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Critical Juncture and Legacies: State Formation and Economic Performance in Latin America

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Dysfunctional Combinations: The Territorial Basis of Economic Performance

In South America, income per capita, the standard measure of material prosperity, is five times larger than in tropical Africa but five times smaller than in the advanced economies of the North Atlantic. If we applied the distinction that economists usually draw between geography and politics—as opposite fundamental factors of long-run development—a simple but powerful picture about the division of the causal labor would emerge. Geography would explain why South American economies are ahead of the African ones, whereas politics would explain why they are behind those of the United States and Western Europe. All relevant geographic factors in South America, including proportion of fertile land, number of navigable rivers and disease environment, are far superior to those in Africa. By contrast, political factors, including state capacity, types and stability of public institutions, viable political coalitions, and social and economic policies, are far inferior in South America to those in Western Europe and North America.

What the picture based on the geography vs. politics distinction misses is the crucial role of a hybrid combination, namely, political geography. Some countries in South America could have followed the economic path that Australia and New Zealand initiated in the mid-19th century. Such a path was not followed because of the way in which national boundaries were demarcated. The key legacy of the process of border demarcation was twofold: on the one hand, the creation of two territorial colossuses, Argentina and Brazil, that were *dysfunctional combinations of subnational economies*; on the other, the emergence of smaller countries that were not powerful enough to become the engine of development for South America as a whole. Even though some small countries originally had viable economies, as was the case of Chile and Uruguay, they were in fact hurt by the dysfunctional economic nature of their giant neighbors.

The national territories of Argentina and Brazil included vast economic areas for which international trade promised enormous material rewards. The Pampa Húmeda of Argentina—similar to the American Midwest in size and natural productivity—and the Paraíba Valley in Brazil—the undisputed world-leader in coffee production—would under most circumstances be sources of growth with enough power to set in motion a process of economic modernization that would eventually produce a high-income national economy and potentially a prosperous continent. However, both subnational regions were united in the same country with a larger backward periphery that thwarted the path towards prosperity. The interaction between the regional economies within each country can be characterized as "perverse." In this interaction, the periphery, through political means, became an insurmountable burden for the development of the center; the center, through unintended economic mechanisms, prevented the periphery from finding a comparative advantage that would help them upgrade their development chances (more below). Perverse relations are worse than parasitic relations. Whereas in parasitic relations one of the units is negatively affected by the interaction with the other, in perverse relations the damage is reciprocal.

A dysfunctional territorial configuration not only caused the failure of Argentina and Brazil to fulfill their takeoff potential as individual countries. Because of their continental influence, it also caused the underdevelopment of the entire subcontinent. If Argentina and Brazil did not become Australia, Chile and Uruguay did not become New Zealand. Both Chile and Uruguay had similarly productive core areas, the Central Valley and the agricultural hinterland of the Montevideo port-city, respectively. However, these areas were too small compared to the Argentina Pampas or the Brazilian Paraíba Valley to play the role of South American dynamos. Eventually the small economies, especially Uruguay, suffered from recurrent economic crises that originated in their giant neighbors. Regional economies outside the Southern Cone of South America, with the exception of Antioquia and the *Eje Cafetero* in Colombia, lacked the natural endowments with which to initiate sustained economic growth. Hence, two specific subnational economies, the Argentine and Brazilian peripheries, had extraordinary repercussions. Their perverse effects scaled up from the purely local dimension to the continental one, as they stalled the two national economies with the potential to lead the entire region toward mature economic development.

An imaginary South American country combining the Argentine Pampa Húmeda, the entire territory of Uruguay and the state of Rio Grande do Sul in Brazil—all three were world leaders in the production of cereals and cattle—would have been an economic powerhouse similar to Australia, and perhaps even stronger, and it would be free from the drag of a backward periphery. Such a country was not in the plans of any political elite, although at different times a combination of Uruguay and the Pampas on the one hand, and of Uruguay and Rio Grande do Sul on the other, were seriously considered. The Australia of South America, although fictional, illustrates how important borders and the associated composition of national economies are for long-term development. The fact that large countries in South America were economically dysfunctional combinations of subnational units, and the fact that small countries were not endowed with sufficiently strong regional economies to change the developmental fate of the continent, are both a direct outcome of the demarcation of national

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borders during the state formation process.

This brief essay traces the sources of economic underdevelopment in South America to the critical juncture of state formation in the mid-19th century, the period during which the physical space of the national economic and political arenas was defined, and countries emerged as distinct combinations of subnational regions. The first section specifies the main *legacies* of state formation, connecting the outcomes of the process of state formation in South America to the long-term economic performance of the region. The second section takes a step back and accounts for the *critical juncture* of state formation through an analysis of commonalities and differences in the solutions to the process of border demarcation in South and Central America. The concluding section summarizes the argument and contrasts it to two common historical explanations of economic underdevelopment in Latin America.

The Legacies of State Formation: From Border Demarcation to Economic Performance

The process of state formation in Latin America yielded three legacies. The main legacy of state formation was the demarcation of national borders. Two subsidiary legacies, created jointly with the national borders and affecting especially the large countries of South America, were the formula of territorial power sharing and the type of national administration. Finally, the ultimate legacy was the trajectory of economic development, a combined effect of the national borders, the formula of territorial power sharing and the type of national administration.

National Borders

National borders are the most prominent legacy of the state formation process. State formation was a true *critical juncture,* the solution to which had different timings and exhibited different patterns across different countries.[1] The state formation process in South America, like in all Latin America, took place between the Wars of Independence (1810-1825) and the first decade of the 20th century.[2] Although state formation is customarily defined as a process of violence monopolization, an analytically distinct but intimately connected process is border demarcation, that is, the definition of the regions included and excluded from the emerging national territory. If the rise of mass politics can largely be viewed as a process of labor incorporation, the state formation process can be seen as a process of periphery incorporation into (or exclusion from) national borders.

Rather than shaping national arenas, the demarcation of borders *created* them, at least in a physical sense, for it produced the geographic space within which a national economy and a national polity would emerge. From an economic perspective, border demarcation defined countries as specific combinations of regional economies and associated endowments. Whether a dynamic region was included and a backward periphery was excluded, the relative size of the regions, as well as the relations of complementarity, competition, and conflict among them—these were all at stake during state formation and subsequently became root causes shaping the prospects of national economic development. State formation in Latin America produced a variety of territorial outcomes. Compared to the Western Europe pioneers in state formation, contrasts across Latin American countries in terms of size and composition of the national economic arena are staggering. The range spans from mini-republics like El Salvador and Costa Rica, where most productive land is best suited for plantation ventures, to geographical colossuses like Brazil and Argentina, which combine multiple urban centers, dynamic agrarian hinterlands and large, relatively unproductive peripheries. Nevertheless, the variety of sizes and compositions of economic arenas in Latin America did not include a single case that combined a large dynamic sector and a vast periphery in a sustainable long-run relationship.

From a political perspective, border-demarcation shaped almost every component of subsequent dynamics. Crucially, it circumscribed the population on the basis of which future coalitions would be built through political entrepreneurship, cleavage activation, and alliance making. Variations in size and composition of political arenas across Latin American countries are among the largest in the world, ranging from countries like Chile and Uruguay that are largely dominated by the capital city, to countries like Argentina, Brazil and Mexico, where a coalition among multiple oligarchies in distant peripheries are an inescapable component of any ruling alliance, both under democracy and dictatorship.

The national borders that were the primary legacy of the state formation juncture in Latin America have been distinctively durable. For at least half a century after Independence, most national political arenas in Latin America had been fluid, ill-defined spaces. In some cases, like Argentina and Colombia, the juncture was still open in 1870 and 1900. However, the travails of the state formation juncture in Latin America left an extremely resilient legacy of political borders. State formation was a watershed for Latin American history, and its durable legacy stands in sharp contrast to the pioneering experience of Western Europe, where borders suffered substantial changes until as recently as 1991. Once national borders were defined in Latin America, no posterior shock, no matter how big, ever altered them—not even the deep economic crises that in part were the perverse effect of the very composition of the territorial units defined by such borders.

Contrasts in size and composition of national territories are a reflection of the variety of solutions to the state formation juncture adopted by the emerging national ruling elites in different contexts. The variety of solutions to the state formation process, coupled with the enduring legacy of stable borders, makes state formation a true critical juncture. As we will see, solutions to the state formation process in Latin America were ultimately rooted in the economic revolution that shocked

[1] See Collier and Collier's (1991, 29) definition of "critical juncture."

[2] Chile was an exceptionally early case of state formation (1830s) by Latin American standards, and Colombia was the latest one (1900s). Brazil consolidated its state around 1850, and Argentina's critical juncture spanned from 1850 to 1880.

the region, especially its temperate areas, around the mid-19th century. A new economic scenario dramatically changed the balance of power between central elites and peripheral oligarchies. The economic revolution provided central elites with new resources and created new opportunity costs to continued conflicts with peripheral regions. In different contexts, central elites combined different packages of co-optation, repression and exclusion in order to settle the political and economic arena of the emerging countries. In the process, in addition to the physical legacy of national borders, two subsidiary institutional legacies were created.

Rentier Federalism and Patrimonial Administration

In large countries like Argentina and Brazil, in addition to borders, state formation produced a *formula for territorial governance*, that is, a division of political power between subnational governments and the central state, as well as among the subnational units. The geographic legacy of borders and the institutional legacy of the formula for territorial governance are joint creations. Boundary demarcation depended on the specific terms of territorial governance. A region's decision to accept or resist incorporation into a broader territory was a function of its expected position within the formal and informal hierarchies established by the emerging state. A major novelty of the process of state formation in Argentina and Brazil (as well as in Mexico) was the creation of a unique structure of territorial governance: "rentier federalism." In contrast to the "competitive" type of federalism of the United States, rentier federalism involves a distinct set of incentives and induces a peculiar dynamic to the interaction among subnational governments. Instead of competing for private investment, subnational units in rentier federalism collude with each other and with national leaders in search of financial aid from the central government.

The second subsidiary legacy of the state formation process is the rudiments of a *national administration*, which is relevant to countries of all sizes but is especially consequential in the large ones. With few exceptions, public administrations in Latin America have been marked since inception by the twin features of low "infrastructural power," and a high propensity to "patrimonial rule." The former is the ability of the state to provide public goods and build social infrastructure in an economically efficient and territorially even manner, and the latter is the probability that the state will be captured by patronage machines and predatory rulers. State formation in South America produced two large countries, Argentina and Brazil, that were fundamentally underequipped to produce effective rule over their vast territories (beyond South America, the same applies to Mexico). Peripheries in both countries had been ruled by local elites in a patrimonial fashion since times immemorial. The participation of peripheral rural oligarchies in national ruling coalitions transmitted patrimonialism from the local level to the emerging national level. The privileged position that peripheral oligarchies were able to secure for themselves in national coalitions are a reflection of the concessions that state builders found necessary to make during the critical juncture of state formation in order to stabilize the national borders and pacify the territories within them.

Long-Run Economic Development

Rentier federalism, patrimonial rule and low state capacity are important political outcomes in their own right. However, in the cases of Argentina and Brazil they combined with the dysfunctional nature of their territories to create large obstacles to the economic development of the entire continent.

As a result of the way national borders were demarcated, Argentina and Brazil (and to a lesser extent Mexico) combined economic regions with very different endowments of natural resources, which in turn induced a wide variety of local productivity rates. During decades after state formation, the central regions of Argentina and Brazil could produce between three and six times more output per capita than the Northern regions. Monetary union, a direct corollary of territorial unification, meant that the dynamism of the central regions, by strengthening the exchange rate, hurt the international competitiveness of the backward regions, in a pattern that a century later, in a different context, economists would call "Dutch disease." The sugar and cotton industries of the Brazilian Northeast, once the jewel of Portuguese imperial finances, never recovered from the emergence of the coffee economy in the Paraíba Valley around the mid-19th century.[3] Similarly, the manufacturing potential of the Argentine Northwest (textiles) and Northeast (shipyards, woodworks) was largely aborted after the string of export-booms produced in the Pampas (wool, beef and finally wheat) starting in the mid-1840s. At the moment of their formation, the territories of Argentina and Brazil included large backward areas. Subsequently, due to the stark contrast with the dynamic regions with which they shared the national economic arena, these backward areas were not able to find their productive profile. The Dutch disease, a structural consequence of the physical space occupied by the new states, hurt the economies of the periphery in Argentina and Brazil.

The institutional legacies of rentier federalism and patrimonial rule were harmful both to the peripheries and the central economic regions. Rentier federalism was the main channel through which peripheral oligarchies secured regular transfers of economic resources from the dynamic center to the poor interior regions. Given the underlying local economy, peripheral oligarchies had a short-run incentive to grow the local bureaucracy so as to generate an implicit unemployment insurance for their followers in exchange for clientelistic/partisan support. The long-run effect of this choice for peripheral regions was a low quality trap that combined political inefficiency and poor economic productivity. Thus, in the peripheries, relatively unproductive employment opportunities in provincial governments crowded out private investments, further increasing the natural productivity gap between the sectors of the national economy. In turn, from the perspective of the center, redistribution to the periphery simply syphoned off the resources necessary to upgrade the economy beyond the level

[3] Leff 1982.

afforded by its natural advantages.[4]

Finally, patrimonial rule and low infrastructural power contributed to economic failure because the lack of administrative capacity and the use of public resources for private or partisan gain led to an undersupply of growth-enhancing public goods, from contract enforcement to communications infrastructure. In both Argentina and Brazil, the engineering of winning political coalitions in the context of Dutch disease, rentier federalism and subnational patrimonialism resulted in the transformation of the national state into a large-scale patronage machine, which was remarkably resistant to posterior economic shocks, regime changes and other large-scale transformations. Hence, the original effects of the economic dysfunctional nature of the territories of Argentina and Brazil was aggravated and perpetuated by the joint institutional legacies of rentier federalism and patrimonial rule.

The Critical Juncture of State Formation: Contrasting Solutions to Border Demarcation

The process and outcomes of the state formation process in Latin America can be analyzed through two sets of contrasts. First, factors that are shared by Latin American countries explain (i) the transition from ill-defined and unstable political units in the 1820s and 1830s to clearly demarcated, stable national political arenas in the 1890s and 1900s; and (ii) the contrasts between Latin America and the pioneering cases of Western Europe in terms of the formula of territorial govern-ability (the incidence of rentier federalism in Latin America) and the type of national administration (much weaker and more patrimonial in Latin America). Second, crucial differences in antecedent conditions across South and Central America explain variations within Latin America, especially contrasts across countries in terms of size and composition of the national territory.

Contrasts Between Latin America and Western Europe

State formation in Latin America and Western Europe occurred in drastically different political and economic international contexts. Politically, whereas Western European states formed in a context of international anarchy, Latin American states were built under an international hierarchy, at the peak of which were Great Britain and France. Adapting Gerschenkron's argument, the latecomer states in Latin America came into existence in an international arena already populated by the Western European pioneers.[5] Latin American latecomer states faced a new set of opportunities and constraints. The existence of well-established global powers outside the region attenuated the weight of security considerations in state formation ventures. Great Britain's role was key. Concerned about disruptions in its trade relations with the region, Great Britain was a virtual referee in, and a strong sponsor of peaceful solutions to, disputes between Latin American countries. An informal outside umpire was an unimaginable form of conflict resolution in the original European setting of state formation.

Economically, whereas states in Western Europe were built before the rise of modern capitalism, states in Latin America were formed when capitalism, already half a century old in Western Europe, was quickly expanding throughout the Western hemisphere. A different context provided state builders in Latin America with an option not available to their European counterparts. In a capitalist world, international trade could provide governments with the revenues that in a pre-capitalist world could only be obtained through politically costly and contentious efforts at domestic extraction. More specifically, Latin American elites could count on the customhouse close to the main port to fund their state formation projects and, indeed, with very few exceptions (Bolivia, Paraguay and to a lesser extent Mexico), all states in Latin America were built on the revenues generated by a seaport. Thus, in direct contrast to the main cases of state formation in Continental Europe (France, Prussia and Spain), where the political center that took the initiative of state formation was an interior city, the vast majority of state formation centers in Latin America were port-cities (Buenos Aires, Montevideo, and Rio de Janeiro) or cities closely connected to a major seaport (Santiago/Valparaíso and Lima/Callao). Very much like in Smith's *doux commerce* thesis, the role of foreign commerce in state formation in Latin America further attenuated the weight of geopolitical considerations, as military conflict would disrupt trade and interrupt the regular flow of revenues.

These differences played a key role in outcomes of state formation process in Western Europe and Latin America. In Early Modern Europe, geopolitical pressures from foreign powers forced every central ruler into a direct clash with a large array of local powers. In order to mobilize the necessary financial and human resources to wage war, European state builders incorporated the surrounding peripheries by building state capacity throughout the territory. The emerging central state penetrated the countryside, destroyed recalcitrant local oligarchies, and upgraded public administrations, making the transition from patrimonial to bureaucratic rule. As a result of a Darwinian geopolitical game, Western European countries converged on the formation of modern bureaucratic states. Rulers who failed to engineer this political modernization were simply absorbed by those who succeeded. State formation in Western Europe also set in motion a reactive sequence by which future generations of the subject population, in exchange for sustaining the central state, would obtain different forms of political representation and a relatively uniform supply of public goods and services.

Although war and preparation for war had been the main occupation of the inchoate Latin American sovereignties for the first two to three decades after Independence, starting around 1840 the relatively sudden rise of big economic opportunities in international trade drastically changed the political priorities of the emerging national elites. These new economic opportunities originated in a sustained boom in the demand for primary commodities, especially from temperate areas, and a massive reduction in transportation costs, due to the replacement of vessels for steamboats in transatlantic naviga-

[4] Sawers 1996.

[5] Gerschenkron 1962.

tion. From Buenos Aires to Mexico, Latin American political and economic elites correctly began to see that a commercial revolution would provide the basis for a distinct political economy of state formation. Trade switched the state formation track that Latin American countries had originally taken. By the middle of the 19th century, Latin American rulers were responding to the incentives offered by world capitalism and relying on the tariffs on foreign commerce to pursue a novel strategy of state formation, quite unconceivable in Early Modern Europe.

Latin American state formation was a distinct process. Instead of fighting against local powers resisting the emergence of the territorial state, central rulers in Latin America could co-opt them, an option that in Western Europe would have meant the loss of international sovereignty. Decisive military penetration of the peripheries in Latin America became not only unnecessary, as it would have yielded little revenue compared to international trade, but also counterproductive, as it would have disrupted the peaceful environment needed to engage in world capitalism. If incorporation of peripheries into the national territory resulted in the destruction of local oligarchies in Western Europe, incorporation of peripheries preserved and usually reinforced the power of local oligarchies in Latin America. Patrimonial rulers in backward areas in Argentina, Brazil and Mexico offered their support to national projects of state-formation in the center in exchange for a wide variety of concessions, including institutional power, economic transfers and informal favors.

Creatures of war and preparation for war in a pre-capitalist, Hobbesian international context, the pioneering states of Western Europe transformed their peripheries, enforced strict rules for territorial governance, and created highly professionalized national administrations, which were originally designed to maximize domestic extraction and eventually mutated into highly efficient agencies of public good provision. Creatures of trade and preparation for trade in a capitalist, post-Hobbesian international context, the latecomer states of Latin America incorporated their peripheries without transforming their patrimonial institutions, creating states with low capacities to provide public goods and social infrastructure in a territorially even and economically efficient fashion, and, in the case of the three large countries, fostered the emergence of the rentier type of federalism.

Contrasts Within Latin America

The commercial revolution of the mid-19th century did not have uniform effects across Latin American countries. The boom helped all of them build or consolidate national states. Yet when the shock of prices hit the region, pre-existing local conditions, rooted in geography and politics, led to differences in the process of state formation and the eventual size, composition and capacity of the new countries. Geography is enough to explain the emergence and evolution of the small states with simple economies, including Chile, Uruguay and the five Central American republics. Political factors need to be added to understand the emergence of more complex states, encompassing diverse regional economies, such as Argentina and Brazil.

The key geographic factor for successful state formation, both in small, medium and large states, was the availability of a seaport from which to draw the essential fiscal resources. However, seaports varied along two key dimensions: proximity to a major producing regional economy, and separability from a backward, relatively unproductive periphery. The role of ports in Latin American state formation is revealed by the fact that, with only the two partial exceptions of Bolivia and Paraguay, every new state had a major seaport, which in almost every case was the main source of public revenue.[6] Availability of ports during the commercial revolution was far more important than borders inherited from colonial times in creating new states and defining their territorial jurisdictions. It is not an exaggeration to claim that seaports became a necessary condition for successful state formation. Bolivia and Paraguay did not have important seaports and are the only two countries that, after state consolidation in Latin America, suffered serious territorial losses to other Latin American countries.

Seaports were the main driver of state formation in what became the small countries of the region, including Chile and Uruguay, as well as the five original Central American republics. The seven cases share two common features. First, the proximity of the seaport to a large export-producing region secured the finances of state formation. Exports of cereals in Chile, wool and hides in Uruguay, and bananas and coffee in the Central American republics formed the economic basis that consolidated the rudiments of a government into a fully formed national state. A second commonality was the absence of a less productive economic region within "predatory distance" of the port or its productive hinterland. Isolation from potential attackers exempted elites in Chile, Uruguay and Central America from major security considerations, and allowed them to focus on the virtuous cycle of market formation and state formation. In Chile, isolation was a direct consequence of a physical barrier, the Andes mountain chain. In Uruguay, it was a mix of a physical barrier, the Uruguay River, and geopolitical protection afforded directly by Great Britain and indirectly by the balance of power between Argentina and Brazil. In Central America, the closest neighbor to each mini-republic was another mini-republic with an almost identical productive profile. The availability of an export outlet for each of the five republics generated a regional equilibrium in which all preferred growing their own state and economy to the military risks of attempting to capture the wealth from the others.

To understand the state formation process in what eventually became the largest countries of South America, political factors need to be added to raw geography. Brazil and Argentina combined economic regions that benefitted greatly from the commercial revolution and vast peripheral areas characterized by low economic productivity and entrenched patrimonial

[6] Bolivia had a minor seaport but lost its maritime coast in the War of the Pacific, decades after the core of its state was formed. Paraguay had a major river port in Asunción, from which it gained easy access to the South Atlantic.

domination of local oligarchies. Why did the centers in Brazil and Argentina incorporate into their national territories large backward peripheries? In a post-Hobbesian geopolitical context, country size was not a relevant consideration. Periphery incorporation cannot be attributed to international security motives. It cannot be attributed to the search for material prosperity either, given the large productivity differences between the regions, and the fact that, from a fiscal point of view, peripheries were net beneficiaries of incorporation. Indeed, to answer this question we must look beyond geopolitical competition and economic advantage to strictly political considerations of the state builders.

The peripheries of Brazil and Argentina were not separated from the center by large natural barriers. Peripheries could threaten, with military power, to disrupt the process of economic modernization undertaken by the center. However, neither the Paraíba Valley nor the Pampa Húmeda chose to build a physical or military border against the Brazilian and Argentine peripheries. On the contrary, oligarchic elites in the peripheries became active political players in the national arena. The reason for incorporation was, most likely, *coalitional*. Divisions in the center in both Brazil (Conservatives versus Liberals) and Argentina (Buenos Aires versus Entre Ríos) prompted an "arena expanding" type of conflict. Local conflict for primacy *within* the central area led opposing factions to search for allies *outside* it, sponsoring in the process the incorporation of peripheral oligarchies into a national arena. In exchange for their support, peripheral oligarchies not only were able to secure a range of short-term material rewards. Crucially, they were also able to lock in a variety of institutional privileges that were vastly out of proportion to their underlying economic strength. Paradoxically, local conflict caused national unification. National unification provided short-term allies to factions in the center at the cost of patrimonial concessions and, ultimately, long-tern economic stagnation.

There were also some differences in the process of state formation in Brazil and Argentina. The process of incorporation of the backward periphery was completed in Brazil around 1830, when the commercial revolution was only showing the first signs of its potential magnitude, whereas in Argentina it occurred four decades later, when economic modernization in the center was advancing at full steam. This difference in the timing of the state formation process helps explain why Brazil is larger in size than Argentina. Moreover, Brazil provides an exception to the rule of "one port, one state" that characterizes Spanish America. In addition to the backward periphery of the Northeast, the central elites of Rio de Janeiro also incorporated a dynamic periphery in the South, Rio Grande do Sul. In contrast to the Paraíba Valley, the center of coffee, Rio Grande do Sul was ideally endowed for cattle ranching activities, comparable in size and productivity to neighboring Uruguay. Additionally, Rio Grande had its own Atlantic coastline, and could easily build a customhouse from where to derive the resources for independent state formation. Indeed, when the commercial revolution of the mid-century hit the continent, ranching elites in Rio Grande do Sul strove for secession in order to secure an autonomous trade, monetary and fiscal policy. For an entire decade (1835-1845), Rio Grande do Sul was a separate country, the *República de Piratini*. Thus, whereas the commercial revolution provided central elites in Brazil and Argentina with the incentives and resources to incorporate backward peripheries through co-optation, in Brazil it also created a dynamic periphery that had its own state formation aspirations and that threatened territorial unification. For the first and only time in Latin American history, in Brazil in the mid-1830s, a dynamic periphery challenged territorial union and the center had a firm economic and fiscal incentive to fight back. Rio de Janeiro responded to secession with a combination of military action—of a scale and duration unimaginable in Spanish America—and massive policy, institutional and economic concessions. The eventual success of the Rio elite was due in part to the fortunes of war, but also to the fact that Brazil had settled its dealings with its backward periphery to the North at an earlier stage, and had secured the rudiments of a consolidated central civil and military bureaucracy by the time of the commercial revolution.

Conclusions

This essay traced economic underdevelopment in South America to the juncture of state formation, which created two large countries that were dysfunctional combinations of subnational economic regions, and several countries whose economies were not big enough to produce the economic takeoff of the continent. State formation in Argentina and Brazil created national territories with the birth defect of structural Dutch disease, which in turn was deepened and perpetuated by the joint institutional legacies of rentier federalism and patrimonial rule. The two areas with the potential to become continental economic engines, the Pampa Húmeda and the Paraíba Valley, were strangled by political subsumption within a wider economic and political arena, marked by systematic fiscal transfers from economically dynamic subnational regions to economically unproductive but politically profitable peripheries.

This perspective about the long-run development of South American countries in part complements, and in part rectifies, two dominant historical visions. The dominant visions attribute foundational power either to the colonial period of institution building in the 17th and 18th centuries,[7] or to the emergence of mass politics and labor mobilization in the mid-20th century.[8] However, the sources of underdevelopment in South America are younger than colonial legacies and older than mass politics. To a large extent, independence revolutions wiped away the colonial institutional legacy, and the rise of mass politics in Latin America occurred in a context where obstacles to economic takeoff were already formidable. By emphasizing the role of the political and economic geography, this essay also advances one way of integrating root causes of long-run development, which economists usually divide into competing institutional and geographic factors. As we have seen, the fundamental geographic features of Argentina and Brazil, in

[7] Sokoloff and Engerman 2000; Mahoney 2010.

[8] Germani 1971; Dornbusch and Edwards 1993.

cluding centrally the demarcation of natural assets contained in the national arena and the configuration of subnational economies, were political creations. National economic and political arenas were defined during the crucial state formation juncture of the mid-19th century.

State formation in South America, as well as in Latin America more generally, was a fundamental episode of change over time, which transformed ill-defined political units into durable sovereign territories. Although state formation showed different patterns in the different emerging national contexts, the unique international context of the mid-19th century furnished Latin American countries with a number of commonalities that were unimaginable in the pioneering cases of Western Europe. Latin American states were formed when the international geopolitical arena had already crystallized into a hierarchy of national powers, led by Great Britain and France, as well as after the Western economy became dominated by capitalism. Faced with much less demanding international security constraints, and much more attractive opportunities for international trade, state building rulers in Latin America had the incentives and the resources to forego investments in Weberian meritocratic administrations and infrastructural capacities, and constructed instead the minimal territorial and political institutions required to take advantage of international commercial opportunities.

Contrasts within Latin America in terms of size and composition of national territories are much larger than in Western Europe. In Latin America, every region endowed with the assets for a primary-export economy and a viable seaport was willing and able to create an independent state—the cases of Chile, Uruguay and the Central American republics. What set apart Argentina and Brazil was not only the existence of the largest and most powerful subnational economies, but also the proximity between the dynamic regions and backward peripheries dominated by patrimonial rulers. Argentine and Brazilian state-builders did not deal with peripheral powers as the Western European state-builders did. Instead of transforming or repressing peripheral powers, they co-opted them into emerging national coalitions. Short-term coalitional gains were obtained at the cost of heavy obstacles to economic development for generations to come.

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