autoregressions. *The Journal of Economic Perspectives*, 15(4):101–115, 2001. URL <http://www.jstor.org/stable/2696519>.
- Paul Streeten. Unbalanced Growth. *Oxford Economic Papers, New Series*, 11(2):167–190, 1959. URL <http://www.jstor.org/stable/2662122>.
- Jonathan Temple and Ludger Wößmann. Dualism and Cross-Country Growth Regressions. *Journal of Economic Growth*, 11(3):187–228, nov 2006. ISSN 1381-4338. doi: 10.1007/s10887-006-9003-x. URL <http://link.springer.com/10.1007/s10887-006-9003-x>.
- Charles Tilly. *Coercion, Capital and European States: AD 990 - 1992*. Wiley-Blackwell, 1992.

- Victor Uribe-Uran. *State and Society in Spanish America during the Age of Revolution*. Rowman & Littlefield Publishers, 2001.
- Dietrich Vollrath. The Dual Economy in Long-Run Development. *Journal of Economic Growth*, 14(4):287–312, dec 2009. ISSN 1381-4338. doi: 10.1007/s10887-009-9045-y. URL <http://link.springer.com/10.1007/s10887-009-9045-y>.
- David Waldner. *State Building and Late Development*. Cornell University Press, 1999.
- Frederic Weaver. *Class, State, and Industrial Structure: The Historical Process of South American Industrial Growth*. Praeger, 1980.
- Barry Weingast. The Political Foundations of Democracy and the Rule of Law. *The American Political Science Review*, 91(2):245–263, 1997.
- Jeffrey Wooldridge. *Introductory Econometrics: A Modern Approach*. South-Western College Pub, 2nd. edition, 2002. ISBN 0324113641.
- Maurice Zeitlin. *The Civil Wars in Chile: (or The Bourgeois Revolutions that Never Were)*. Maurice Zeitlin, 1984.