Geography is not Destiny and History need not Repeat: How the politics of international trade remade the Latin American state

Don Leonard*

*Postdoctoral fellow at the Center for Inter-American Policy & Research. don.leonard@tulane.edu

Draft prepared for the Political Science Colloquium at Tulane University. Please do not cite or circulate without author’s permission.

ABSTRACT

Why are some societies more prosperous than others? Geographic endowments have been found to shape the development trajectories of nations directly, as well as indirectly through their effect on the quality of the political institutions that emerge during colonization. In these latter accounts, stability in the underlying distribution of income within a society accounts for the persistence of ‘good’ or ‘bad’ institutions by determining who has the power to shape the economic purpose of the state. In contrast, comparative historical analysis of state development on the island of Hispaniola identifies conditions under which exogenous changes in exposure to international trade can alter the development trajectories of societies by reshaping the distribution of income and power within them, as well as the preferences of the powerful over institutional purpose. These findings challenge existing theories of state development that emphasize the path-dependent effects of geography and colonial legacy.
Why have some societies been more successful than others in providing their citizens with access to the goods and services that comprise modern economic life? Recent scholarship has identified a set of geographic variables including climate, access to trade, and factor endowments of land and labor, which are believed to exert path-dependent effects on long-run prosperity. Whereas some studies emphasize the direct effects of geography through its influence on public health, agricultural productivity, and economic gains from trade, others find that its relationship to economic prosperity operates indirectly through the effect of geography on the quality of political institutions. Whereas good institutions encourage productive investment by doing things that lower the costs of market transactions, like enforcing property rights, differences in climate, as well as factor endowments of land and labor, have been shown to explain why good institutions emerged in some countries but not others. A central claim of existing historical institutionalist theory is that the formation of extractive colonial institutions fosters high levels of economic and political inequality that allow inefficient institutions to persist over time.

My central claim is that exposure to international trade reshapes long run trajectories of state development and economic prosperity by altering the distribution of income within a society. A comparative historical analysis of the tropical island of Hispaniola confirms the results of Easterly, Engerman and Sokoloff, Mahoney, and others who find that the distribution of income and power within a society conditions institutional development. Yet whereas the Haitian

---

1 Diamond 1997; Landes 1998; Gallup, Sachs, and Mellinger 1999; Sachs 2003
2 Hall and Jones 1999; Easterly and Levine 2003; Rodrik, Subramanian, and Trebbi 2004
3 North and Thomas 1973; North 1990; Acemoglu, Johnson, and Robinson 2001; Acemoglu, Johnson, and Robinson 2002; Rodrik, Subramanian, and Trebbi 2004; Acemoglu and Robinson 2012
4 Acemoglu, Johnson, and Robinson 2001
5 Engerman and Sokoloff 1997; Sokoloff and Engerman 2000; Easterly 2007; Mahoney 2010. Reducing Mahoney’s argument to a question of factor endowments does some violence to the theory he develops to explain the quality of colonial institutions that emerged from Spanish rule. His explanatory factors include not only the size of the indigenous populations who might be employed as labor, but also the complexity of the societies they belonged to. However his theory makes clear that large labor endowments were a necessary condition for early Spanish colonization. Furthermore, Mahoney argues that Costa Rica’s relative isolation in Central America allowed it to escape the disorganizing forces of war that plagued its neighbors (Chapter 5).
case is broadly consistent with existing literature, exhibiting continuity in colonial patterns of income distribution and institutional quality over much of the post-colonial period, my analysis of the Dominican Republic suggests the existence of conditions under which exogenous changes in exposure to international trade can alter patterns of state-society relations. Deeper integration with international commodity markets during the second half of the nineteenth century reshaped the distribution of income within Dominican society, such that a larger share of national income was captured by the middle classes than was in Haiti during this period. However, an emerging agro-export economy with a larger middle class failed to translate into significant gains in economic or political development. It was only during a critical juncture in the 1930s, when a protracted collapse of these agro-export markets led to distributional conflict over how to adjust to the crisis, that differences in the income share of the middle classes in Haiti and the Dominican Republic became salient. During such a crisis, the distribution of income and power within these two agrarian societies determined whether a purely extractive relationship between state institutions and markets persisted, or whether it was abandoned in favor of a developmentalist policy of state-led industrialization.

This focus on historical processes that reshape income distribution and remake institutions during the post-colonial period provides a valuable corrective to existing accounts of poverty and prosperity. Whereas geographical explanations for the economic divergence of Western Europe and other industrialized countries from the rest of the world often obscure meaningful variation among lower-income countries, development theories emphasizing the persistence of colonial institutions and their social foundations have tended to obscure significant discontinuities in both income distribution and institutional development that emerged during the post-colonial period.
At the beginning of the twentieth century the two societies inhabiting the tropical island of Hispaniola were poor and agrarian. Since decolonization in the early 1800s, both Haiti and the Dominican Republic (DR) had been governed by extractive states that served only to increase the private fortunes of the ruling elite, who collected customs revenue at the ports and leveraged that revenue as collateral against relatively vast sums of foreign credit. As political competition over control of these government revenues became increasingly violent across the island, fear of encroachment by European creditors into its sphere of influence prompted the United States to launch twin militarily occupations—first in Haiti in 1915, and a year later in the DR—so as to return these failing states to fiscal solvency and ensure the repayment of their sovereign debts. As recently as 1950 Haiti and the DR were virtually tied for the dubious distinction of having the poorest economy in the Americas.\(^6\) Since then, however, the economic divergence of these neighboring states has been remarkable.\(^7\) (Figure 1)

\[\text{[FIGURE 1 ABOUT HERE]}\]

\(^6\) By the narrowest of margins the Dominican Republic eclipsed Haiti as the poorest country in the region in 1950, with a per capita income of $1,027 in constant 1990 international dollars at purchasing power parity (PPP) (Maddison 2003).

\(^7\) The magnitude of the divergence is matched only by other extreme cases of neighboring states like North and South Korea. In the same 1990 international dollars, South Korea ended the century with a per capita GDP of $12,152, whereas the figure for North Korea was $1,183 (Acemoglu 2003, 630–2). By comparison, income per capita in Haiti is a fraction of North Korea’s—an abysmal $762 in 2000 (Maddison 2003).
Despite its inauspicious beginnings, the DR emerged as the fastest growing economy in Latin America over the second half of the twentieth century. It weathered political upheaval during the 1960s and the region-wide debt crisis of the 1980s, all the while maintaining an annual growth rate of 5.1 percent between 1950 and 2000.\(^8\) Having diversified its economy through the development of a modest industrial sector beginning in the 1930s and 1940s, by the end of the century its economy had grown nearly five times as large as Haiti’s on a per capita basis—converging with average national income in the region and underpinning a successful democratic transition in 1996. Over the same period Haiti replaced the DR as the poorest country in Latin America, its agrarian economy contracting by an annual rate of -0.5 percent (Figure 1). Haiti exited the century as it had entered it, with an economy that remained largely dependent upon foreign exchange from its agricultural exports for access to even basic manufactured

---

\(^8\) Maddison 2003
consumer goods. A failed democratic transition during the late 1980s contributed to collapsing state institutions and a return of occupying US military forces during the 1990s. The costs of economic underdevelopment reveal themselves in human development indicators as well. By any measure of education or public health, Dominican citizens enjoy access to basic services on a level that, however lacking in comparison to high income countries, is nevertheless an order of magnitude more improved than that of their Haitian neighbors.9

Why did one side of Hispaniola achieve comparatively impressive gains in economic growth and development over the second half of the twentieth century while the other side of the island did not? This paper exploits that variation in order to isolate the non-geographic factors that account for differences in institutional development and economic prosperity. Acknowledging the power of geography and colonial institutions for constraining the range of possible development outcomes for Haiti and the DR, I how the interaction between international and domestic forces allowed the Dominican economy to progress as far as it did during the twentieth century. The analysis that follows provides evidence consistent with existing findings that income distribution plays a direct role in shaping the development trajectories of nations by determining the power distribution within a society,10 as well as the preferences of the powerful over institutional design.11 Contrary to theories of institutional development that trace contemporary patterns of income distribution and institutional quality back to the colonial period, however, I find that an expansion of the middle class share of the income distribution during early globalization in the late 1800s altered patterns of institutional development by shaping how agrarian societies adjusted to economic crisis during the 1930s. Where such

9 United Nations Development Programme 2013, 167–72. In 2010 adult literacy in the Dominican Republic and Haiti, for example, was 89.5% and 48.7%, respectively. The under-five mortality rate in the DR was 27 children per 1,000 live births. In Haiti the figure was 165 per 1,000.
10 Winters 2011
11 Riker 1980; Knight 1992; Engerman and Sokoloff 1997; Sokoloff and Engerman 2000; Mahoney 2010
societies had developed larger middle classes by 1929, rulers faced greater political pressure to respond to the collapse of international commodity markets by investing public resources in a strategy of state-led industrialization.

I develop this argument in three parts. Part one examines the existing literature on geography, historical institutions, and state development. In part two I identify a new pathway to institutional development that leads through international trade and income distribution, comparing it with historical institutionalist accounts and differentiating it from the existing literature on trade and development. In part three I evaluate these competing explanations empirically using a structured historical comparison of Haiti and the DR. Finally, I conclude with some remarks concerning the implications of my findings for our narratives about political and economic development in the Americas and our theories about the consequences of income distribution and international trade for the alleviation of world poverty.

DETERMINISM IN EXISTING STATE DEVELOPMENT THEORY

GEOGRAPHY’S DIRECT EFFECTS

Geography has returned to the center of debates concerning the origins of worldwide variation in economic prosperity. Ambitious works such as Diamond’s *Guns, Germs, and Steel* and Landes’ *Wealth and Poverty of Nations* deploy a multitude of geographic factors, including favorable climate and soil conditions, as well as ease of access to international trade networks via oceans and navigable rivers, to account for Western Europe’s dramatic economic takeoff. Sachs and others provide further specification of the causal pathways by which

---

12 That geography exerts powerful influences on development is not a recent discovery. At least as far back as Wealth of Nations, scholars have been concerned about the importance of coastlines and navigable rivers for determining a nation’s ability to realize the economic gains from international trade (A. Smith 1776, 149–150).

13 1997

14 1998
geographical endowments exert a direct effect on economic growth and development. In the tropical savannas that cover much of Latin America, sub-Saharan Africa, and South Asia, lower levels of agricultural productivity result from the greater prevalence of pests and nutrient-sapping cycles of torrential rain and dry seasons.\footnote{Gallup, Sachs, and Mellinger 1999; Sachs 2003; Sachs 2001} Poor endowments of land coincide with labor’s vulnerability to tropical diseases like malaria, producing cumulatively lower economic output. The presence of substantial endowments of natural mineral wealth has also been found to correlate negatively with economic growth, providing few linkages to employment-generating sectors of the economy and undermining non-commodity sectors like manufacturing.\footnote{Through the so-called Dutch disease phenomenon, trade in minerals often weakens the price competitiveness of domestic producers by contributing to currency appreciation. Additionally, mineral extraction sectors frequently hoard domestic capital that might otherwise be directed towards economic diversification. Ross 1999; Sachs and Warner 1995} There can be little doubt that geography matters when considering the opportunities and constraints that societies face in pursuit of greater economic prosperity.

Concerning development variation on Hispaniola, the absence of large differences in geographical situation, tropical climate, or factor endowments, might reasonably lead an observer to dismiss geographic variables \textit{ex-ante} as a possible explanation. In his most recent analysis of the island’s unequal prosperity, however, Diamond highlights small differences in Haiti’s geography, including lower rates of precipitation, more mountainous terrain, and diminishing forest coverage, that may have disadvantaged it \textit{vis-à-vis} the DR.\footnote{Diamond 2010} As scholars have noted elsewhere, however, these factors do not provide a satisfactory explanation for Haiti’s relative backwardness.\footnote{Jaramillo and Sancak 2009} While subnational variation in precipitation exists on both sides of the island, both historical and contemporary records of precipitation indicate that a primary climate pattern—\textit{tropical savanna} according to the Köppen-Geiger classification system—predominates.
Concerning the differences in land endowments, two factors weaken our confidence in this explanation. First, it was political revolution and the domestic and international consequences of that revolution, rather than the constraints imposed by terrain or deforestation, that altered Haiti’s economic destiny. Before the onset of the slave revolution the Haitian economy was one of the most productive in the world, exporting nearly half of the coffee and sugar consumed in the West. Second, its principal export crop throughout the post-colonial period—coffee—thrives in mountainous terrain. Regarding forestation, coverage in Haiti and the DR was comparable as recently as 1960, suggesting that Haiti’s current state of deforestation is endogenous to its lagging economic development—namely the failure to develop an economy robust enough to create a market for non-wood fuels. In his final analysis, Diamond concedes that economic and political factors weigh as heavily on the development of Haiti and DR as their initial geographic differences.

**Geography’s Indirect Effects: Colonial Institutions**

Other studies argue that the effects of geographic variables such as climate or factor endowments of land and labor operate mostly indirectly, through the effects they exert on the development of human institutions. Across the colonized world, Acemoglu, Johnson, and Robinson find that higher rates of settler mortality owing to tropical diseases like malaria drove European colonists towards establishing illiberal, extractive institutions rather than forming settlements governed by

---

19 Alpert 1941; Peel, Finlayson, and McMahon 2007
20 Gonzalez 2012, 16; Buck-Morss 2000, 833
21 It should also be noted that, unlike planation crops like sugar or cotton, coffee has been successfully cultivated by both large and small-scale agriculture.
22 Jaramillo and Sancak 2009, 327
23 This is precisely what took place in the DR during the 1970s, where rising income in the rural areas allowed peasants to begin substituting propane gas for wood fuel.
more familiar liberal economic institutions. In the Americas, the labor-intensive nature of harvesting tropical and sub-tropical crops like sugar, coffee, and cotton incentivized the economic coercion of indigenous populations and the importation of slave labor from Africa. Similarly, in the mineral-rich highlands of the Andes, the labor-intensive and dangerous nature of early mineral extraction encouraged the equally brutal exploitation of indigenous peoples. Engerman and Sokoloff find that the economic structures that developed in response to initial factor endowments of land and labor contributed to the emergence of more-stratified societies.

Over time, societies with greater levels of income inequality generated powerful social forces that perpetuated their position through the creation of illiberal political institutions.

Mahoney offers further refinement of theories linking initial factor endowments to postcolonial development in the Americas, providing clear evidence that the structure of colonies and the quality of the institutions they left behind varies not just based on the identity of the metropole, but also the time in history in which it initiated colonization. The absence of more populous, complex, and hierarchically ordered civilizations in Costa Rica and the Southern Cone countries of Argentina, Chile, and Uruguay made these areas less attractive to early Spanish conquerors, who came in search of precious metals and existing civilizations from which they could extract such wealth. Thus, sparsely populated areas were spared the worst of Spain’s earlier, more illiberal mercantilist institutions under the sixteenth century Hapsburg Empire. When Costa Rica and the Southern Cone were eventually colonized during the eighteenth century it was under the more liberal institutions of Bourbon Spain, who conferred upon these colonies early advantages that even today are manifested in greater levels of economic and social development relative to the rest of Spanish America. Finally, the empirical work of Easterly

---

25 Acemoglu, Johnson, and Robinson 2001
26 Engerman and Sokoloff 1997; Sokoloff and Engerman 2000
27 2010
extends this factor endowment logic beyond the Western Hemisphere, identifying significant and robust correlations across the Global South between initial endowments of land and labor, the social structure that emerges under colonialism, and the covariates of institutional quality and economic development that result.28

For reasons discussed above, geographic endowments themselves are not a likely explanation for variation in institutional development on Hispaniola. However differences in both the identity of the colonizer and the timing of colonization for Haiti and the DR makes the central claim of the historical institutionalist argument plausible: differences in the institutions that emerged during the colonial period, and the social structures that underpinned them, explain contemporary differences in institutional quality and economic prosperity. In those cases where the interaction between domestic and international forces in the post-colonial period fails to produce a rupture in the distribution of income and power within society, we might expect patterns of state-society relations to persist—the rules of the game reinforcing the prevailing income distribution by conferring economic advantage on existing elites. In the section that follows I propose an alternate narrative of state development in Latin America.

**A DISTRIBUTIONAL POLITICS THEORY OF STATE DEVELOPMENT**

‘Good’ state institutions have been shown to promote material prosperity by encouraging innovation and productive investment, using policy levers like the enforcement of property rights to lower the cost of market transactions.29 Among late-industrializing countries, so-called developmental states perform an additional function crucial to economic development: By

---

28 Easterly 2001; Easterly 2007. See also Easterly, Ritzen, and Woolcock 2006, which examines more closely the linkage between social structure and institutional development.

29 North and Thomas 1973; North 1990; Acemoglu, Johnson, and Robinson 2001; Acemoglu, Johnson, and Robinson 2002; Acemoglu and Robinson 2012; Rodrik, Subramanian, and Trebbi 2004
actively directing productive capital towards particular economic sectors, states resolve the investment coordination problems associated with the initial phase of industrialization.\(^{30}\) On the other hand, ‘bad’ institutions can constrain economic growth by allowing their policy-making processes to become captured by rent-seeking actors,\(^{31}\) or by acting as a parasite that extracts tribute from the economy without providing public goods in return.\(^{32}\) Yet there is still much we do not understand about why the quality of institutions varies across states in terms of the degree to which they promote economic prosperity, as well as the forces that lead them to change over time.

In contrast with existing theories of state development that emphasize the path dependencies of geography or colonial legacy, I argue that international trade can reshape the relationship between state and markets through two separate but reinforcing processes. First, changing exposure to trade shapes development outcomes by altering the distribution of income and power within a society. Second, changing exposure to trade can alter the preferences of the powerful over the economic purpose of state institutions. Especially during periods of economic crisis, where the material interests of a society become threatened and the continuity of historically inherited institutions becomes contested, the relative power of different political coalitions vying for their distributional interests determine whether the existing relationship between states and markets changes or persists.

This argument builds upon distributional theories of institutions which argue that the key to identifying the underlying causes of their persistence or change lies in studying institutions not for what they do, for example as rules for coordinating social and economic behavior, but rather

---

\(^{30}\) Rosenstein-Rodan 1943; Rostow 1960; Gerschenkron 1962; Johnson 1982; Amsden 1989; Haggard 1990; Wade 1990; Evans 1995; Woo-Cumings 1999; Kohli 2004

\(^{31}\) Krueger 1974; Evans 1995

\(^{32}\) Acemoglu and Robinson 2012; Evans 1989
examining the social forces that ultimately determine what the desired outcome of such coordination should be.\textsuperscript{33} My claim that international trade disrupts historical patterns of state-society relations builds upon this approach, making three interrelated claims: First, I argue that state institutions are first and foremost instruments for shaping distributional outcomes. Second, I argue that the economic purpose of the state emerges as the result of competition between political coalitions—economic cleavages united by common distributional preferences, whose ability to shape state purpose is determined by their relative power within the political arena. Third, I argue that the relative power of a political coalition is a function of the number of individual members and their average level of political resources—itself a function of income.\textsuperscript{34} In the sections that follow I develop each of these claims.

\textbf{Distributional Foundations of Institutional Purpose}

Institutions are humanly devised technologies for changing the structure of the material world.\textsuperscript{35} Societies face choices about the economic purpose of their institutions. These include how the state intervenes in markets as a firm that provides goods and services, as well as how it intervenes as a regulator of the broader economy. Because of their distributional consequences, these choices over the economic purpose of state institutions are first and foremost political.

Whether goods and services like housing, infrastructure, health care, education, and security are provided by the state or rather by private firms affects richer and poorer citizens differentially; whereas richer voters may have the surplus income to purchase most goods and

\textsuperscript{33} Knight 1992; Mahoney 2010

\textsuperscript{34} The intuition about how the demographics of distributional competition affects institutional development borrows from the work of Posner 2004, who considered the impact of demographic differences on political competition and the salience of cultural cleavages among two tribes inhabiting both sides of the national border that separates Zambia and Malawi.

\textsuperscript{35} Ostrom 2007
services privately, poorer voters may depend on their public provision in order to gain access. Similarly, the public provision of social safety nets like unemployment and disability insurance or guaranteed pension benefits affects different sectors of society asymmetrically, with wealthier citizens more so than poorer ones being able to rely on the savings accrued during normal economic times to provide a cushion against a sudden loss of income. Many of these public choices pivot around distributional preferences over tax rates and the size of government, with poorer citizens generally favoring higher taxes and greater government spending and wealthier citizens generally opposing such policies because of their redistributional consequences.\textsuperscript{36} Taking these redistributional considerations into account, even a uniform, programmatic provision of goods and services by the state can have uneven distributional consequences in terms of who pays for them and who benefits.

In addition to the market interventions of the state as a provider of goods and services, state regulation of economic behavior also generates important distributional effects. These regulatory activities extend beyond the management of currency, the establishment of standardized weights and measures, or the enforcement of property rights and business contracts. Regulatory policies in regard to trade openness, the promotion of competition through antitrust enforcement, and the rate of corporate taxation applied to particular firms or economic sectors also create winners and losers within a society. The various dimensions of state purpose described above involve the kinds of behavior already emphasized by extant theory of institutions, which views them primarily as coordinating devices. The distinction between a coordination-based approach and the distributional perspective favored here is that, because of the distributional effects they generate, these coordination functions are politically contested.

\textsuperscript{36} Roberts 1977; Meltzer and Richard 1981.
State development, then, is best understood as a historical process whereby the institutions that govern a society are purposed and repurposed over time through political contestation. The economic purpose of the state emerges through the strategic interaction between political coalitions with competing distributional preferences and power endowments, each vying for their material interests. How this strategic process of interest articulation unfolds will vary from one regime type to another based on the particular rules that govern how power and distributional preferences translate into state policy. But under all regimes the economic purpose of the state as a provider of goods and services and as a regulator of markets will be a product of the underlying distribution of political power and the preferences of the powerful.

INCOME DISTRIBUTION AND INSTITUTIONAL POWER

The distribution of income, in turn, is a crucial correlate of the distribution of power. The relationship between income and political resources, particularly in agrarian societies, has been noted at least as far back as the seminal works of Dahl and Verba. At the individual level, the ability to participate in politics requires access to resources like education—an attribute that lowers the costs of information and political mobilization. To the extent that income enhances the opportunities an individual has to access education, then, it becomes an important determinant of power. Furthermore, as individuals move up the income distribution they acquire the additional ability to purchase political influence, providing them with the resources to generate political pressure outside the mainstream channels of participation. The distribution of income, then, not only decides who participates in politics by constituting a political class with

37 Garrett and Lange 1996
38 Dahl 1971, 82; Verba and Nie 1972; Verba, Nye, and Kim 1978
39 Bourguignon and Verdier 2000; Acemoglu and Robinson 2006a; Acemoglu and Robinson 1997
40 Winters 2011
sufficient resources to press for their material interests; income distribution also determines how individuals participate. Finally, different levels of income inequality condition individual preferences towards economic modernization and democracy.\textsuperscript{41}

Whether or not individuals are successful in repurposing the state in accordance with their distributional interests depends on the relative power of their political coalition within the national political arena. The economic cleavages that translate into such coalitions vary across countries, forming up along the lines of class and economic sector, as well as along ethno-linguistic divisions. Economic cleavages also vary over time, as I explore further in the next section, with political coalitions emerging and transforming in response to shocks like changes in exposure to international trade.\textsuperscript{42} Regardless of the particular cleavage or cleavages that a given political coalition encapsulates, however, and regardless of whether the coalition is formally constituted or whether it simply operates in the political arena as if it were, its members are unified by shared preferences over the economic purpose of the state.

The power of a political coalition to institutionalize the distributional preferences of its members is a function of the relative size of its membership and the average amount of political capital each coalition member enjoys. Coalitions reflecting the interests of poorer citizens are typically larger but with lower average political resources among members. Conversely, elite coalitions are typically smaller but with denser concentrations of political resources. Where political coalitions are relatively more powerful, I expect to see their distributional preferences reflected to a greater degree in the economic purpose of state institutions.

Understanding this relationship between distributional preferences and institutional purpose helps us understand why socially (Pareto) inefficient institutions are sometimes able to

\textsuperscript{41}Boix 2003; Acemoglu and Robinson 2006b; Acemoglu and Robinson 2006a
\textsuperscript{42}Rogowski 1989; Jeffry A. Frieden and Rogowski 1996
In contrast to rational choice perspectives that have focused on the coordinating functions that institutions perform, a focus on the distributional foundations of institutional purpose directs our attention to the strategic interactions among coalitions with different endowments of political power that determine whether existing institutions persist or change. As Knight observes, “the resulting institutions may or may not be socially efficient: It depends on whether or not the institutional form that distributionally favors the actors capable of asserting their strategic advantage is socially efficient.” The relative efficiency, or quality, of state institutions depends on the distribution of power within the political arena and the preferences of the powerful over institutional purpose. Any satisfactory explanation for variation in state development outcomes, then, must answer the following questions. First, what antecedent conditions produce the underlying distribution of income and power within a society? Second, under what conditions do the distributional preferences of dominant political coalitions coincide with institutional forms that lead to greater productive investment in infrastructure, physical and human capital—the determinants of economic growth and prosperity?

In the following section I present the argument demonstrating how exogenous changes in exposure to international trade shaped the patterns of state development that we observe across Latin America today. I then compare my argument to the colonial legacy theory, identifying the observable implications of these different arguments and the kinds of evidence that I will use to evaluate them in the empirical section of this paper.

---

43 This distributional perspective provides an important corrective to earlier functionalist arguments contending that institutions emerged and persisted based on their social efficiency (North and Thomas 1973). In subsequent work North develops a rational framework for understanding why rulers sometimes face incentives to do inefficient things like under-provide property rights (North 1981). However, these and later approaches still tend to view institutional development as relatively static, with changes in economic purpose occurring only incrementally (North 1990).

44 See for example Bates et al. 1998; Shepsle 1989; Weingast 2002.

45 Knight 1992, 14

46 1992, 40
The theory state development offered here argues that exogenous changes in exposure to international trade can trigger endogenous processes of institutional change at the domestic level. Among non-industrialized societies, the costs of a protracted crisis in the terms of trade for agricultural commodities, and the scarcity of imported (especially manufactured) goods that ensue, are borne disproportionately by the middle classes. The ability of domestic firms to capitalize on this scarcity by producing domestic substitutes for the manufactured goods that the society can no longer afford to import, however, is constrained by investment coordination problems intrinsic to the initial phase of industrialization. Thus, where income distribution favors a proportionally larger middle class, the political coalitions that emerge out of shared economic hardship exert powerful adaptive pressures on state rulers to resolve these investment coordination problems. In countries where income distribution favors a proportionally smaller middle class, conversely, these political coalitions falter. Absent coordinated investment in the forward and backward linkages that constitute a manufacturing supply chain, attempts by individual firms to produce import substitutes succumb to market failure. In the final analysis, societies that pursued state-led industrialization accumulated greater levels of productive investment in infrastructure, physical, and human capital than those that remained dependent upon the agricultural commodity export sectors of their economy for the consumption of manufactured goods.

Furthermore, I argue that differences in international trade integration during the antecedent period explain why some Latin American countries developed proportionally larger

---

47 The notion that exogenous shocks set off endogenous processes is not a contradictory statement, as it first appears. Nothing about the causal process whereby the distribution of income shapes institutional development outcomes relies exclusively upon exogenous events. Events like exogenous changes in exposure to international trade merely serve to reveal the causal mechanisms that operate at the domestic level by triggering the production of their observable implications.
and more politically viable middle classes prior to the 1930s economic crisis while others did not. Revealing the importance of expanding global trade beginning in the late 1800s for reshaping the distribution of income across the region, these findings challenge recent accounts of post-colonial development that emphasize geographic endowments or the legacy of colonialism.\(^\text{48}\)

This argument builds upon the so-called “second image reversed” literature on the domestic politics of international trade, which has demonstrated that exposure to trade presents countries with new axes of opportunity and threat along which domestic coalitions array themselves and press for their material interests. Starting from the workhorse factor endowment models of Heckscher-Ohlin, Stolper-Samuelson, and Leamer,\(^\text{49}\) and later turning to Ricardo-Viner’s sector-specific approach to trade theory, scholarship in this vein identifies conditions under which exogenous changes in relative prices on world markets cause political cleavages to form based on the distribution of gains and losses within the society.\(^\text{50}\)

Yet material interests and distributional preferences do not translate automatically into changes in policies and institutions. Coalitions with shared distributional preferences face internal collective action problems as well as external competition with other distributional coalitions vying for their material interests. In the short run, the institutional environment mediates the interaction between societal actors and thus co-determines state policies related to questions of distribution and economic adjustment. In the medium run, policies that result in changes in the relationship between state and markets can themselves become institutionalized over time.\(^\text{51}\)

\(^{48}\) Sokoloff and Engerman 2000; Engerman and Sokoloff 1997; Mahoney 2010
\(^{49}\) Heckscher and Ohlin 1991; Stolper and Samuelson 1941; Leamer 1984
\(^{50}\) Jeffry A. Frieden and Rogowski 1996; Rogowski 1989; Midford 1993; Keohane and Milner 1996
\(^{51}\) Garrett and Lange 1996
Over longer time horizons, changing exposure to international trade has been shown to reshape the balance of power among social classes. Recent scholarship has documented how access to Atlantic trade between 1500 and 1850 contributed not only to the economic divergence between Western Europe and its neighbors to the east, but also to institutional divergence as a powerful new commercial class pressed for expanded property rights and the curtailment of monarchical power.\(^{52}\) Just as trade reshaped class structure and institutional development in Europe through the early Modern period, changing exposure to international trade on Hispaniola and across Latin America during the Modern era has systematically transformed both the class structure of its societies as well as the institutions they are governed by. As scholars of international and comparative political economy seek progressively more precise models of the interaction between global trade and domestic politics,\(^{53}\) identifying the mechanisms that led to variation in development outcomes within Latin America during the rise and fall of an earlier period of globalization promises valuable insights.

19\(^{TH}\) CENTURY TRADE INTEGRATION AND INCOME DISTRIBUTION IN THE PERIPHERY

Within the framework advanced here, exposure to international trade operates as a critical historical antecedent,\(^{54}\) a “cause of causes” that determines the value of a successive variable—in this case the size of the middle class income distribution—that in turn conditions the value of the outcome of interest.

The nineteenth century witnessed a dramatic expansion of international trade. Driven primarily by industrialization, early globalization was further enabled by a period of relative stability that extended from the conclusion of the Napoleonic wars in 1815 to the commencement

\(^{52}\) Acemoglu, Johnson, and Robinson 2005.
\(^{53}\) Chaudoin, Milner, and Pang 2015
\(^{54}\) Slater and Simmons 2010
of World War I in 1914. During this so-called Hundred Years Peace, or Pax Britannica, industrialization provided England with a new comparative advantage—one that led her elites to favor trade liberalization over existing policies of mercantilist protectionism. This policy turn led to the expansion of the British Navy in order to secure shipping lanes, as well as the promotion of gold as a standard of foreign currency exchange in order to reduce the transaction costs associated with international trade.\textsuperscript{55}

As industrialization proceeded and machines began to expand the range of goods that could be produced and the kinds of materials that they could be manufactured from, product differentiation increased the prospective gains that trade afforded global consumers. At the same time, new technologies made existing goods more economical to produce. The development of capital stock like the automatic textile loom in the mid-1700s steadily reduced the amount of labor required to produce manufactured goods. Meanwhile, the invention of steam engines and refrigeration technologies over the course of the 1800s expanded the class of goods that could be traded internationally, reducing transportation costs and providing for the storage requirements of perishable commodities like meats and tropical fruits. During this period, the duration of transatlantic ocean crossings was reduced from more than one month to less than one week.

The expansion of the industrial core from England to Western Europe and its more privileged former colonies over the course of the nineteenth century drove up demand for agricultural commodities—including wheat and beef from temperate zones, as well as sugar, coffee, and bananas from the tropics—to feed the growing cities. As the cultivation and exportation of these products became more lucrative for the agrarian periphery, the societies of Latin America and the Caribbean began reshaping patterns of agricultural production and economic governance in support of the commercial agro-export sector. Between 1870 and 1920,

\textsuperscript{55} J. A Frieden 2006
political conflict between a growing merchant class and the established order of *latifundia* and communal landholders inherited from the colonial period culminated in a region-wide swing towards economic liberalization. During this so-called liberal reform period feudalistic patterns of landholding and subsistence agriculture were gradually displaced through land reforms in favor of commercial production. The nature of the reforms varied from country to country based on the extent and the speed at which they were implemented, as well as the impact they had on landholding patterns. In Guatemala and El Salvador, for example, commercial agriculture took on a more radical form—displacing smallholders through the adoption of plantation agriculture. In Costa Rica, by contrast, reform was more gradual and the commercial landholding patterns that resulted were more egalitarian.

While the distribution of the gains from trade varied meaningfully across Latin America’s agrarian societies, depending in part on how concentrated the production of agro-exports was, in almost all cases those societies that achieved higher levels of trade integration during the liberal reform period experienced a positive change in the share of national income captured by the middle classes. The influx of foreign exchange and rising urbanization increased demand for new occupations in the tertiary service sector of these economies. This transformation in the occupational landscape occurred through economic activity directly tied to the import/export houses, including and the provision of complimentary services such as accounting, domestic shipping, legal services, and banking. It also occurred indirectly through demand spillover effects in the areas of consumer goods retailing, cottage (artisan) manufacturing, and medical services. Not only did these new occupations provide the material basis for an improvement in the distribution of income within these agrarian societies; it also created demand for literacy and numeracy across a wider segment of society than existed prior. Thus, the deeper a Latin

---

57 Mahoney 2001, 13
American economy integrated into the world economy, and the more equitable the means of producing these exports were distributed across the society, the larger and more powerful were the middle classes going into the twentieth century.\textsuperscript{59}

\textbf{Trade Crises and State Development in the Agrarian Periphery}

These antecedent differences in income distribution became critical for shaping the development of Latin American states during the 1930s and 1940s. During this period a protracted crisis in the terms of trade for agricultural commodities, brought about first by a global economic and financial crisis, then prolonged by a scarcity of manufactured goods owing to war mobilization in the industrialized world, touched off a political crisis across the region. There are three characteristics specific to agrarian societies that are crucial for understanding why and under what conditions a crisis in the agricultural terms of trade can lead to the emergence of a developmental state.

First, by definition these societies lack any significant industrial capacity. Accordingly, they rely exclusively on imports for the supply of many non-durable manufactured goods like textiles, processed foods, and hygiene products. The capacity of an agrarian society to import such goods is determined by the amount of foreign exchange it can earn; this is principally a function of export volume and the terms of trade that volume commands on international markets. Holding production volume constant, any decline in the terms of trade for agricultural

\textsuperscript{59} A thriving agro-export sector at the turn of the twentieth century is but one of many sources of variation in the class structure of agrarian societies. In other contexts, historical differences in social organization that emerge from colonial rule (Mahoney 2010), such as the dynamics of ethno-linguistic fractionalization that dominate indigenous politics in Mesoamerica and the Andes, might also be expected to shape income distribution and class structure Easterly 2001. The point that I develop conceptually in the next section and explore empirically below is that, whatever the determinants of the size of the middle class income distribution for a given society, the politics of economic adjustment during a trade crisis will generate different outcomes depending upon the relative power of middle-class coalitions.
commodities directly impacts the material wellbeing of agrarian societies and their capacity to consume manufactured goods.

Second, in agrarian societies the adjustment costs of such crises are born disproportionately by the middle classes. In these societies the middle classes depend heavily on the economic activity and demand spillover generated by trade, both for its income-generating feature as well as the for the supply of imported goods it enables. Whereas the livelihood and consumptive habits of the agrarian peasantry rely primarily on materials that are locally grown or gathered, and economic elites have sufficient savings to maintain their basic standard of living even during a protracted economic shock, it is middle class merchants, tradesmen, and professionals who bear the heaviest burden of an extended disruption in the terms of trade.

Third, the ability of agrarian societies with shallow capital markets to produce domestic substitutes for the manufactured goods they can no longer afford to import depends on the willingness of the state to alter its economic purpose. When the relative price of manufactured goods imports rises due to declining terms of trade for agricultural commodities, decreased competition from foreign producers creates a window of opportunity for a domestic import substitution sector to emerge. However, during the initial phase of industrialization private firms face coordination problems when deciding whether or not to invest capital in the production of manufactured goods. Industrialization requires investment in backward linkages of raw inputs and forward linkages of intermediate transformation, as well as the provision of public goods like infrastructure and the formation of a healthy and skilled labor market. For individual firms, coordination problems associated with the uncertainty that simultaneous investment will take place among all firms that comprise the full manufacturing supply chain can be prohibitive; their perceived probability that all necessary capital investments will take place simultaneously is

---

60 Gerschenkron 1962; Rostow 1960; Wydick 2008, 34
often too low to stir investment. Absent well-developed domestic or foreign capital markets that might otherwise be capable of resolving these coordination problems, import substitution requires new forms of state intervention that reduce uncertainty by credibly committing to coordinate investment in the forward and backward linkages that constitute an industrial sector. Without such state intervention, attempts by domestic firms to respond to import scarcity by manufacturing domestic substitutes succumb to market failure.

These insights help us make predictions about the conditions under which economic crises will lead to the kinds of institutional transformations that allow agrarian economies to industrialize and grow. Deteriorating terms of trade for agricultural commodities reduces the amount of income circulating within the domestic economy, while at the same time constraining the supply of imported goods when foreign exchange reserves become depleted. Under conditions where neither foreign lending nor foreign aid are forthcoming, the choice available to agrarian societies is either to muddle through with the agro-export model and accept a dramatic contraction of domestic consumption, or to offset such a contraction through a policy of state-led import substitution.

Faced with economic crisis, the political survival of rulers is contingent on choosing an adjustment policy that best provides for the material wellbeing of a winning political coalition. Thus, where the middle classes are proportionally larger and more powerful, the regime faces greater incentives to choose policies of state-led import substitution as a means of adapting to the crisis. By pursuing such a strategy, rulers not only consolidate their hold on political power by improving their economic legitimacy; they also increase the size of the national economic pie that they can tax. As the case of the Dominican Republic illustrates, this insight helps explain

---

61 Bueno de Mesquita et al. 2003 Examining the choice faced by the ruler through the lens of selectorate theory, import substitution emerges as a kind of public good under conditions of import scarcity.
why state investment is paradoxically compatible with the kleptocratic nature of patrimonial authoritarian regimes. What follows from a strategy of import substitution is transformation of the economic purpose of state institutions, as well as an increase in state capacity as rulers set about investing resources and coordinating the production of domestic manufactures.

To summarize the argument here, if greater exposure to international trade during the late 1800s altered the relative size and power of the middle class vis-à-vis other classes, the collapse of the international system of trade and payments during the 1930s altered the institutional preferences of this emerging political class in favor of state developmentalism. Prior to the economic crisis, even where the middle classes were comparatively large their power laid dormant because the material interests and policy preferences of the middle classes and the merchant oligarchy were in rough alignment. When the agro-export model was functioning within acceptable bounds, domestic markets faced few coordination problems that demanded state intervention. When the international terms of trade for commodities began its downward spiral in 1929, however, it undercut the livelihood of the middle classes, generating both widespread unemployment in the urban areas and scarcity of the imported goods that they had grown accustomed to consuming. Thus, where societies were comprised of a relatively larger middle class, a protracted terms of trade crisis like that of the 1930s translated into political pressure for radical economic adjustment away from export dependency and towards a strategy of import substitution. The relative strength or weakness of middle class political coalitions, then, determined whether or not they were successful in changing the economic purpose of their state institutions from one of extraction to one of investment. (Figure 2)

[FIGURE 2 ABOUT HERE]
There is considerable congruence between the argument presented above and the mechanisms that underpin existing historical institutionalist approaches. To the extent that the relative size of the middle class income distribution is determined by deep historical factors like colonial legacy or geographical endowments, the legacies of historical patterns of state-society relations can be understood to exert powerful influence on the quality of political institutions and the patterns of poverty and prosperity that we observe today. However, where we observe empirical evidence of new social forces emerging, transforming the economic purpose of political institutions based on different sets of distributional preferences from those that governed state-society relations in the past, we must conclude that there are additional mechanisms operating during the post-colonial period that are also contributing to shape state development outcomes. In the following section I trace the historical process that led to diverging patterns of institutional quality and economic development in Haiti and the Dominican Republic, presenting the empirical evidence that led to the development of the theory and causal narrative offered above.
As suggested above, the minor differences in climate and other geographic endowments that distinguish the eastern and western sides of the island are not substantial enough to account for the qualitative difference in development outcomes between Haiti and the DR. Estimates of settler mortality in Haiti and the DR owing to tropical diseases like Malaria were identical during colonial times.62 Concerning labor endowments, clear differences emerged during the colonial period rather than preceding it in a way that would have predicted the nature of the colonies to form. The near-extirmination of the indigenous Taíno peoples by early colonizers led the Spanish crown turned away from Hispaniola and towards their holdings in Central America and the Andes, ceding the western 3/8ths of the island to France in 1697. The Dominican side of the island (then Santo Domingo) devolved into a sparsely populated and poor pre-enclosure pastoral economy comprised of large landholders and a squatter peasantry.63 In contrast, French colonists to Haiti (then Saint-Domingue) brought with them a new supply of slave labor imported from West Africa, permitting the emergence of a wealthy, brutal planation economy characterized by vast inequity in economic and political relations.

Although variation in pre-colonial endowments are unable to explain the different institutional forms that emerged by the end of the colonial period, this does not undermine the central claim of existing historical institutionalist accounts—that is that those differences in colonial legacy that do emerge persist over time—reproducing the general patterns of political and economic (in)equality that we observe today. In order for the colonial legacy theory to provide a satisfactory explanation for the variation that we observe on Hispaniola, however, it

---

63 Turits 2003, Chapter 1
would need to answer the following question. If the differences in institutional quality and the underlying distribution of income and power can be traced all the way back to the colonial period, why does the economic divergence only take place in the mid-twentieth century? (Figure 1 further above)

Already by 1950, prior to the diverging economic growth rates of Haiti and the Dominican Republic, important differences in productivity existed between the two societies. In the DR, basic determinants of economic growth like investment in infrastructure, physical and human capital were qualitatively more developed than in Haiti.⁶⁴ (Table 1)

![TABLE 1 ABOUT HERE]

<table>
<thead>
<tr>
<th>Infrastructure and Physical Capital</th>
<th>Haiti</th>
<th>Dominican Republic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electrification (GwH per capita)</td>
<td>3.0</td>
<td>35.3</td>
</tr>
<tr>
<td>Agriculture, Forestry and Fishing (% of GDP)¹</td>
<td>51</td>
<td>33</td>
</tr>
<tr>
<td>Manufacturing (% of GDP)</td>
<td>8.2</td>
<td>12.5</td>
</tr>
<tr>
<td>Gross Fixed Capital Formation (% of GDP), 1963</td>
<td>7.3</td>
<td>13.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Human Capital</th>
<th>Haiti</th>
<th>Dominican Republic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urbanization (%)</td>
<td>12.2</td>
<td>23.9</td>
</tr>
<tr>
<td>Life Expectancy, 1960 (years)²</td>
<td>42.2</td>
<td>51.8</td>
</tr>
<tr>
<td>Hospital beds, 1960 (per 1,000 persons)²</td>
<td>0.6</td>
<td>2.3</td>
</tr>
<tr>
<td>Primary School Enrollment (per 1,000 persons)</td>
<td>35.1</td>
<td>102.7</td>
</tr>
<tr>
<td>Literacy (% of total adult population)³</td>
<td>10</td>
<td>32</td>
</tr>
</tbody>
</table>

⁶⁴ In its most reduced form, growth accounting considers the product of factor inputs (such as land or labor) multiplied by capital (which determines the rate of output per unit of factor input, or productivity). Holding factor inputs constant, growth is achieved through productivity-enhancing investments in infrastructure, physical and human capital. Over the long run, different models expect that growth takes place through changes in technology and innovation that are either taken as exogenous Solow 1956 or endogenous to the choices that market actors make about whether to invest in innovation Romer 1986. For the purposes of this discussion, however, the class of agrarian societies considered here are by and large “technology takers” rather than “technology makers.”
Measures of physical capital and infrastructure, including electrification and gross fixed capital formation, were two-to-three times greater in the DR than in Haiti. The availability and quality of labor, according to estimates of human capital including urbanization, health, and education, exhibited differences of a similar magnitude. It is not surprising, then, that the Dominican Republic enjoyed remarkably greater success than Haiti in achieving higher rates of investment and growth over the second half of the 20th century. The business environment created by the presence of basic infrastructure and a semi-skilled, semi-literate workforce was the primordial factor that drove Dominican growth during the second half of the 20th century. The puzzle, then, is why did the agrarian society that occupied one side of the island accumulate greater levels of productive investment than the other? Can these differences be traced back to the colonial period? An examination of the historical record finds otherwise.

**PATHWAY TO A DEVELOPMENTAL STATE: TRADE CRISIS AND THE POLITICS OF ADJUSTMENT**

The substantial investments in infrastructure, physical and human capital made by Dominican society occurred during the 1930s and 1940s as a means of adjusting to a protracted crisis in the terms of trade for agricultural commodities and the scarcity of foreign exchange currency that ensued. Decreasing exposure to international trade generated political pressure for Dominican rulers to adjust to contracting global demand for agricultural commodities through policies of state-led investment in a developmentalist policy of import substitution industrialization (ISI).

England’s eighteenth century industrial revolution beget a consumer revolution that brought items like scented soap, refined cooking oils, and cotton undergarments—goods previously accessible to only the wealthiest aristocrat—within reach of the working classes.65

“Tea, a luxury beverage of the upper classes when the century began, was the daily drink of road

65 Müller 1995
workers by midcentury. … What had once been regarded as ‘luxuries’ came to be seen as mere ‘decencies.’ Then ‘decencies’ became ‘necessities’ and the very definition of ‘necessities’ changed”.

A century later the first wave of globalization had begun to deliver a share of these industrial fruits to the agrarian world, providing commodity-exporting countries with the foreign exchange currency required to import an expanding array of manufactured goods. In exchange for the exportation of primary commodities demanded by the industrialized core, middle and upper class consumers of the agrarian periphery were now able to purchase new medicines, hygiene products, foods, spices, beverages, and textiles, as well as a rapidly expanding array of machines capable of alleviating the strains of quotidian life.

Import scarcities caused by economic volatility and war during the first half of the twentieth century disrupted the flow of manufactured goods to the agrarian periphery. The consumption losses and threats to material security generated by these periods of scarcity undermined the coherence of the liberal agro-export model, creating political and economic incentives for the periphery to develop domestically produced substitutes for those manufactured goods that they could no longer afford to import. In no region was this inward-looking means of adjusting to the exogenous shocks of the 1930s and 1940s more prevalent than Latin America, where early decolonization provided societies with a measure of autonomy over how they adapted to economic crisis.

Variation in the degree to which Latin American countries industrialized during this period, however, suggests that these economies faced various constraints on their ability to exploit structural conditions that were otherwise favorable to strategies of import substitution. Beginning in the mid-1930s the Dominican economy produced sustained growth in its

---

66 Müller 1995, 33
manufacturing sector, averaging an 11.2 percent annual increase in manufacturing employment over this period, meanwhile the Haitian economy remained decidedly agrarian. (Figure 3)

[FIGURE 3 ABOUT HERE]

Why did one agro-export economy respond to structural conditions of import scarcity during the 1930s and 1940s by developing a domestic industrial sector while another, similar economy did not? In this section I argue that what varied was the political will of rulers to direct investment towards the production linkages, infrastructure, physical and human capital that early industrialization requires. Differences in the willingness of rulers to invest in import substitution during the critical juncture, in turn, was due to variation in the relative size and political power of
the different classes in these two agrarian societies and the ways in which they were differentially affected by the crisis.

The economic losses brought about by global financial crisis and the depression that ensued were not distributed evenly across states. Growth rates and domestic consumption declined further in the agrarian periphery than it did in the industrialized core during the 1930s, owing primarily to the deteriorating terms of trade for agricultural commodities vis-à-vis manufactured goods (Figure 4).

[FIGURE 4 ABOUT HERE]

Between 1929 and 1932 the relative price for manufactured goods on international markets dropped approximately 24 percent, whereas the index price for agricultural commodities dropped over 57 percent. Not surprisingly, declining terms of trade caused the immediate contraction of
agricultural export economies. Among the five largest Latin American economies—Argentina, Brazil, Chile, Colombia, and Mexico—national income shrank by an average of fourteen points during the early 1930s.67

However by no means did this crisis bring about the end of the agro-export sector. In Latin America, commodity export quantums actually increased as producers flooded international markets in an attempt to replace the income lost to declining prices by increasing volumes. Against the usual narrative of diminished exports and thus providing the impetus for import-substitution, Thorp finds that export sectors in the larger Latin American economies recovered rather quickly from the contractions of the early 1930s. By 1933-1934 their economies were growing again, and by 1937 the size of their real GDPs had each returned to pre-crisis levels (184).68 This was achieved through a combination of ongoing commodity exports and growing industrial output. In the temperate climates of Latin America’s Southern Cone where commodities like wheat and cattle were produced, the purchasing power of exports were restored by the mid-to-late 1930s.69 The purchasing power of those commodities produced in the more tropical reaches of Latin America, including Central America and the Caribbean, remained a fraction of their 1928 values throughout the 1930s.

In the Dominican Republic, declining trade value was primarily due to the collapse in world prices for its principal export commodity, sugar, which declined by just over 50 percent between 1929 and 1932.70 Similarly, the price of coffee—Haiti’s signature export crop—dropped

67 Thorp 1992, 184
68 Thorp 1992, 184
69 Thorp 1998, 114–5
70 Thorp 1998, 1998
by nearly 48 percent. The price of sugar did not fully recover its 1929 level until 1941, and
coffee did not recover until 5 years after that.71

With national incomes plummeting and foreign exchange reserves rapidly depleting, the
global depression created a rupture in the legitimacy of the liberal economic reforms undertaken
in the latter half of the nineteenth century, “undermining acceptance of traditional ideas about the
international division of labor between advanced and backward countries.”72 Exacerbating this
crisis, the balance of payments shortfalls caused by this disruption in trade in the non-
industrialized world could not be offset by international borrowing due to the financial
dimension of the crisis—namely the shortage of foreign capital owing to U.S. monetary
retrenchment. For Haiti and the Dominican Republic the net value of imports and exports were
cut in half between 1926 and 1935 (Figure 5).

[FIGURE 5 ABOUT HERE]

---

71 Ocampo and Parra 2003
72 Hirschman 1968, 4
For both countries, foreign exchange losses attributed primarily to the export crisis forced a curtailment in the consumption of foreign and manufactured goods by reducing the net value of imports by 69 and 61 percent, respectively.  

The collapse of the international trade regime during the 1930s not only affected national incomes and patterns of consumption in these two agrarian societies; it also decimated their principal source of public finance. Despite the efforts of the U.S. military occupations on either side of the island to generate alternative sources of revenue through the collection of internal taxes, approximately 80-90 percent of all government receipts still depended on trade customs collected by the U.S. receiverships. As the value of exports and imports declined, customs revenues eroded quickly as well.  

---

73 Annual Report of the Haitian and Dominican Customs Receiverships, various years.
74 Ibid.
Just as the economic hardships born of U.S. monetary retrenchment and declining global demand were not distributed evenly across states, with agro-export economies witnessing a sharp decline in their terms of trade, the losses inflicted by economic crisis were also distributed unevenly within agrarian societies. Virtually all sectors of the agro-export economy were tied directly or indirectly to international trade. However the global depression imposed varying costs across agrarian societies, which were comprised of rural peasants, urban middle classes, and economic elites.

Hard times and the distributional conflicts that ensued generated significant political upheaval throughout the region. Latin America witnessed fourteen revolts against incumbent rulers between 1930 and 1934.\footnote{Wiarda 1998, 38} In many South American countries the political crisis fed into a regional wave of economic populism political inclusion.\footnote{Collier and Collier 1991; Rueschemeyer, Stephens, and Stephens 1992} For the tropical agro-export economies of Central America, where the greatest losses of export purchasing power were concentrated,\footnote{Chile was the exception. There, the purchasing power of exports (PPE) fell the steepest of any Latin American country. By 1933, its PPE was 18 percent of its 1928 baseline Thorp 1998, 114} the nature and extent of the liberal reforms during the antecedent period determined the resiliency of incumbent political regimes during the 1930s and 1940s.\footnote{Mahoney 2001} In El Salvador, for example, radical liberal reformers in the early 1880s forced peasants to abandon communal lands and traditional subsistence farming practices in favor of expanding commercial coffee plantations Paige 1997, 107.\footnote{Paige 1997, 107} Having turned to wage labor on the plantations for their livelihoods, the collapse of international commodity prices during the early 1930s left these land-poor peasants with neither the wages nor the land for by which they might have maintained their
livelihoods. In this way, the radical nature of liberal reforms in El Salvador created the preconditions for the peasant revolution of 1932.

On the island of Hispaniola, by contrast, predominantly smallholder Haitian and Dominican peasants were insulated from the worst of this economic crisis. The patterns of smallholder agriculture that emerged across the island during the 19th century provided sufficient land to attend to the basic livelihoods of the peasants. Having resisted the transition to wage labor, those peasants who participated in the agricultural export economy and thus suffered a loss of income during the 1930s were quickly able to adjust their mix of cash cropping and subsistence farming once hard times set in.

And while the material interests of Haitian and Dominican oligarchies—predominantly import/export merchants—were exposed to the crisis, members of this class had sufficient assets to weather the economic storm without compromising their basic standard of material living. Having amassed extensive savings during normal economic times, elites were able to offset rapidly declining income from the withering trade sector by economizing and drawing down their savings.

The sector of society whose basic livelihood was most vulnerable to the global depression was the middle classes. Depending for their economic livelihood on income that derived directly or indirectly from the agro-export sector, middle class retail merchants, tradesmen, and professionals exhausted their savings relatively quickly and, thus, were unable to maintain some semblance of the standard of living to which they had become accustomed. This class was unable to revert to subsistence agriculture as easily as smallholder peasants owing to their predominantly urban environs. Not having the savings to adjust to the crisis by simply
economizing to the same extent as the oligarchy, across the island of Hispaniola it was the urban middle classes that paid the greatest material costs.

Economic crisis quickly translated into political crisis for the incumbent governments of both Haiti and the Dominican Republic. Even prior to the crisis, popular perceptions that these governments were puppets to American imperialism helped create unified nationalist opposition movements on both sides of the island. Public unrest stemming from economic collapse was fueled by the efforts of incumbents to extend their terms of office through extra-constitutional means. In both countries, popular uprisings brought about early elections in 1930 that produced new governments. That is where the similarities ended, however. The government of Sténio Vincent (1930-1941) that emerged in Haiti was drawn from the same coalition of merchant oligarchs as the ones that had preceded it. In the DR, by contrast, a middle class revolt led by a member of the professional class in northern Cibao, Rafael Estrella Ureña, and the head of the Dominican armed forces, General Rafael Trujillo Molina, successfully displaced the oligarchy.

**Middle Class Income Distribution and Strategies of Adjustment**

If agro-export dependency drove Dominican rulers to adjust to the import scarcity of the 1930s and 1940s through state-led investment industrialization, why did the rulers of the Haitian state adjust to the same crisis by increasing the rate at which they extracted customs duties from the peasant producers? Differences in the relative size and power of the middle classes in Haiti and the Dominican Republic altered the development trajectories of these two societies by shaping the adjustment policies rulers adopted in response to an identical crisis.

Neither the class composition of the nationalist coalitions that seized power in Haiti and the Dominican Republic in 1930, nor the adjustment policies they pursued, were comparable. In
the DR, initial moves towards austerity and import substitution during the global depression positioned the state to help the national economy industrialize during the period of ongoing import scarcity caused by war in the 1940s. Initial efforts to develop import substitutes were not focused on manufactured goods like textiles and machinery, however. The strategy adopted by the regime to adjust to the terms of trade crisis of the 1930s was to free up foreign exchange for the continued importation of manufactured goods from the industrialized world. Initially, this was achieved by bringing the subsistence peasantry into the fold of commercial agriculture. Pursuing the strategy that Bulmer-Thomas describes as import substitution agriculture (ISA), the DR moved away from agro-export monoculture and its associated dependency on international trade for national food security. The ministry of agriculture promoted the development of domestic substitutes for commodities like rice and beans, as well as processed goods like butter, cheese, soap, and beer, that had previously been imported but whose production challenges were relatively modest compared to the manufacture of more complex goods.

This process began with a set of rural reforms designed to upgrade the intensity of Dominican land cultivation through titling, followed up by investments in infrastructure and public services. The system of property rights and land tenure that the DR inherited from the 19th century was as poorly institutionalized there as it was in Haiti. “By 1929 only an estimated sixth of the country’s area had been surveyed, and less still had completed the process of title adjudication. The process of determining property rights had hardly begun outside the sugar zones.”

---

80 Bulmer-Thomas 2003, 202
81 Turits 2003, 78
In 1933, middle class reformist Rafael César Tolentino, Trujillo’s agricultural minister, began arguing for the granting of squatters’ rights on uncultivated private land. The following year, Trujillo dispatched an emissary to the southwest, Major Rafael Carretero. Tasked with investigating the land tenure situation in the southwest, Carretero began an ad-hoc campaign to distribute thousands of hectares of land to an equal number of residents in that part of the country. Whenever put to choose between squatters or fallow land, he resolved disputes by invalidating the property claims of latifundista owners and redistributing such lands to local farmers.\footnote{Turits 2003, 90–91} Middle class allies in the ideological movement to expand smallholder agriculture in the Republic, Carretero and Tolentino successfully petitioned Trujillo in 1934 to begin a nationwide policy of land reform that built upon Carretero’s campaign. Between 1934 and 1936, 107,202 hectares of land were distributed to nearly 54,494 households—an average of approximately 2 hectares (5 acres) per household.\footnote{Turits 2003, 96} By 1955 these numbers doubled, the Trujillo regime having distributed some 222,016 hectares to 104,707 households.\footnote{Note that these figures are in addition to the land rights granted to existing squatters by the regime.} The rate of land distribution peaked between 1935 and 1940, during which time the total area of national cropland increased by 47 percent.\footnote{Turits 2003, 96–7}

In order to ensure that these land reforms translated into increased agricultural productivity, the regime made complimentary investments in infrastructure and social development across the country. The national transportation network installed by the U.S. occupation between 1916 and 1924 to connect the capital of Santo Domingo to other major cities and ports was expanded under Trujillo to link up hundreds of smaller rural communities with the
internal market.\textsuperscript{86} Between 1930 and 1960 road infrastructure grew from 171km to over 5,000 km.\textsuperscript{87} Whole stretches of irrigated land were created and distributed via Trujillo’s program of public aqueducts. Basic health and hygiene improved dramatically in rural areas as the government laid out requirements for the use of footwear and latrines, as well as expanding the number of hospitals in the DR from 8 in 1930 to 51 by 1958.\textsuperscript{88} In terms of education and literacy, primary school attendance rose from 13 percent in the early 1930s to 43 percent by 1954—aided by growth in the number of public schools from 526 to 2,570 over the same period.

By liberating peasants from various forms of uncertain or usurious land/labor relations and improving their material wellbeing, the regime consolidated popular support in both rural and urban areas. Under the condition of import scarcity, these land reforms were intended to restore the consumptive capacity of urban dwellers by compelling peasants to trade the practice of subsistence farming under the condition of uncertainty for commercial agriculture and the economic security of titled land.\textsuperscript{89}

Already by the end of the 1930s a stark contrast emerged between the predatory logic of the Dominican state at the turn of the century—when patrimonial rulers merely fed off of the economy—and the emergence of a developmentalist investor-state by the end of the global depression. Beyond the regime’s efforts to expand the domestic agriculture market land reform, the primary focus of import substitution was an expansion of food and beverage manufacturing—converting basic commodities like tobacco, cacao and grain into finished products like cigars/cigarettes, chocolate, liquor, beer, and flour. For example, in current dollars the importation of butter and cheese fell from $62,676 and $91,398 in 1930, to $7,142 and

\textsuperscript{86} Moya Pons 1987, 12  
\textsuperscript{87} Turits 2003, 215  
\textsuperscript{88} Turits 2003, 225  
\textsuperscript{89} Turits 2003
$7,099 in 1935, respectively.\textsuperscript{90} Additionally, the Dominican state actively promoted the production of commodities like pasta, rice, and beans—staples of the Dominican diet that had previously been imported. The gradual build-up of a state-directed processed food sector during the late 1930s and 1940s helped make the economy largely food self-sufficient by the 1950s.

The industrial stage of the Dominican Republic’s import substitution strategy did not begin until the 1940s, particularly after the Second World War when capital machinery from the industrialized world once again became available for importation. Among the earliest policies in support of industrialization was the adoption of the “Law of Industrial Franchises” (ley No. 672) of April, 1934, which was intended to further alleviate the foreign exchange crisis through a set of tax incentives that the Dominican state hoped encourage the formation of domestic industries.\textsuperscript{91} The effect of this law was minimal, however, as fears of expropriation by the dictator effectively reduced the incentives for business establishments to register themselves for the tax breaks. Furthermore, throughout the 1930s industrialization remained adversely affected by the tariff regime installed by the U.S. occupation in 1919—one that raised the costs of both raw inputs as well as capital stock for would-be industrialists.

By the early 1940s, several exogenous factors had shifted in ways that favored Dominican industrialization and reinforced the broader set of adjustment policies related to import substitution that had been pursued during the international economic crisis. First, the onset of WWII in 1939 increased global demand for Dominican sugar and molasses, contributing to an increase in the national income and the consequent expansion of the internal market for

\textsuperscript{90} Monteagudo 1936
\textsuperscript{91} Moya Pons 1987, 24 Up until the conclusion of the Trujillo-Hull treaty in 1940, the Dominican Republic could not set its own tariff rates and thus could only attempt to protect domestic industry through manipulation of internal taxes. Cassá 1982
manufactured goods.\textsuperscript{92} Second, at the same time that commodity prices were increasing, war mobilization and rationing in the industrialized world effectively prolonged the import crisis of the 1930s, decreasing the availability of manufacturing goods on world markets. As a consequence, foreign exchange reserves began to accumulate quickly in agro-export economies.

In 1942 the Trujillo regime drafted a new constitution, including Article 90 that set forth policies designed to directly incentivize import substitution industrialization (ISI) and foreign investment.\textsuperscript{93} During WWII the Trujillo regime exerted tight control over the availability of scarce manufactured goods, creating a monopoly over imports and restricting manufacturing exports. Flush with foreign exchange reserves owing to the positive trade balance during the war, the Trujillo government deepened its investments in the existing ‘easy’ food and beverage industries made during the 1930s, while at the same time expanding into more sophisticated product transformations. Thus, while cottage industries attempted to exploit the favorable economic climate for import substitutes by ramping up their low-capital manufacturing operations, the Dominican state was coordinating capital investments in a variety of industrial initiatives that would transform the scope and scale of import substitution beyond basic consumer goods.

The first contract under this article was a textile mill to be operated by the Armenteros family, who had owned commercial houses in San Pedro de Macorís since the turn of the century and held a dominant position in the Dominican import sector up until the global depression. Textiles represented a substantial portion of Dominican imports during this period, comprising nearly one-fifth of all imports by the onset of WWII in 1939.\textsuperscript{94} The cooperative venture between the Dominican state and the Textilera Dominicana, C. por A. was inked with the passage of

\begin{flushright}
\footnotesize
\textsuperscript{92} Moya Pons 1987  \\
\textsuperscript{93} Moya Pons 1998, 41  \\
\textsuperscript{94} Dominican Customs Receivership 1940
\end{flushright}
Resolution No. 762, a contract whereby the Armenteros family would begin the construction of a textile mill comprised of a minimum of 100 automatic looms, as well as the promotion of cotton cultivation in the countryside.\textsuperscript{95} In exchange for simultaneously providing employment and developing the backward and forward linkages of input production and product transformation required to launch a domestic textiles sector, the Dominican state agreed to furnish the Textilera Dominicana with a series of tax exemptions related to their domestic business operation and the importation of necessary inputs.\textsuperscript{96}

Within five years two additional contracts would be established under Article 90. Comparable to the terms granted to the Textilera Dominicana, the first of these provided for commercial activity directed towards the intensified production of cotton, sisal, and other textile fibers (47-8). The second contract provided for expanded manufacturing by La Algodonera, C. por A. Originally an import house that had developed a side business manufacturing shirts and socks during the Second World War, the Lebanese-Dominican owner of La Algodonera, José Antonio Najri, eventually followed Armenteros and transitioned completely from merchant to industrialist (49-50).

Even clearer examples of the role of the state in coordinating investment in the forward and backward linkages required by early-industrializers are to be found in those ventures where the state held a controlling interest. In 1948, Trujillo and an American businessman by the name of Luis I. Pokrass formed Destilería Universal, C. por A., a joint venture intended to decrease the Dominican Republic’s reliance on gasoline imports by producing gasohol—a blend of imported gas and alcohol to be distilled from domestically produced molasses. It was hoped that this venture could reduce Dominican fuel imports by as much as 40 percent and alleviate some of the

\textsuperscript{95} Moya Pons 1998, 46
\textsuperscript{96} Moya Pons 1987, 45–6
shortages that were frequent during the war. In order to establish this new productive sector, the Dominican state was required to directly coordinate investment in infrastructure and backward linkages.

To this end, the State committed itself “[t]o deliver each year to the company for a period of twenty years beginning as soon as the plant begins its operations, a sufficient quantity of molasses for the distillation of approximately two million five hundred thousand gallons of industrial anhydrous alcohol, and to pay for this distillation in monthly payments a sum representing a net profit of no less than ten cents per gallon which will be liquidated in monthly payments.”

The State also agreed to construct the water and sewage system, streets and other infrastructure needed for the operation of the factory and, of course, to exonerate it from the payment of import duties on machinery, replacement parts, equipment and construction materials destined to the building of the plant or to future expansions and repairs, all this “in accordance with the provisions contained in Article 90 of the Constitution of the Republic.”

Not only did the Dominican state agree to provide tax and tariff exemptions and guarantee a stable supply of raw inputs—in this case molasses; it also committed itself to investing in the public infrastructure required to operate the factory. Similar provisions for the production of other light industrial goods like cement, chocolate, and vegetable oil under Article 90 illustrate the degree to which the Trujillo regime transformed the Dominican state into a developmentalist institution capable of coordinating economic investment and promoting industrialization. All told, investment in the Dominican industrial sector increased by nearly 200 percent between 1945 and 1955.

Where the Dominican government under Trujillo responded to the trade crisis of the 1930s with investment policies intended to promote import substitution industrialization, in Haiti public sector institutions remained bloated and parasitic. To sustain the large public sector and

---

97 Moya Pons 1987, 51
98 Moya Pons 1987, 52
99 Moya Pons (1987, 53) notes that, while the economic viability of gasohol ultimately collapsed with the increasing availability of fuel from the Dutch Antilles, the plant was eventually sold at only modest losses to a joint venture that would develop the trademark Dominican rum, Brugal.
100 Franco 2008, 291
the political class of Mulatto elites that depended on it, export duties increased from 19 to 28 percent of total value during the course of the U.S. occupation; import tariffs—primarily on basic goods consumed by the masses—doubled from 23 to 46 percent over the same period.101

Prior to the global depression, overall taxes on imports and exports comprised over 20 percent of Haiti’s total trade value. This figure represented more than twice the rate of extraction on Dominican trade. The Haitian state responded to declining trade revenue during the early 1930s by increasing the proportion of trade value that it extracted through customs taxes (Figure 6).102

[FIGURE 6 ABOUT HERE]

Figure: Customs Revenue as % of Total Trade Value (Exports + Imports) in Haiti and the Dominican Republic, 1926-1935

Source: Haitian and Dominican Customs Receiverships (various years).

---

101 Trouillot 1990, 103
102 Haitian and Dominican Customs Receiverships (various years).
Thus, while the net value of Haitian trade fell by more than 61 percent between 1926 and 1935 (an average annual decrease of 6.8 percent), the customs revenues accruing to the state fell by only 40 percent (an average annual decrease of 4.5 percent).

Export duties on coffee continued to increase until the termination of Brazil’s coffee valorization policy in 1937 triggered the collapse of international coffee prices. This forced the Haitian government to accept a 50 percent reduction in the rate of coffee export duties. Rather than follow a path of austerity, the Vincent regime increased taxes on imports in order to compensate for the declining value of its exports. It was only with the near total collapse of coffee prices in 1937 that the tariff structure was reconsidered. After the termination of Brazilian valorization eroded the remaining value of Haiti’s principal export, the only recourse of the Haitian government was to increase the proportion of total government revenue derived from imports and internal revenue. In practice it did just that. While all external, trade-based revenue declined between 1926 and 1940, the proportion of government receipts made up of import tariffs grew from 58 percent to 68 percent over this period. Conversely, the share of receipts comprised of exports declined from 28 percent to 11 percent.

Before the export-dependent foundations of the Haitian economy and its government finance were shattered completely, the descent of Haitian coffee prices on international markets was arrested. Between 1941 and 1952 the price of Haitian coffee recovered dramatically, rising by 422 percent. Prices for Dominican sugar also rebounded during the 1940s and early 1950s as war and reconstruction in Europe were followed by the onset of the Korean War (1950-1953).

---

103 Between 1937 and 1941 the price of Haitian coffee fell by 39 percent Benoit 1953, 29.
104 Haitian Customs Receivership 1940, 99
105 Benoit 1953, 29
Overall terms of trade for agricultural commodities and manufactured goods converged during the second half of the 1940s once consumption levels in European markets began to recover.¹⁰⁶

For countries like the Dominican Republic who adjusted to the trade shock of the 1930s through policies of investment in import substitution, World War II and the Korean War reinforced these policies. By simultaneously sheltering domestic manufacturers from international competition and allowing for the accumulation of foreign exchange reserves, the DR was able to repay its foreign debts and import additional capital stock in order to accelerate the process of import substitution industrialization.¹⁰⁷

And just as ongoing import scarcity during the 1940s reinforced the Dominican state’s strategy of import substitution, the decision of Haitian rulers to continue with the existing agro-export model through the 1930s was equally reinforced by the second wave of trade shocks during the 1940s. Having responded to the global depression with intensified predation on the already diminished surplus value of export crops,¹⁰⁸ the international wartime economy generated windfalls from the agro-export model as higher trade volumes provided the country with greater revenues to be divided among the political elites and the merchant oligarchy.¹⁰⁹ Rather than providing an impetus for investment in industrialization, using foreign exchange to import capital stock as occurred in the DR, the high prices agricultural commodities commanded in world markets throughout the 1940s enabled Haitian elites to replenish their savings and continue importing manufactured goods.

The evidence I have presented here suggests that the limited effect these international trade shocks had on Haiti’s agro-export economy does not imply that the interests of the middle

¹⁰⁶ Ocampo and Parra 2003
¹⁰⁷ Moya Pons 1987
¹⁰⁸ Trouillot 1990, 102–3
¹⁰⁹ M. J. Smith 2009, 118
class were less adversely affected during this period. Indeed, the timing of the street protests by
the emerging class of black professionals in Port-au-Prince in 1929 is consistent with the theory
that the material interests of the middle classes were disproportionally affected by the collapse of
the international system of trade and payments. The token gestures of middle class political
inclusion by President Vincent did not translate into a new ideology of nationalist
developmentalism, as happened in the DR, but merely the inclusion of a narrow segment of the
black middle classes into the ruling coalition mulatto elites.

This coalition of blacks from the middle sector did not remain politically inconsequential,
however. When the administration of Vincent’s successor, mulatto President Elie Lescot (1942-
1946), began systematically cutting the middle class out of the state patronage that Vincent had
extended, his government fell and was replaced by the first elected representative of that class—
Dumarsais Estimé. Estimé was swept into power as the result of a military coup that ousted
Lescot in 1945. However, Estimé left office the same way he came in, via military coup; his
political survival having fallen victim to a weak, fragmented middle class coalition of leftist-
Marxists and representatives of the *negritude* movement that carried him into power, as well as
the united opposition of the traditional oligarchy who opposed his populist political and
economic agenda. Even when a representative of the predominantly black middle class was
successful in taking power, economic elites in Haiti remained sufficiently powerful so as to be
able to block candidates or policies that contradict their preferences.

The same political forces that reproduced the Haitian government’s dependence on
customs taxes from 1804 independence until the 1930s continue to operate in the present day. No
fiscal contract ever emerged between the Haitian state, who might have invested tax revenues in
public goods, and the peasant-producers who pay for that state. “The peasants have been severely
taxed without receiving any corresponding benefits from government actions. The Haitian tax system continues to rely very heavily on export and import taxes. On the export side, coffee has most often borne the brunt of taxation. Concerning imports, necessities consumed by the masses rather than luxury goods have been taxed.\textsuperscript{10}

Thus, while the US occupation and control of Haitian customs engendered the same nationalist backlash there as the wave that brought Trujillo to power in the DR, the economic policies that resulted from the government of President Vincent lacked the populist, anti-dependista character of the Trujillo government. The small size of the urban middle classes and the amount of wealth and political power held by the mulatto oligarchy at the time of the critical juncture, alleviated domestic pressure on the regime to adjust to the international economic crisis via import substitution. In the DR, by comparison, a popular backlash against the decreasing legitimacy of the incumbent Horacista elites in 1929 allowed a middle class coalition to seize power in 1930 and directly shape the policies Trujillo adopted in response to the crisis. As Table 1 above suggested, the differences in how these two governments adjusted to the crisis determined the level of national investment in the infrastructure, physical, and human capital that defined the growth trajectories of their economies over the decades to come.

**EXPOSURE TO TRADE AND INCOME DISTRIBUTION IN AGRARIAN SOCIETIES**

The empirical evidence presented above has claimed that it was the relative size and political power of the middle classes that determined whether agrarian societies responded to the trade crises of the 1930s and 1940s with state-led industrialization or greater state predation on the agro-export sector of the economy. Yet if the differences in income distribution that produced

\textsuperscript{10} Lundahl and Nalin 1992a, 39
these different adjustment policies can be traced to the colonial period and the social structures that emerged following independence, then the colonial legacy argument remains largely intact.

For Latin American societies like the Dominican Republic that became more tightly integrated into world markets during the liberal reform period that extended from roughly 1870 until the 1920s, the shape of national income distribution was transformed from one featuring a narrow, feudalistic oligarchy that ruled over a largely subsistence peasantry to another structure featuring an emerging group of middle classes who earned their livelihood by engaging in those economic activities that complimented the primary export sector and the income that it produced.111 Meanwhile, in agrarian states like Haiti where the export sector remained relatively small, social structure remained sharply divided between the peasant masses and a narrow, highly extractive, and patrimonial oligarchy.

While income distribution data for Haiti and the Dominican Republic are not available for this period, alternative measures can be used to approximate the relative size of the middle classes on either side of the island. Following Boix,112 I rely upon comparative demographic data from Vanhanen in order to estimate the size of the middle class income distribution in these countries.113 I argue that these measures of occupational diversification and literacy serve as

---

111 Baer 1972, 96–7
112 Boix 2003
113 Vanhanen 1997
proxies that I expect to correlate strongly with the unobserved size of the middle classes.\footnote{Note that the variables from Vanhanen’s dataset that I use to proxy economic inequality are different from those chosen by Boix 2003. His use of Vanhanen’s variable “Family Farms (as a percentage of total cultivated area or of total area of holdings)” as a measure of economic equality assumes a land structure where family farms are contrasted with more feudalistic or latifundista landholding patterns. In the Haitian case, high values on this measure due to the virtual elimination of the plantation system following the revolution would seem to imply a high level of economic equality in the country. This would be misleading, as the revenue that generated income inequality was generated not through latifundia-scale agriculture in Haiti but through state customs revenues and predatory patrimonialism. In point of fact, there was a great deal of economic equality among these small-holder peasant farmers. However, for the purposes of comparing the social structures of Haiti and the Dominican Republic during the liberal reform period and predicting the level of demand for manufactured goods imports that emerges by the end of this period, the greater income opportunities provided by non-agricultural employment and the literacy required to function in such occupations provide more useful proxies for measuring economic equality.}

Figure 7 shows that in 1858, just prior to the onset of the liberal reform period, the social structures of Haiti and the Dominican Republic were comparable by the percentage of the population employed in non-agricultural occupations and the percentage of the adult population who were literate.

\[\text{FIGURE 7 ABOUT HERE}\]

Figure: Occupational Diversification and Literacy in Haiti and the Dominican Republic, 1858-1928 (% of total population)

Source: Vanhanen (1997)
Over the course of the liberal reform period we can observe the effect of higher and lower intensity agro-export cultivation on the occupational diversification and literacy of Dominicans and Haitians. While the political economy of the DR along with that of much of Latin America was being transformed during the late 1800s, stagnating agro-export production in Haiti provided more limited opportunities for the expansion of the middle classes.

For the Dominican Republic, gearing a large portion of its agricultural production towards servicing global markets resulted in an increase in both the size of the national income as well as the equality of income distribution due to the different occupations made available to Dominicans as a result of trade integration. The decentralized tobacco export network operated by the Germans in the Northern Cibao during the mid-1800s provided opportunities for Dominican intermediaries to emerge and profit from the cultivation, brokerage, and transportation of the export crop to the foreign merchant at the port city.

The proportion of export revenues captured by Dominican intermediaries only increased during the late 1800s when the collapse of the tobacco market drove the Germans out and created an opportunity for well-positioned Dominican entrepreneurs to emerge as import-export merchants in the port cities. When tobacco prices plummeted in the 1870s, this new class of Dominican merchants instrumentally coordinated a transition from the cultivation of tobacco to more profitable export crops like cacao and coffee. This process of integration into world markets accelerated as smallholder agricultural production in the north was supplemented with the arrival of foreign sugar plantation agriculture in the south and east of the country during the 1870s and 1880s. This eventuality dramatically increased the importance of Santo Domingo and San Pedro de Macorís as additional commercial hubs for the country. National business directories from the turn of the twentieth century show that, across the country, these commercial
hubs attracted and cultivated a rising middle class of professionals, service providers, merchants and tradesmen.\textsuperscript{115} Comparable business directories evidence the emergence of middle class occupations in Haiti as well during this period,\textsuperscript{116} however as the figure above illustrates the comparatively lower level of integration within the global economy corresponded to a proportionally smaller middle class than emerged in the DR.

Prior to the onset of World War I the \textit{absolute} value of Dominican and Haitian trade volumes was nearly identical, approximately $19$ million USD in current 1913 prices (Figure 8).

On a \textit{relative}, or per capital basis, however, the export sector of the Dominican economy surpassed Haiti’s during the final decade of the 1800s, attaining a level of commercialization equal to that of the average Central American state (Figure 9 below). In Haiti, by contrast, the

\textsuperscript{115} Deschamps 1907
\textsuperscript{116} Livre Bleu d’Haïti 1920
larger population meant that the relative level of integration with international markets in 1913 was a fraction of that exhibited by the DR—$10.44 in per capita trade in Haiti versus $24.36 in the DR.

![Figure 9](image)

Despite being pre-industrial agrarian societies that shared similar geography, the Haitian and the Dominican economies responded very differently to the opportunities for international trade in primary commodities that presented themselves during this time period. By the time of the onset of the international economic crisis in 1929 there existed a qualitative difference in the levels of trade integration that had taken place on either side of Hispaniola.

At the time of its national independence in 1822, however, the Dominican Republic was probably as disconnected from the international economy as Haiti or more so. A small, semi-feudal system based primarily on pastoral ranching and a small logging export sector, Dominican
peasants were largely engaged in hunting and gathering and marginal subsistence agriculture, operating under a pre-enclosure land system that, lacking an effective system of land titling, was not conducive to the formation of a commercial agriculture sector.\textsuperscript{117} The Dominican Republic’s integration into international markets began during the 1840s, stimulated by the arrival of German tobacco merchants in the north of the country. These foreign merchants developed an elaborate and decentralized network of indigenous intermediaries who coordinated the cultivation and transport of tobacco from smallholder peasants in the Cibao valley to the coastal city of Puerto Plata, where it was shipped on to the ports of Hamburg and Bremen.\textsuperscript{118}

This new mode of accumulation via arbitrage touched off a political conflict during the 1860s and 70s between the pre-capitalist feudal \textit{caciques} of the south, the \textit{Partido Rojo}, and liberal merchants of the northern Cibao, the \textit{Partido Azul}. The \textit{Azules} were an emerging bourgeoisie class who acquired economic and political resources through their involvement in the export of coffee, cacao, tobacco, mahogany, and, increasingly, their involvement in import arbitrage.\textsuperscript{119} By the late 1870s the southern economy and social structure—a holdover from the colonial period characterized by a subsistence peasantry and a narrow class of landed gentry—was in crisis due to competition with the Azules and resource depletion. In 1879 the political power of the \textit{Rojos} had finally been eclipsed. The \textit{Azules} held power until 1899, during which time they promoted international trade as a path to national development.

Ruled during this period by the dictatorship of Ulises “Lilis” Heureaux (1883-1899), the \textit{Azules} actively sought foreign investment in agricultural production and borrowed comparatively large sums of money from various European creditors for the financing of railways and telegraph wires to support national development through the expansion of the agro-export sector. The

\textsuperscript{117} Turits 2003
\textsuperscript{118} Baud 1987
\textsuperscript{119} Moya Pons 1992, 403
Dominican state attempted to implement a variety of anti-vagrancy and enclosure laws intended to extend state control into rural areas for the purpose of encouraging peasants to produce an agricultural surplus. The lack of state capacity made many of these ventures ineffectual, however. Rather “attempts at commercialization remained relatively toothless throughout the late 1800s and early 1900s until the arrival of Trujillo [in 1930].”¹²⁰

By the end of the 19th century there were two distinct Dominican economies trading in world markets. The northern Cibao was characterized by a system of smallholder peasant agriculture specializing in cacao and coffee export crops in the rural areas and Dominican import/export bourgeoisie in the urban areas; the southeast, in turn, was dominated by foreign-owned sugar enclaves exploiting cheaper immigrant labor. In both the north and the south, the revenues generated from agro-exports created an increasingly powerful import bourgeoisie in the port cities. International economic crisis in the late 1890s touched off a period of internal conflict among the Azules that led to the assassination of Heureaux in 1899. This marked the beginning of a period of political instability that culminated in state collapse. This instability compromised the ability of the DR to service its debts, triggering foreign intervention by the United States.¹²¹

If the development profile of the Dominican Republic broadly conforms to Latin America’s general pattern of liberal economic reform during the late 1800s, the failure to intensify agro-export production in Haiti during this period represents a puzzling regional outlier. At the same time that neighboring DR, Cuba, and Puerto Rico were transforming their modes of accumulation from semi-feudal systems based on subsistence agriculture on rented or communal land to an agro-export model featuring greater privatization and commercialization, the means of accumulation for the Haitian peasant remained one of subsistence agriculture complemented by

¹²⁰ Turits 2003, 52–3
¹²¹ Atkins and Wilson 1998
only marginal coffee cash-cropping on informally titled squatter land. Why didn’t Haiti undergo liberal reforms and integrate itself into global markets during the late nineteenth and early twentieth centuries to the same degree as neighboring countries?

The Haitian peasant, which during this time period constituted 95 percent of Haitian society by one estimate,\(^\text{122}\) provided the basic means of accumulation for a narrow oligarchy of foreign export merchants as well as those Haitian mulattos whose livelihood depended on the customs tax revenues and resulting state patronage that Haiti’s modest export sector allowed for. Before the onset of the revolution, Haitian peasant slaves were producing nearly half of Europe’s coffee and sugar.\(^\text{123}\) Yet within the first half-century following independence sugar production had all but collapsed as the flames of the French revolution spread to Saint Domingue, The discourse of liberation is credited by some as provoking the uprising by the slaves against their colonial masters in 1791, one that forced the French Republic’s legislature to reluctantly pass the first general decree of emancipation in Haiti, and indeed in the Americas, in 1793.\(^\text{124}\)

The promise of liberation under the French emancipation decree was short-lived, however. The slave system was quickly replaced by other forms of coercive labor enforced by Haiti’s increasingly powerful and privileged *affranchis*—a class comprised of those Haitians who were predominantly mulatto offspring of mixed African and French descent. Replacing the construct of the slave was the *cultivateur*, a peasant who was nominally free but bound to a particular plantation and without rights to move around.\(^\text{125}\) Even this dismal measure of emancipation was reversed by the decree of Napoleonic France, triggering a final thrust for Haitian independence that was successfully concluded in 1804.

\(^{122}\) Castor 1988  
\(^{123}\) Buck-Morss 2000, 833  
\(^{124}\) Gonzalez 2012  
\(^{125}\) Gonzalez 2012, 30–1
Haiti's revolution did not end with the conclusion of hostilities against France. Coffee production became Haiti’s most important export commodity following the collapse of sugar, providing more than 80% of all customs export revenue in 1908. However even this level of production was a fraction of what it was before Haitian independence Houzel 1935, 52. Political and economic forces continued to reshape the Haitian landscape for decades after independence as different groups pursued their material wellbeing, none of which were conducive to the formation of a vibrant agro-export economy. Why didn’t Haiti’s agrarian economy respond to the trade opportunities afforded by the rapidly globalizing world economy of the late 1800s by re-establishing itself as a platform for agro-exports?

Domestically, there are two reasons rooted in the decolonization experience that explain why Haitian elites were unable to turn to the system of agro-export liberalism as a viable means of accumulation. First, the structure of production for Haiti’s dominant export crop—sugar—was incompatible with the ideas underpinning the revolution. Whereas in the DR Cuban estates and plantations had taken root with the diffusion of sugar cultivation in the Caribbean in the 1870s, in Haiti large-scale plantations were gradually eliminated during the early years of independence, leaving behind a productive structure, marronage, based on smallholder agriculture.

Scholars have attributed the collapse of the sugar planation model to the ideological salience of the slave rebellion, which emphasized liberation from coercive forms of labor relations. At the time of the revolution, Haitian society was divided starkly between a narrow group of mulatto elite who had acquired some measure of wealth and privilege under the French and the black masses, the majority of whom were slaves up until the revolution. The mulatto

126 Gaillard-Pourchet 1990, 118
127 Houzel 1935, 52
128 Gonzalez 2012
129 Lundahl and Nalin 1992a; Lundahl and Nalin 1992b
130 Dupuy 1989
elite, as well as a small subset of blacks who had distinguished themselves through military service or otherwise attained rank during the revolution, attempted to restart the plantation system as a means of accumulating wealth.\footnote{Castor 1988; Gonzalez 2012} At the time of independence nearly all Haitian elites favored the continuation of the planation economy; their attempts to restore the earlier mode of accumulation inherited from the French being made under the guise of generating export revenues necessary to arm the fledgling Republic against the possibility of further military incursions by the French.

Aversion to plantation labor following the revolution drove most Haitian peasants into squatter smallholder agriculture in the mountains, however, where uncertain land tenure and constant extortion by the Haitian army predictably undermined the willingness of these farmers to invest in more intensive means of cultivation. As coercive efforts towards re-imposing plantation agriculture made by early Haitian rulers Dessalines, Christophe and, to a lesser extent, Petión faltered, squatting became all the more pervasive. During the 1820s, with landowners struggling to find peasants to harvest their crops, the government under President Boyer (1818-1843) attempted to force peasants back onto these plantations through vagrancy laws called the \textit{Code Rural}.\footnote{Nicholls 1996, 68} This attempt at legal coercion failed as well, sending more peasants fleeing to the mountains to escape forced labor and coercive taxation.

As a consequence, the volume of Haitian sugar exports plummeted from 2.5 million pounds in 1820 to six thousand pounds in 1842, leaving only the cultivation of export crops that did not require plantation-scale production such as coffee, cacao, cotton, and timber (Nicholls 1996, 69).\footnote{Nicholls 1996, 69} The result was a largely informal economy, a system dominated by a smallholder
peasantry who grew enough food to subsist, occasionally boosting their consumption by selling a small surplus or a meager volume of cash crop like coffee at the nearby market.

The second domestic dimension to Haiti’s relatively low level of integration into world markets during the 19th century pertains to its historical aversion to foreign investments like the kinds that made Dominican sugar production viable in the southeast. Since independence there has existed a powerful opposition to foreign land ownership, one that served to restrict meaningful opportunities for attracting international capital. Understood as an expression of “racial equality and human dignity,” foreign direct investment remained prohibited by Haitian law until the US military occupation overturned it in 1918. Fear of future incursion by European powers was coupled with a nationalistic ideology of self-determination that stemmed from Haiti’s proud revolutionary history. This generated a domestic political culture that was strongly averse to foreign ownership. Thus, the same entry of Cuban sugar plantation capital and technical capacity that the Dominican Republic experienced during the 1870s was not possible in Haiti.

These domestic factors, the elimination of coffee and sugar plantations and low penetration by foreign investors, partially explain why Haitian exports fall off during the 19th century. Yet while the unavailability of plantation labor following the revolution precluded Haitian elites from maintaining the level of sugar production that existed under the French, coffee can be cultivated profitably at either plantation or smallholder scale. Why didn’t Haiti’s

134 Nicholls 1996, 103
135 Nicholls 1996, 52 Despite such an overturning, it is notable that virtually every attempt by the US occupation to enact liberal land reform and pave the way for foreign investment was resisted not only by the peasants, who were suspicious of the white occupation and angered by earlier attempts by the occupation to construct national roads through a system of forced labor (the Corvée), but also by Haitian elites who were successful in tying up land ownership questions in the still-independent courts (Schmidt 1971
smallholder farmers respond to global demand with intensified coffee production as effectively as did the *minifundista* peasant producers in the Cibao valley of the Dominican Republic?

The ban on foreign ownership of Haitian land was a hindrance, but not an insurmountable obstacle, to the entry of foreign merchants. The cultivation of coffee (and to a lesser extent cacao and cotton) during the 19th century remained both an integral part of the Haitian economy and a draw for the same class of foreign (increasingly German by mid-century) merchants that gained access to Dominican tobacco production via Puerto Plata.\(^{136}\) Though foreign merchants were prohibited by every Haitian constitution since independence from acquiring real estate or conducting business anywhere but in those ports designated as open for foreign trade, European merchants frequently circumvented these laws by marrying into local Haitian (typically mulatto) families.\(^{137}\) Intermarriage between these expatriate merchants and mulattos allowed foreigners to own property under the name of their spouse while simultaneously reinforcing the economic privilege of the mulatto class.

Given that foreign merchants were successful in gaining access to the Haitian agro-export sector during the 19th century, and given that coffee can be economically produced at smaller scales, the low intensity of peasant coffee cultivation in Haiti in the century following independence is foremost due to the inability of peasants to defend their surplus from a predatory state. Without access to labor by which to resume plantation agriculture, Haitian elites were forced to resort to a non-capitalist model of accumulation that depended on the capture of the state and the tax revenues it collected. Dominican liberal reformers, the *Azules*, sought to use the state both as a vehicle for patrimonialism as well as an institution for coordinating the development of the DR as a profitable agro-export platform. Conversely, the Haitian oligarchy

---

\(^{136}\) Girault 1981, 159

\(^{137}\) Girault 1981, 160
that had ruled directly or indirectly since independence, taxed coffee production at a level that made it economically trivial as a cash crop for peasants. To understand why the political economies of Haiti and the Dominican Republic evolved differently in respect to the taxation of agro-exports, we must look at the international environment Haiti was inserted into during the 19th century.

Along the international dimension, two factors conspired to reinforce the predatory dynamic of state-society relations that emerged following the revolution: trade embargos on Haiti during the first decades following independence, and the size of the indemnity Haiti was forced to pay France for diplomatic recognition. Shortly after independence Haiti found itself under embargo from its two natural trading partners—the United States and France. Only five hundred miles from Hispaniola, the US was Haiti's most important trading partner for the first two years of its independence. This lasted only until domestic concerns related to slave relations in the American south, as well as pressure from France—Haiti’s traditional export market—led the US government to impose a trade embargo on Haiti in 1806.138 Appeasing its former colonizer, then, became the central foreign policy objective of the Haitian state during the first decades of independence.

It was not until the Haitian government under Boyer agreed in 1825 to provide France with privileged customs rates and pay France an indemnity of 150 million francs139 for the seizing of the ‘property’ of French citizens during the revolution that Haiti achieved a measure of

---

138 In part, France was successful in seeking to isolate Haiti from the United States during this time by leveraging its bargaining position vis-à-vis the Louisiana Purchase (Nicholls 1996, 37).

139 By comparison, total Haitian annual foreign exchange revenue from exports at the time of negotiations (1823) has been estimated to be approximately 30 million francs. “The initial agreement between France and the young republic called on Haiti to pay the whole 150 million francs in five annual payments of 30 million gold francs. That proved impossible for Haiti, which was forced under the pact to take out a loan from a French bank to pay the first 30 million francs. In 1838, France agreed to reduce the debt to 60 million francs to be paid over a period of 30 years. In 1883, Haiti made the final payment” De Córdoba 2004.
international recognition.\textsuperscript{140} The Haitian state serviced its debts by raising export duties and using the army to extract tribute from Haitian farmers. Besides servicing an international debt that yielded no apparent utility for those who were being taxed, this tribute also lined the pockets of many levels of state officials—what one Haitian scholar refers to as 1988 the “parasitic sectors.”\textsuperscript{141} By dramatically increasing the Haitian state’s need for tax revenue and depriving the economy of financial resources that might have been invested elsewhere, the trade concessions and the French indemnity only further undermined the fiscal contract between Haiti’s peasant producers and the state.

\textbf{Conclusions}

Political institutions have been shown to play a key role in determining economic outcomes. Where do these institutions come from, and how do they change over time? Examining the puzzle of institutional divergence on the island of Hispaniola, this paper has identified conditions under which international economic crises lead to the emergence of a developmental state. Haiti adjusted to the global economic crisis of the 1930s through rent-seeking policies that reinforced existing patterns of state predation and economic decay. Why, despite many similarities with Haiti including geography, regime type, and agro-export dependency, did the Dominican Republic pursue developmentalist policies of import substitution when adjusting to the same crisis—policies that transformed the economic purpose of state institutions and culminated in the fastest growing economy in Latin America over the second half of the twentieth century?

Among non-industrialized countries I find that the costs of a prolonged terms of trade crisis and the import scarcities that ensue are borne disproportionately by the middle classes. I

\textsuperscript{140} The US did not recognize Haitian statehood until 1862.
\textsuperscript{141} Castor 1988
also find that the ability of markets in non-industrialized countries to replace foreign imports with domestically produced substitutes is constrained by investment coordination problems. Thus, where income distribution favors a proportionally larger middle class, the political coalitions that emerge out of shared economic hardship exert adaptive pressures on state institutions to resolve coordination problems associated with import substitution. In countries where income distribution favors a proportionally smaller middle class, conversely, these political coalitions falter and attempts at import substitution succumb to market coordination failure. Highlighting the importance of global trade integration beginning in the 1850s for reshaping class structure across Latin America, these findings challenge recent explanations of post-colonial development that emphasize geographic or colonial path dependency.

My findings also make a contribution to the literature on trade and development. A superficial read of the causal narrative offered here would appear to suggest that trade leads to the expansion of the middle classes and all good development outcomes stem from that. A closer examination of the conditions under which trade openness led to economic growth and development on Hispaniola reveals dynamics that challenge the theoretical propositions of trade integrationists and skeptical institutionalists alike. Contrary to the received wisdom about import substitution industrialization, my research demonstrates that a mixed strategy featuring both inward-oriented development and ongoing agro-exports produced higher rates of investment and growth over the long run than reliance on agro-exports alone. Furthermore, the presence of a middle class was not a sufficient condition for sending the Dominican Republic down the path of economic diversification and institutional development. The counterfactual case for the DR

\[142\] This extended time horizon by which structural adjustment policies exerted causal effects on growth also suggests that many cross-national studies regressing aggregate economic performance against more contemporary economic policy (e.g. Jaramillo and Sancak 2009) employ insufficient lags for their public policy variables. For industrializing countries, the successful implementation policies for economic takeoff appears to be a generational affair.
would be a timeline without a trade crisis. Under such a timeline, it is plausible that the interests of the middle classes and the merchant oligarchy would have remained aligned, thus failing to produce the adaptive pressure required for institutional transformation. Nevertheless, I also find that prior trade integration created the very middle class coalitions that later became a decisive political force for the emergence of protectionist ISI policies and the developmentalist state institutions that implemented them.

Together, these findings suggest the need for more careful, conditional claims about the relationship between trade and economic growth. As Bhattacharyya, et al. conclude, “the key challenge is to move beyond broad cross-country comparisons to detailed workings of institutions and trade policy within each country in order to understand more fully how they interact and impact on economic development.” A detailed analysis of the process of institutional development and economic growth on Hispaniola reveals that greater exposure to international trade during Latin America’s liberal reform period had important consequences for the way that agrarian societies adjusted to international trade shocks during the first half of the 20th century. The positive impact of trade integration on institutional development and long-run growth in agrarian societies is conditional on whether the gains from trade are distributed in such a way as to create opportunities for the expansion of the middle classes. Future research should seek to refine further the scope conditions of this theory. Whereas the smallholder agricultural models in Haiti and the DR were both permissive of the rise of a middle class, in agrarian economies where the income from trade is concentrated in the hands of a narrow few—as is often the case in plantation economies like those of El Salvador—the effects of trade integration on the expansion of the middle classes may be more modest.

143 Bhattacharyya, Dowrick, and Golley 2009, 328
Finally, identifying the political dynamics that helped produce the patterns of poverty and prosperity we observe today has important implications for the design and delivery of international development policy. If exogenous trade shocks could lead a repressive, patrimonial ruler like Rafael Trujillo to direct state resources towards the economic and social development of his country, perhaps there are yet-undiscovered ways in which future foreign aid interventions might manipulate the incentives that govern the distributional behavior of today's less-developmentalist leaders.
WORKS CITED


Deschamps, Enrique. 1907. La República Dominicana: Directorio Y Guía General. 3. ed., facsimilar. [Santo Domingo Dominican Republic]: Sociedad Dominicana de Bibliófilos.


