

2. ORDER, DISORDER, AND ECONOMIC CHANGE LATIN AMERICA VERSUS NORTH AMERICA

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INTRODUCTION

Successful societies require a means for securing political order. That scholars often take order for granted in developed societies does not imply that it is unimportant. Although most economists ignore problems of disorder, creating order is a task necessary to establishing the foundations of long-term economic growth. As the turmoil in post-independence Spanish America—or today in the former Yugoslavia and the Great Lakes region of Central Africa—demonstrates, political order is not automatic. Political order is a public good that must be carefully constructed.

Because political order is a necessary condition for economic and political development, we must enquire about the conditions that provide for it. Citizens behave very differently under political disorder, that is, when they fear for their lives, their families, and their sources of livelihood. Focusing solely on market reform or the instruments of democracy is insufficient to help a developing state or one in transition move onto the path of development. We argue that the sources of political order involve state capacity concerning the creation of credible commitments.

Establishing and maintaining social order in the context of dynamic change has been an age-old dilemma of societies and continues to be a central problem in the modern world (Huntington 1968). It is one thing to establish order in societies; it is something else to maintain order in the process of economic and political change. The issue is at the core of understanding the nature of political-economic change over time.

The contrasting historical experiences of Latin America and North America provide an ideal comparative study to explore the issues. In the remainder of this introductory section we describe why the two areas are such a valuable source of comparative study, we go on to provide a brief comparison of their contrasting political/economic histories in the late eighteenth and early nineteenth centuries, and we explore the relevance of a standard factor endowments model of trade theory as an explanation for the contrasting histories. In the second section, we develop a theoretical framework to analyze those contrasting stories. The third section applies the analysis to the first fifty years of U.S. independence in British North America and the fourth section applies the

framework to the first fifty years of Latin American independence. The final section evaluates the reasons underlying the different political/economic paths of British North America and Spanish America.

The modern states of Latin America and British North America began as overseas colonies of the rising hegemonic nations of Europe; the former by the Spanish and Portuguese, the latter by the English and French. Although the successful discovery of "treasure" biased early Spanish development, both areas were amply endowed with natural resources. Both the American colonies and the Spanish colonies achieved independence in the late eighteenth and early nineteenth centuries after revolutionary wars. But at this point the similarities stop.

During the late eighteenth and the first half of the nineteenth century, the United States created a stable political democracy and was well on its way to becoming the richest economy in the world. The institutional foundations were the Constitution, which replaced the Articles of Confederation, and a stable, well-specified system of economic and political rights that together provided the credible commitment that was a necessary prerequisite to efficient economic markets. In contrast, after independence most of Spain's former colonies on the mainland imploded in a costly and deadly spiral of warfare, *pronunciamientos* (organized revolts against the government), and *caudillismo* (the political phenomenon of local or regional political bosses who have a comparative advantage in the use of violence, in particular against other political groups or factions). This spiral continued through mid-century. Disorder prevailed for decades, revealing the absence of institutional arrangements capable of establishing cooperation among rival groups. Destructive conflict, rooted in the independence struggles and disputes over early republican state-building, diverted capital and labor from production and consigned the new nations to a path of stunningly poor performance in comparison to the United States. Even the nations that remained relatively orderly—Brazil and Chile—established centralized governments and economic policies that provided little incentive for economic expansion. Throughout Latin America, state monopolies previously reserved to kings persisted under independent governments.

The United States, too, experienced disorder in the mid-nineteenth century. Indeed, the American Civil War was one of the most deadly and costly wars of that century. But that war was only a brief interruption to both political democracy and economic growth; within two decades of war's end, the healing process was well under way. The former Confederate states had been reintegrated into the polity, and by then the American economy led the world in manufacturing capacity, agricultural output, and per capita income.

In turning to the toolbox of the social scientist, international trade models building on contrasting factor endowments provide a useful first step toward

an explanation. Much of the early history of Latin America, the Caribbean, and part of what is now the southern United States was based on large plantation agriculture or slavery in mining. At independence this implied both huge disparities in wealth and significant racial diversity throughout the Caribbean and Latin America. In British North America, especially in New England and the middle Atlantic states, the climate favored grain agriculture. These regions were not considered particularly valuable at the beginning of the European settlement of the new world. Economic production in this region reflected few economies of scale and did not lend itself to the profitable employment of slaves. Endowments had two direct effects on the polity, both favorable to economic growth. First, the disposal of land and the size of farms resulted in a relatively equal distribution of wealth; second, the unprofitability of slavery resulted in racial homogeneity. In Latin America, huge inequalities and racial diversity translated into substantial political hurdles to the establishment of secure political foundations for economic growth.¹

The phenomena of disorder, violence, and economic decline—pervasive throughout post-independence Spanish America—cannot be accounted for in a trade model, however. Factor endowments were constant across independence—in terms of both traditional economic factors, such as land, labor, and capital, and broader ones, such as climate, the distribution of wealth, and the racial mix. Although factor endowments were one of the important sources of the American Civil War, they do not explain America's rapid recovery from disorder and its renewal of economic growth. Indeed, nothing about the new political order in the United States was automatic. Several critical events—such as the transformation of the Articles of Confederation into the Constitution—could have easily failed, greatly hindering the rise of the United States to the richest nation in the world. Nor were the internecine wars inevitable following independence throughout Spanish America. No *deus ex machina* translates endowments into political outcomes. If that were so, Argentina would be as rich as the United States, and Hong Kong, Japan, and South Africa would never have become rich.

What is missing from the standard economist's approach is an understanding of the mechanisms that translate *ex ante* conditions—such as beliefs, institutions, and endowments—into political outcomes, including order and disorder.

A THEORY OF POLITICAL ORDER AND DISORDER

We begin our analysis by defining political order and describing its characteristics in a static environment. We next define the conditions for disorder and the conditions for the movement from order to disorder. We are then in a position to explore the process of change and the way in which it can produce either order or disorder.

Political Order

For an individual, we define *political order* as requiring three fundamental aspects of personal security: one's life, family, and source of livelihood. We say that order holds for a society when it holds for most or all individuals. For society, we define *disorder* as the opposite; a large proportion fears for its lives, families, or sources of livelihood and wealth.

Political order exists ideally—and in game theory—when the participants find it in their interest, given their expectations about the actions of others, to obey the written or unwritten rules that call for respect for one another. In sociology, conformity is usually attributed to the internalization of social norms; individuals want to behave in ways conducive to the existing social order. In this way, social control is exercised over potential deviance by others. This requires that, in equilibrium, all members of society have an incentive to obey and enforce the rules and that a sufficient number are motivated to punish potential deviants (Calvert 1995).

A system of order has the following characteristics:

1. An institutional matrix that produces a set of organizations and establishes a set of rights and privileges
2. A stable structure of exchange relationships in both political and economic markets
3. An underlying set of institutions that credibly commits the state to a set of political rules and enforcement of rights protecting the organizations and exchange relationships
4. Conformity as a result of some mixture of norm internalization and external (to the individual) enforcement

Disorder occurs when:

1. Rights and privileges of individuals and organizations are up for grabs, implying disruption of existing exchange relationships in both economic and political markets
2. Conformity disappears as a result of either disintegration of norms and/or change in enforcement

The first point of political order recognizes that the political system defines and enforces citizens' rights, including their freedom to organize and exchange. No assumption is made about the extent and scope of these rights and freedoms. Points three and four require that these rights and freedoms exist in practice, not just in theory. The third point requires that those rights and freedoms that exist in practice reflect a degree of credible commitment that makes it in the

interests of political officials to observe them. Point four specifies that citizens have an incentive to conform with those social and political norms that exist. Finally, the first point under disorder implies the negation of the first three points under political order.

Let us draw out the logic of these ideas. The approach rests on the observation that individuals behave differently under political order than under political disorder. Individuals who fear for their families, livelihoods, or wealth make different choices from those who do not. Creating order is a central task in the establishment of the foundations of long-term economic growth. As the turmoil in post-independence Spanish America demonstrates, political order is not automatic.² As with macroeconomic stability, political order is a public good that must be carefully constructed.

To the extent that order occurs in a given society, it is provided through the political system. So, too, is the choice of the form of an economy, for example, a market economy versus a centrally regulated one. Establishing political order involves what political scientists sometimes call "state-building" (Evans et al. 1985; Skocpol 1979; Skowronek 1982)—identified here as creating the capacity to promote political order. To address questions about political order, we draw on our earlier work (North 1990; North and Weingast 1989; Weingast 1995; and Summerhill 1999) as well as that of Greif (1998), Eggertsson (1990), and Liebcap (1989).

Our answer about the sources of political order involves state capacity concerning the creation of credible commitments. Secure property rights, for example, are essential to any market economy. Yet, economists rarely think about the political assumptions necessary to maintain secure property rights. To see that economists make political assumptions, consider the *fundamental political dilemma of an economy* (Weingast 1995): any government strong enough to protect property rights, enforce contracts, and provide macroeconomic stability is also strong enough to confiscate all of its citizens' wealth. A central task for understanding long-term economic development is to discover what determines when a government does one or the other. We argue that endowments alone do not determine the outcome, though endowments may greatly influence the form of government and hence the ability of a government to provide credible commitments.

Finally, the foregoing list provides the conditions for political order, but not for economic growth. For the latter to occur, in addition, the institutional matrix would have to provide positive incentives for the organizations' entrepreneurs to engage in productive activities (North 1990; Bueno de Mesquita, Morrow, Siverson, and Smith 1998). Economic growth thus requires both political order and a range of positive incentives for productive and entrepreneurial activity.

Sources of Order and Disorder

A bare-bones description of the process of change is straightforward. The "reality" of a political/economic system is never known to anyone, but human beings do construct elaborate beliefs about the nature of that "reality"—beliefs that are both a positive model of the way the system works and a normative model of how it should work. The belief system may be broadly held within a society; alternatively, widely disparate beliefs may be held. The dominant beliefs (that is, of those political and economic entrepreneurs in a position to make policies) over time result in the accretion of an elaborate structure of institutions—both formal rules and informal norms—that determine economic and political performance. At any moment in time this institutional matrix imposes severe constraints on the choice set of entrepreneurs seeking to improve their political or economic positions. The resultant path dependence typically makes change incremental. But change is continually occurring (although the rate will depend on the degree of competition among organizations and their entrepreneurs), resulting in alterations of the institutional matrix, revisions of perceptions of reality, and therefore new efforts of entrepreneurs to improve their position in a never-ending process of change. Change can also result from non-human-induced changes in the environment, such as natural disasters; but overwhelmingly it is humans themselves who incrementally alter the human landscape.

Now we are in a position to relate the process to the foregoing analysis of sources of order and disorder. The place to begin is with the beliefs held by the members of a society, because it is the beliefs which translate into the institutions that shape performance. Shared mental models reflecting a common belief system will translate into a set of institutions broadly conceived to be legitimate (Denzau and North 1994). Diverse and conflicting beliefs usually are derived from wide disparities in the experiences of members of a society (resulting from differences in wealth, social structure, race, ethnic backgrounds) and are exacerbated by the failure to define and enforce universalistic political and economic rules that apply to all members of that society (see, e.g., Horowitz 1985).

Whether the change is incremental or revolutionary, the result is typically to produce some consequences that are unanticipated. This is so because: people's perceptions of reality are faulty; the belief system produces an "incorrect" model of the issues; and the policy instruments available to the players are very blunt instruments to achieve the desired objectives. Let us explore each of these in turn.

A complete understanding of reality would entail not only information about all relevant aspects of the society but an understanding of how it all is put together. As Hayek pointed out many times, such knowledge is beyond human capacity.

The belief systems that society develops can and sometimes do capture sufficient portions of that "reality" to provide useful and predictable results. But frequently they fail to incorporate fundamental aspects of reality, particularly involving circumstances people rarely face. The rise and demise of communism provides only the most recent illustration.

The policy instruments available to the players are changes in the formal rules (constitutions, laws, regulations), but it is the combination of formal rules, informal norms, and their enforcement that constitute the institutional matrix that shapes performance. Policy makers have no control, at least in the short run, over informal norms and only very imperfect control over enforcement of both the formal rules and the informal norms. In consequence, policies—such as privatization in Russia—often produce results different from those anticipated.

Finally, we come back to path dependence. It is a powerful phenomenon, resulting from a range of constraints imposed on the players. Because existing organizations (and their entrepreneurs) owe their survival to the existing institutional matrix, they tend to oppose fundamental institutional change. Equally important is the existing belief system that defines the perceptions of the actors with respect to avenues of legitimate change. Attempts at revolutionary action, for example, alter only the formal rules, not the informal norms, and therefore usually make such change less revolutionary than its supporters envision.

Theoretical Propositions

We offer two sets of propositions: about conditions for political order in a society, and about political disorder. Two different bases of political order exist, each with its distinctive type of politics, economics, and political institutions. We call the first the consensual basis for political order. Under this type of order, political officials observe a series of universal citizen rights. These governments tend to be democratic with a market economy. We call the second the authoritarian basis for political order. Under this type of political order, political officials cannot sustain a set of universal rights, and instead abuse the rights of a major portion (if not all) of the citizenry. These governments draw support from a limited portion of citizens, and tend to be authoritarian and unable to sustain a market economy. In reality, our ideal types set up a continuum of types between the ideals; for the purposes of this chapter, however, we discuss the ideal types. We now discuss the logic underlying the two types of political order.

Consensual political order. For political officials to adhere to a set of citizen rights under the consensual basis of order, these rights must be self-enforcing. That is, it must be in the interests of political officials to honor those rights (Ordeshook 1992; Weingast 1995). Although this proposition is easy to state, the

general conditions underlying constitutional stability have proven difficult to uncover. In what follows, we provide several insights into this question.

Our first principle of political order concerns the relationship between a shared belief system about the legitimate ends of government and the extent of citizen rights.³ All rights accorded to citizens—whether personal, economic, religious, civil, or political—imply limits on the behavior of political officials. These hardly constitute rights if political officials can violate them at will. Stable democratic constitutions, for example, require that political officials observe a set of limits regarding citizen expression, freedom of organization, and leadership succession; economic growth requires that political officials honor a series of property rights associated with markets; and secure religious freedom requires that political officials allow freedom of observance and organization.

For these rights to exist in practice, political officials must (somehow) find it in their interests to observe these rights. The key to the consensual basis of political order is the establishment of credible bounds on the behavior of political officials. Put another way, citizen rights and the implied bounds on government must be self-enforcing for political officials.

The nature of beliefs about the state—including those about various rights—determines in part whether political officials honor citizen rights (Weingast 1997). To see this, suppose that a consensus exists in society over the appropriate rights accorded citizens and the legitimate ends of the state; further, suppose that citizens are willing to react against political leaders who transgress these rights. Then political officials in this society will respect these rights. Because violation of rights under these conditions risks a leader's political future, the leader will honor them. In this case, we can say that the rights—and the implied limits on the behavior of political officials—are self-enforcing.

In contrast, the absence of consensus over rights and ends of the state implies that a leader can transgress what some citizens consider their fundamental rights while still maintaining sufficient support from other citizens to survive. In this case, the rights are not self-enforcing. The absence of a consensus and therefore of the protection of citizen rights provides the basis for authoritarian political order.

Because the experience and interests of citizens diverge markedly, most societies are characterized by a lack of consensus. They are therefore not likely to honor economic, political, and personal rights associated with liberal democracy and a market economy.

Creating a shared belief system in a society is a type of coordination problem with a vast number of potential solutions (Weingast 1997). Policing the behavior of political officials requires that citizens react in concert when officials violate their rights. The threat of withdrawal of political support, rarely needed to be made explicit in secure democracies, is part of what keeps politi-

cal officials in line. The central problem facing citizens therefore concerns how citizens come to agreement about the types of actions that should trigger their reactions against the state. Because citizens' political, economic, and social positions typically differ considerably, there is no natural coordination solution to this problem.

A major factor determining whether a consensus occurs in a given society is whether political leaders have, at some point, created a focal solution to the coordination problem. Creation of focal points typically occurs at a time of crisis—a time that dislodges an old pattern or equilibrium. A focal point must have several properties. First, it must make explicit an agreement about the rules governing political decision making, the rights of citizens, and the appropriate bounds on government. Second, the agreement must (implicitly or explicitly) specify the relevant trigger strategies telling citizens when to react against political officials who attempt to violate the terms specified in the agreement. Third, because shared belief systems and consensus rarely result when a dominant political group can impose its will on others, the agreement is necessarily a compromise among opposing elites.

Agreements creating focal solutions typically come in the form of elite pacts (Higley and Gunther 1991). Examples occur throughout the history of representative government, including: the English Magna Carta in 1215 and Glorious Revolution in 1689; the United States Constitution, the Missouri Compromise of 1820, and the Compromise of 1877 (ending Reconstruction); the 1990 South African agreement to end apartheid; the 1957 Colombian pact and the 1991 El Salvadoran pact, both ending civil wars and bringing social peace and a semblance of democracy; and the various treaties underpinning the formation of the European Community. To succeed, these focal solutions must be widely accepted by citizens. Only then do they have a chance of being protected by citizen action in the face of potential violations.

Maintaining a stable democracy, a stable constitution, or a thriving economy each requires a specific type of shared belief system. Citizens must believe that these institutions are appropriate for their society; they must accept the decisions made by these institutions as legitimate; and they must believe that their rights should be protected, in the sense that they are willing to react against governments that try to deprive them of these rights.

Nothing is automatic about creating the focal point necessary for consensual order, however. As noted, because the situations of most citizens differ markedly, citizens are likely to disagree about what constitutes fundamental rights and the legitimate ends of the state. Authoritarian rulers can exploit these differences by gaining the support of some citizens while taking advantage of others. This asymmetric society cannot sustain a consensual set of rights accorded to all or most citizens. Instead, the state takes advantage of some citizens while giving better treatment to its constituents. Because of the difficul-

ties in creating the basis for consensual rights, the authoritarian basis of political order is more natural than the consensual basis.

Our second principle suggests another aspect of the survivability of constitutions and stable democratic orders. Studied by Przeworski (1991, ch. 2) and extended by Weingast (1997), the principle holds that successful constitutions limit the stakes of politics. That is, they place bounds on the range of political choices, in part by assigning citizen rights and other limits on governmental decision making. The greater the range of issues subject to political decision making, the greater the stakes.

High stakes have several consequences. First, high stakes make it far less likely that those in power will give up that power. The reason is that they have too much to lose from the policy changes that would occur if they gave up power. Fear of losing power—whether due to losing an election, sustained unpopularity, or fiscal crises—often drives leaders to sabotage constitutional and democratic rules. Lowering the stakes—by means such as protecting particular rights—lowers the incentive for losers to sabotage the rules. Similarly, high stakes imply that those out of power are more likely to use extraconstitutional means to attain power or to resist onerous policies imposed by those holding power.

Our third principle is related to the second. An absence of well-defined and widely accepted rights combines with high stakes to produce *rent-seeking*. This is a term that has many meanings, so we define it carefully. Rent-seeking occurs when rights to a valuable political privilege, asset, or territory are absent, inadequately specified, or inadequately enforced.⁴ The absence of well-defined rights to an asset implies that individuals and groups will expend resources to attempt to capture that asset. Those who capture the right or who believe they have those rights will expend resources defending their rights.

An important implication of the rent-seeking perspective is that it yields comparative statics predictions. In our context, these hold that the more valuable the asset, the more resources individuals are willing to spend to capture it. A major conclusion of this perspective is that competitors seeking the asset will, in the aggregate, spend up to the value of the prize. Under some conditions, they will spend more. Competition for the asset when rights are inadequately specified dissipates the net social value of the asset to zero. The greater the resources devoted to rent-seeking, the lower a society's wealth.

The second and third principles interact as follows. Higher political stakes imply greater levels of rent-seeking. The greater the stakes, the more resources are devoted to capturing and defending valuable rights.

Our final proposition is that reducing the stakes requires that the state create credible commitments (Greif 1998; North and Weingast 1989; Weingast 1995). All societies that provide a secure basis for citizen rights—including those fostering democracy, a stable constitutional order, and economic

growth—do so by providing credible commitments for the state and public officials to honor these conditions. Because they provide protection from opportunism and expropriation, credible commitments are necessary to provide asset owners a secure environment within which to invest. They are therefore essential to economic growth. Credible commitments are also essential to the maintenance of political and democratic rights. Establishing credible commitments requires the creation of political institutions that alter the incentives of political officials so that it becomes in their interests to protect the relevant citizen rights. When this occurs, we say these rights are self-enforcing for political officials.

Our four principles have an important implication for the two types of political order. The smaller the range of credible commitments of the state, the larger the rent-seeking; that is, the smaller the range of credible commitments, the larger the value of capturing the state and the larger the risks of not holding power. Smaller degrees of credible commitment imply that citizens and groups will, in the aggregate, spend larger portions of their resources in order to capture power. Greater political stakes, in turn, imply more resources devoted to capturing the state and to protecting oneself from the state and thus fewer resources devoted to productive activity. In the limit, in a polity in which everything is up for grabs, citizens and groups will dissipate the entire social surplus trying to capture power and protecting what they have. Put another way, too few credible commitments yields a state that is at best stagnant, at worse, engaged in civil war.⁵

Our first principle relates to the maintenance of political order. Building a social consensus about individual rights creates the credible commitment to protect these many rights. To the extent that constitutions limit the stakes and lower rent-seeking, they must be self-enforcing. A critical requirement for making these limits self-enforcing is a social consensus supporting these limits. This consensus makes the limits self-enforcing by providing officials with the incentives to honor them.

These principles also have implications for the differences between the two bases of political order. Because the two bases of political order differ in the nature of social consensus about citizen rights, the relative absence of consensus in some societies implies that those bases of order are more likely to be authoritarian and less likely to be able to sustain market economies. Although citizens in these regimes are better off if they can coordinate on a set of citizen rights, the political impediments to doing so are legion.

An important basis for authoritarian political order is that citizens fear disorder. Many authoritarian regimes have emerged from disorder, developing some support among the citizenry precisely because they could provide order. Any attempt that holds the potential to improve on the authoritarian basis for order by creating rights also holds the potential of dislodging the current po-

litical system, unleashing disorder—a topic we turn to shortly. In the wake of such fear, many citizens will prefer the current regime.

We offer two principles about the often sudden emergence of political disorder. The first concerns an event that dislodges the old mechanisms that provided credible commitment in society without providing adequate substitutes. Examples of such events include disasters, but often they reflect a crisis that allows a sudden turnover in political power by groups who seek major political change. Crises often dislodge the old order in any of several ways. For example, an economic crisis may lower the resources available to the state to distribute to its constituents. The loss of political benefits may persuade some supporters of the regime to oppose it. Crises may also interact with our first principle of order in the sense that they destroy the consensus supporting the regime.

In accord with our principles of order, if, following a crisis, the new groups are able to establish a consensus about the new form of political organization, new credible commitments can be established and political order maintained. We study below how the American Revolution fits this case. Absent a new consensus, however, credible commitments are far more difficult to establish. Political disorder is more likely, as we discuss below for Spanish America.

Here we argue a comparative statics type of result: constitutions supported by a social consensus that limit the stakes of politics, that protect the rights of all citizens, and that give all citizens some stake in the status quo are less likely to experience disorder than constitutions that discriminate against particular groups who may then be tempted to use violence to disrupt the status quo.

A second principle concerns revolutionary change. A rich and multifaceted literature exists on revolutions and social movements (e.g., Moore 1966; Skocpol 1979; Tarrow 1994; and Tilly 1993), and it seems fair to say that there are many sources of revolutionary change. Below, we draw on one principle of revolutionary change. As noted above, change is typically incremental. Nonetheless, revolutions can begin with a set of incremental changes that persuade some individuals and groups that revolution is a lesser risk than a continuation of the incremental changes perceived to threaten the survival of one group. The steps in this process are as follows (de Figueiredo and Weingast 1999):

1. A set of political entrepreneurs articulates a new set of beliefs in fundamental conflict with the existing order—beliefs that are typically held, at first, only by a small minority.
2. The opponents of these entrepreneurs act in ways that make these ideas appear to be true, “confirming” (in the Bayesian sense) the revolutionary beliefs in the eyes of pivotal players. Thus events occur beyond the direct control of the proponents of the new ideas that lend some credence to this set of beliefs.
3. The result is a spread of the beliefs to some of the pivotal political decision mak-

ers. When the pivotal decision makers accept the radically new beliefs, they provide sufficient political support for radical action.

The conditions provide a set of circumstances sufficient for radical, discontinuous political change to occur. They help explain the sudden emergence of radical politics, for example, in the recent ethnic violence in Yugoslavia (de Figueiredo and Weingast 1999), the secession crisis preceding the American Civil War (Weingast 1998), and, as we discuss below, the American Revolution.

We offer two further insights about disorder. First, our perspective suggests that governments that restore order on an authoritarian basis are likely to systematically transgress the rights of their opponents. Because citizens in these regimes have no means to agree on what citizen rights should be enforced, universalistic rights cannot be policed. This allows the regime to repress some parts of society while retaining the support of others. We observe that authoritarian regimes which have restored order commonly repress their opponents, for example, in the numerous governments in Mexico following independence.

Second, our perspective suggests that a society with a consensual basis for political order is less likely to experience disorder than a society with an authoritarian basis. The reason is that consensus implies greater citizen rights and hence stricter limits on government. More secure rights and stricter limits, in turn, lower the stakes of politics, implying greater protection for individuals. The de Figueiredo and Weingast (1999) model of the emergence of disorder implies that the higher the stakes, the more quickly citizens will resort to violence to protect what they have.

We argue that there are three ideal states of political organization: the consensual basis of political order, the authoritarian basis of political order, and political disorder. Our principles regarding political order suggest that the consensual basis for order emerges in societies that lower the stakes of political action through institutions that establish credible commitments on the state. One mechanism requisite for making these commitments credible or self-enforcing is a social consensus that supports these commitments. Regarding the emergence of political disorder, we suggested how major changes—such as economic crises, disastrous foreign wars, or natural disasters—may dislodge the old, political equilibrium, and with it, the mechanisms protecting citizens' rights. We also specified conditions under which radical changes in beliefs may occur, thus causing sudden shifts in the policies citizens support.

POLITICAL ORDER IN POST-INDEPENDENCE BRITISH NORTH AMERICA

The theoretical principles discussed above provide considerable insights into the reasons for stability in the British empire prior to the revolutionary crisis,

the outbreak of the revolution, and the re-emergence of political order and sustained economic growth in the post-revolutionary era.

Political Order in the British Empire

The mechanisms of credible commitments to property rights within the British empire were based on federalism.⁶ Although eighteenth-century contemporaries did not use the label "federal," the empire's structure clearly fits the definition of federalism (Weingast 1995). First, the empire had multiple levels of government, each with its relatively well-defined sphere of authority. Until the end of the Seven Years' War in 1763, the British role in America was limited to empire-wide public goods, notably, security and international trade. Colonial assemblies, working with a British governor, held broad authority over local public goods, property rights, religious freedom, and contract enforcement, subject to some constraints of British law. Second, the institutions of the empire placed considerable constraints on the British role within the individual American colonies. Third, British institutions created a common market within the empire, preventing individual colonies from raising trade barriers.

The pervasive French threat bound together both sides of the Atlantic in a relationship based on common interests. Because both sides needed each other, they were able to create and adhere to a system of political and economic autonomy inherent in the empire's federal structure. Although either side might be tempted to cheat, both sides found the empire's federal structure convenient. Indeed, the strict line between the system-wide issues of trade and security and all other domestic issues within the colonies (such as religious freedom, taxation, property, and social regulation) created a "bright-line" credible commitment mechanism. In this system, deviations by either side were easy to detect. In terms of our propositions for consensual political order, the empire's federal structure created a natural focal solution, making actions by either side easy to police.

Over the 100 years prior to 1763, the British came to accept local political freedom in exchange for the colonists' acceptance of British control over the empire, including trading restrictions on the colonists. The institutions of the empire combined with the shared belief system supporting these institutions to underpin cooperation from both sides of the Atlantic.

In the late seventeenth and early eighteenth century, the British colonies were lonely outposts, far from the British metropolis. They faced strong competition with one another for scarce capital and labor and for product markets in Britain and Europe. Economic theories of federalism predict that any colony which fails to promote and protect markets simply fails to gain economic resources and grow. Successful colonies adapted local institutions to suit local needs. Failing to provide for efficient exploitation of economic opportunity spelled economic doom. Several British colonies failed for this reason. The re-

sult was a system within the empire—and, as Weingast (1995) argues, within England itself—of market-preserving federalism, with strong institutional commitments protecting the structure and hence markets.

Legislatures—colonial assemblies—became central to providing liberty for Americans (Reid 1995; see also Greene 1986). In our terms, legislatures, working within the structure of the empire, provided a series of credible commitments to a range of economic, political, and religious rights. Over the 100 years prior to the Seven Years' War (1756–1763), incremental change and precedent within the British system gradually gave these assemblies greater political autonomy and freedom, which they used to underpin essential political, personal, religious, and economic rights.

In the British constitutional system of precedent, long-standing practice had enshrined these arrangements with constitutional authority (Greene 1986; Reid 1995)—or so the Americans thought, until the years of controversy between the end of the Seven Years' War and the outbreak of the Revolution. For the century before the end of the Seven Years' War, harmony and political stability reigned, all within the federal system of the empire. A strong system of property rights protected both economic assets and freedom of religion. Both sides of the Atlantic supported these arrangements.

In sum, the theoretical principles articulated above help explain the system of order within the British empire. Order was based on a shared belief system supporting the empire's federal structure and a range of local powers accorded to colonial assemblies. The relatively low political stakes limited both the range of political controversy within each colony and the degree of rent-seeking.

The Emergence of Disorder and Revolution

In the dozen years following the close of the Seven Years' War, controversy and crisis emerged, ending in revolution. The principles discussed above provide considerable insight into the emerging disorder.

After 1763, various changes in British policy toward the empire threatened this system (Greene 1986; Rakove, Rutten, and Weingast 1999; Tucker and Hendrickson 1982). Three were critical for imperial policy. First, although the war removed the French threat, it did so at a huge financial price, leaving Britain with the largest debt ever. The British naturally turned to the colonies to finance a portion of the debt. Second, the French defeat greatly changed the empire. Prior to the defeat, the American colonies represented a major portion of the empire. Anything that hurt the Americans hurt the empire. After the Seven Years' War, this was no longer necessarily true. In the new and much larger empire, the British might reasonably design empire-wide policies to govern the system that might harm one part. Third, following the French defeat, Americans had much less need for the British security umbrella and, therefore, less reason to conform to British interests (Tucker and Hendrickson 1982).

These changes helped dislodge the old system. The demise of the French threat simultaneously lowered the cost each side was willing to bear to retain the relationship. At exactly this moment, the British had a much larger empire with a considerable range of new problems.

Britain's large financial burden and the new structure of the empire produced considerable anxiety in the American colonies. These changes led many Americans to conclude that Britain would no longer observe the principles of federalism within the empire. This view was especially strong among the emerging radical group. This group argued that the precedent of the British directly intervening in colonial affairs through taxes meant the end of liberty, including the end of autonomy for colonial assemblies, and hence all that Americans held dear. With this precedent established, the British could alter other policies at their discretion. Put another way, this precedent would destroy the bright-line commitment mechanism protecting federalism and local political freedom within the empire.

In the beginning, most Americans paid little attention to the radicals—their noise about liberty did not ring true. The British had yet to provide much cause for believing that they intended major policy changes. Further, moderates and opponents both feared that the alternative to British rule was worse.

In a series of halting steps, the British sought various forms of financial support from the colonies. In 1766, they asked the Americans to provide for the quartering of British troops within the colonies. Americans believed the troops unnecessary—after all, if they were not needed while the French remained a viable threat, why were they needed after the French defeat? Worse, many Americans believed that the British insistence on setting domestic colonial policy would set an undesirable precedent. The New York colonial assembly refused to pass legislation supporting all the troops in the colony. The British reacted strongly, in part believing that a strong response would discourage further action and help isolate their opponents. As punishment, the British suspended all acts of the New York Assembly until the colony complied with the Quartering Act.

Several years later, the British passed the Tea Act (1773) effectively granting the East India Company a monopoly on importing tea. A group of Massachusetts Patriots protested the act by dumping tea in the Boston harbor. Here, too, the British acted quickly, believing they could isolate the radicals through a harsh response designed to discourage the other colonies from supporting the radicals. Specifically, the British passed the Coercive Acts, including four laws. The first closed the port of Boston, and a second virtually annulled the charter of the Massachusetts colony, including disbanding the Massachusetts Assembly. The additional acts also aimed to punish Massachusetts: the Administration of Justice Act, which provided that colonial officials would be tried outside of the colony, and the Quartering Act, which applied to all colonies and

allowed the imperial officials to seize property to support troops if the colonial assembly did not allocate the necessary funds.

The British actions backfired. Instead of isolating the radicals, the Coercive Acts provided striking evidence supporting the radicals' contentions. To many Americans, the British reaction seemed out of proportion to the events. Because colonial assemblies were central to liberty and the preservation of all colonial rights, the British willingness to suspend colonial legislatures turned many moderates against the British. As the radicals suggested from the beginning, the new British policies threatened American liberty. The British reactions seemed to provide the proof.

Rakove (1979) suggests further evidence concerning the political swing of the moderates from opposing to supporting the radicals. Rakove argues that as late as 1775, American moderates would have accepted a credible compromise—had only the British offered one. The unwillingness of the British to provide a credible compromise provided further evidence that the radicals were correct. What else could explain the pattern of British behavior, including the direct threats to American liberty? The unwillingness of the British to compromise and their seeming willingness to punish all Americans, not just radical upstarts, helped drive the moderates' swing in political support.

American radicals in the 1760s and early 1770s faced another problem. As noted, opponents thought that even if the radicals were right about the British, the alternative to British rule would be worse. Hence, many radicals came to see that part of their task involved articulating a new shared belief system about constitutionalism to place limits on the behavior of an independent American regime, were Americans to choose independence. Historians of the Revolution have spent much of the post-World War II era characterizing the evolution of these beliefs, their basis in the previous 100 years, and especially how they came to predominate the beliefs of Americans on the eve of the Revolution.⁷ The revolutionaries' theory of the constitution, of how liberty is established and preserved, and of how a new national government might be created that would preserve liberty among the states all helped to adapt the earlier system of credible commitment to the new circumstances.

In short, the sudden emergence of disorder in America reflected the principles articulated above. The defeat of the French helped dislodge the old system, leading to changes in British behavior and policy within the empire. In reaction, American radicals articulated a new idea, one at first on the fringe of American beliefs, namely, that the British actions represented the end of liberty. Early on in the controversy with Britain, the politically pivotal moderates disagreed with the radicals. Yet British actions provided evidence (in the sense of Bayesian updating) in favor of these ideas, causing them to gain support among the pivotal moderates. If the radicals' claims about the British threats to liberty seemed false in the mid-1760s, they seemed far more plausible fol-

lowing the British reaction to New York in 1770 and Massachusetts in 1773. By 1775, moderates had switched sides to support the radicals in revolution against the British. The failure of the British to provide a credible alternative not only drove them to the British opponents but also provided further evidence that the radicals' views were correct. A majority of Americans were thus willing to support revolutionary action rather than maintain the status quo.

The Re-emergence of Order in the Post-revolutionary Era

The principal problem facing British North Americans during the revolutionary war and the immediate post-independence period concerned how to create a cooperative system among the colonies, with new national political entities capable of respecting citizen rights and state and local political autonomy. Consistent with the first principle of political order presented above, the emergence of a shared belief system during the revolutionary debates helped establish political order after the defeat of the British. Critical elements of these shared beliefs included the central importance of liberty, the role of colonial—now state—legislatures in protecting liberty, the appropriate limits on national and state governments, and the appropriate forms of constitutional protections against tyranny. In particular, proponents of revolution adapted their theory of credible commitment in the empire, based on federalism, to the new circumstances of independence. States—already adapted to preserving liberty and providing public goods to promote public welfare and the protection of critical rights—remained equally central in the new circumstances.

Under the Articles of Confederation in the early 1780s, states retained considerable political autonomy. The national government was charged with providing national public goods, such as defense. But, in deference to protection of liberty and state autonomy, it was not given the powers or financial means to enforce its decisions.

Under these circumstances, the great problem facing those who became known as the Federalists was to grant the national government the power to provide national public goods (security, a common market, and monetary stability) while credibly committing this government to abide by these limits. As the Antifederalists came to emphasize, the danger posed by the new national government was encroachment on state autonomy and citizen rights, paralleling the previous British tyranny. The challenge facing the Federalists became how to grant national powers to provide a few critical public goods, such as national security, while preventing the national government from growing beyond those powers. In the end, the Federalists solved this problem by creating a system of market-preserving federalism and thus providing for long-term economic growth.

The principles of political order discussed above help show how the United States Constitution resolved many of these problems. The Constitution low-

ered the stakes of national political action in a variety of ways, including a complex system of enumerated powers, a separation of powers system, and a system of federalism placing striking limits on the national government. The debates during the revolutionary and constitutional controversies served to provide a new shared belief system about the bounds on the national government and the importance of citizen rights and state autonomy.

The Constitution's success was based in large part on the shared belief system among Americans that emerged during the revolutionary and constitutional debates.⁸ As the principles above suggest, the shared belief system about liberty and the appropriate limits on the national government helped maintain limits on the national government. Indeed, when Federalists seemed to overstep these bounds in the late 1790s, many former federalists came to support Jefferson, the Federalists' chief opponent. These events ushered Jefferson into the presidency in 1800 and provided for his party's hegemonic dominance of national politics.

Americans in the United States, however, had the luxury of being able to worry about the problem caused by national government in part because they had already solved the problem of protecting the liberty and wealth of citizens, colony by colony. Within each colony, citizens did not have to worry about their rights, wealth, or religious freedom, in part because the system inherited from the British and adjusted during and after the Revolution (e.g., changing meanings of sovereignty and liberty) provided an ongoing, seasoned, and credible system of limited government based on the full separation of powers.

In the new United States, no contradiction emerged between the mechanisms establishing and protecting rights maintained under the empire and liberal and republican principles underlying the new government. These principles were already embodied in the status quo constitutional system. Thus, British North America faced no contradiction between maintaining rights to economic assets and new constitutional principles.

The United States were thus able to create a strong system of market-preserving federalism, including a common market based on private rights protected by (relatively) neutral third parties. This provided the basis for long-term growth.

Credible Commitment in the United States

The institutions inherited from the British combined with the new ideas that emerged during the revolutionary debates to yield a new view of American constitutionalism, providing for the mechanisms of commitment in the new United States. For example, colonial assemblies were central to American "liberty" (Greene 1986; Reid 1995; Wood 1969), providing for political security, religious freedom, order, and (along with the judiciary) the enforcement of property rights. After independence, colonial assemblies became state legislatures

and were equally central in providing the same public goods. Just as the British role in domestic colonial affairs was limited prior to 1763, so too was the new United States government. The national government under the Articles of Confederation was greatly constrained from threatening individuals, in part because it had little power to do so. National power was focused on the provision of a few national public goods such as defense, the common market, and a stable monetary system. Even in these areas, it was greatly constrained by its inability to tax and hence to provide these goods.

With the advent of the Constitution in 1789, the United States emerged with a new national government, capable of providing national public goods. The Constitution also constrained the national government through a series of institutional mechanisms, limiting its ability to expand its powers beyond these domains. Important mechanisms included the separation of powers system, a system of implicit sectional vetoes (to the free and slave states, soon to be balanced in 1796, thus providing each region with a veto over national power), and federalism. Following the debates of the founding, a shared system of beliefs emerged about the limits on government (see, e.g., Hartz 1955; Lipset 1963; and Wood 1991). The direct import of this system was that it helped define widely shared views about the limits on government, in turn helping to police political officials that might overstep the bounds.⁹ Indeed, this appears to be precisely what happened to the Federalists at the close of the eighteenth century. Federalist attempts to enhance national power, including harassing their political opponents under the Alien and Sedition Acts, helped galvanize political support for their Jeffersonian opponents.

We conclude our discussion of British North America by suggesting how the matrix of new American institutions provided the political foundation for long-term economic growth. Following the fundamental political dilemma of an economic system noted above, how did the United States protect the rights and freedoms necessary to underpin long-term growth?

Our answer begins with the British heritage, which emphasized individual economic and political rights, including local political representation. Within the British empire, Americans experienced and believed in individual initiative, private property rights, limited government, and political liberty. All this was held together by systems of local political representation and the colonial assemblies, the principal bastions of economic, political, and religious liberty. These values were widely held throughout the colonies, constituting a shared belief system.

Yet these beliefs alone were insufficient to support a limited government fostering market growth. In addition, the constitution helped create a system of market-preserving federalism (Weingast 1995). Much as market-preserving federalism prescribes, the Constitution limited the national government's powers largely to truly national public goods, such as national security, preser-

vation of the common market, and monetary stability. In particular, the Constitution reserved most powers of economic and social regulation to the states, subject to the constraint enforced by the national government that they could not erect internal trade barriers.

Market-preserving federalism drastically reduced the stakes of national politics. Reserving most powers over everyday economic and social life to the states greatly reduced the scope of decisions made by the national government. This had two immediate effects. First, it greatly reduced the scope of rent-seeking at the national level. Second, it allowed states and regions with very different preferences to choose very different laws.

Two features of market-preserving federalism limited the stakes and rent-seeking at the state level. First, competition among the states in the face of a large common market gave states the incentives to foster a favorable economic climate. States that failed to do so lost scarce capital and labor to other states.¹⁰ Second, the presence of hard budget constraints greatly limited the states' abilities to subsidize local economic agents.¹¹

Significantly, citizens overwhelmingly supported the Constitution along with the central features of market-preserving federalism.¹² Citizens in the early American republic favored freedom for state and local governments and therefore strong limits on the national government. This shared belief system combined with political institutions, property rights, and laws to produce a system highly favorable to decentralized, competitive markets.

Factors of production were undoubtedly relevant for economic progress in the United States and for the stability of the American democracy and Constitution. As Engerman and Sokoloff (1997) observe, the lack of economies of scale and hence lack of slavery in agriculture throughout the northern United States contributed to the greater emphasis in the North on egalitarianism. Of course, the South exhibited both economies of scale and slavery, thus creating a puzzle from the factors of production perspective as to why this region supported democracy and the Constitution. Nor does this perspective answer other questions. For example, why—and how—did the North and South cooperate within one nation despite their economic differences? Second, the focus on endowments argues that the United States should have experienced economic growth. But it fails to explain why the United States evolved to become the richest nation in the world.

Our institutional perspective helps address these questions. Endowments affect economic opportunities, but they alone do not determine long-term economic performance. The institutions created by the United States Constitution implied strong protection for property rights. Its system of market-preserving federalism implied significant barriers to harmful political intervention, characteristic of developing nations, that hobbles development. This included protection for slavery where it existed. Federalism also helped un-

derpin the system of cooperation among the North and South (Weingast 1998). Federalism implied that the most important decisions over which the Northerners and Southerners differed—notably, slavery—could be devolved to the two sections via the states and thus prevent national politics from becoming explosive. Nothing in the perspective on endowments implies a system of federalism with these qualities.

Returning to the problem of political order: security of property rights combined with strong limits on the stakes of national politics to imply that Americans faced a relatively low risk of adverse political action. As a consequence, most people could focus on productive activity rather than on investing resources to protect themselves and their families. This situation would have differed markedly if the United States had had a more centralized political system. To see this, consider Southerners' property rights to slaves, an issue on which Americans did not agree. Because a centralized system would have made rights to slaves subject to national decision making rather than decentralized to the states where it was secure, centralization implied greater insecurity for the Southern slave system of agriculture. Centralization would have therefore greatly raised the stakes over slavery, putting Northerners and Southerners at loggerheads from the beginning. Indeed, the lack of security for slavery under such a system may well have precluded their cooperation within a single country.¹³ Thus, the fact that federalism limited the stakes of national politics not only fostered political cooperation, it helped underpin the system of regional specialization that helped propel economic growth over the coming decades (see North 1961).

POLITICAL DISORDER IN POST-INDEPENDENCE LATIN AMERICA

Latin America fell badly behind the advanced, industrializing economies of the North Atlantic during the nineteenth century (Haber 1997). While the United States forged ahead with a steadily growing national economy, increasingly efficient markets, and an array of national institutions that provided for lengthy, uninterrupted periods of political stability, the newly independent Latin American nations languished in relative backwardness and, in most cases, political turmoil.

The contrast between the two regions is especially striking given their respective histories. Both areas were colonies of expanding European powers in the sixteenth and seventeenth centuries. Both were rich in terms of land and natural resources. Both saw the rise of thriving commercial cities and the growth of overseas trade, albeit constrained by colonial mercantilism. Both achieved political independence from their mother countries within forty years of each other. Nonetheless, the costs of the "lost" nineteenth century, specific to Latin America, remain apparent. For much of Latin America, the twentieth century was one of quite successful economic performance. The lag

in levels of per capita GDP that persists in Latin America today is attributable in large part to events in the nineteenth century.¹⁴

In the half century following independence, the presence of widespread political instability and violence distinguished much of Latin America, especially Spanish America, from the United States. While the United States enjoyed an enduring set of political arrangements that both provided for stability and protected markets from predation, most of Spanish America erupted in internecine war. This instability imposed several types of costs. It diverted resources from economic activity and channeled them into *caudillo* ("strongman") armies and a variety of praetorian efforts (Gootenberg 1989; Stevens 1991). Importantly, instability also made it impossible to establish institutions that could bring the expected private returns from investment closer in line with social returns. The results were disastrous. Mexico, by way of example, plunged into a serious depression that endured until after mid-century (Coatsworth 1990). The new Andean republics experienced similar turmoil and likely brooked similar costs.

Historians have long examined the failures of Spanish America's tumultuous post-independence period as disruptions inherent in the process of "state-building" in Spain's former colonies. For example, Safford (1987) holds that: "the most important theme in the political history of Spanish America in this period is the difficulty encountered in establishing viable new states. . . . Most Spanish American states were unable fully to re-establish the legitimacy of authority enjoyed by the Spanish crown before 1808" (p. 50). Safford continues: "A deep and abiding problem faced by Spanish American elites was that of constructing political systems that could command effective and enduring authority. . . . The first, and most enduring problem was that of reconstructing legitimate authority in the absence of the king" (p. 56). Those historians have, however, neglected to examine the types of political institutions that constrain groups from attacking each other. Such institutions play a central role in establishing political order through political organization, which raises the costs both to the state for expropriating particular groups and to one group for attacking another. By making it sufficiently costly for any one group to capture the state and employ its resources (organizational and material) against other groups, particular institutional arrangements help prevent strategic "miscalculations" of the type that may lead a group to be preemptively aggressive against another because it fears victimization (de Figueiredo and Weingast 1999).

Throughout Spanish America, independence did not result in stability. The Crown had long provided an important enforcement mechanism, which in turn provided the basis for authoritarian political order. Corporate groups obtained a series of rights that limited the ability of any colonial group to expropriate or attack another. Although this system provided for political order, it did not provide incentives for long-term economic growth.

In the vacuum created by independence, third-party enforcement of rights and exchange vanished, and no institutions emerged that made aggression by one group against others in society sufficiently costly to prevent internal war. The result was widespread turmoil, violence, and political instability. Without stabilizing institutions, there was little hope of achieving efficient economic organization. Most groups scrambled to preserve the protections and privileges formerly accorded by the Crown, or to secure new powers via control of the state. The result was severe economic contraction.

Brazil and Chile represent variations on these themes and reveal the importance of the types of institutional arrangements adopted in the new independent nations. These new nations successfully constructed institutions that promoted political stability after independence. Neither did so, however, by means of political organization that promoted economic competition and cooperation among subnational administrative entities. Instead, both states were heavily centralized. They thus failed to capitalize on their accomplishments in securing stability in the political realm. Any trappings of federalism were in fact contingent entirely on the central government's willingness to grant limited regional autonomy in administration and policy. As such, central government could abrogate this "top down" federalism at its convenience, and did so whenever necessary. Market-sustaining federalism was virtually absent in these cases. Instead of competing for mobile factors of production, provincial elites competed for pork and protection within national legislatures. By creating institutions that protected groups from aggression and expropriation, these nations avoided the turmoil of Peru and Mexico, and saved themselves from a sharp economic downturn. But they did not promote material progress in the way that the United States did. The result was relatively flat economic growth, which improved only when they reorganized their polities in ways that happened to emulate the United States.

Our investigation of Spanish America proceeds as follows. We first study the political foundations of the empire and then examine the imperial mercantile system. We conclude with a focus on the emergence of disorder following independence.

Political Foundations of Order in the Spanish Empire

To understand the emergence of disorder in the independence period, we must first understand the political foundations of stability under the empire. Within the context of the Spanish empire, colonial administrative institutions provided the political basis of stability. Credible commitments took a specific form. In addition to the geographic organization of colonial administration, the Spanish Crown relied heavily on a corporate organization of society and politics, notably the army, the Church, and the nobility and landed elites (Coatsworth 1990). Each group possessed a series of juridical privileges and

thus a degree of protection from the Crown and its agents. Because Spain needed the long-term cooperation of these corporate groups, it developed a complex set of rules, practices, and norms across the empire that sought to promote mutual dependency and cooperation between the Crown and the corporate groups, and among the corporate groups themselves.

Under the Spanish empire, valuable economic rights (for example, to exploit labor, land, and investments) and valuable political rights (for example, the privileges of the military and the Church) were protected by a system of centralized power based on political loyalty to an absolutist Crown. Rights to land originated with grants from the Spanish Crown. Protection of these rights rested on a system of privilege based on personal and corporate connection to the Crown.

The foundation of this system was political exchange, whereby elites' rights and privileges were held by virtue of sustained loyalty toward and support for the Crown. Given the powers of and constraints on the absolutist Crown, the political exchange of rights for political support ensured the Crown's long-term survival. In contrast, a system of rights based on legal title enforced by neutral third parties, such as courts, would not serve the Crown's interest in long-term survival. Once rights were created, holders of those rights based on legal title enforced by an independent judiciary would no longer depend on the Crown. This mechanism could not sustain long-term loyalty toward the Crown. Although Spain is labeled an "absolutist" state, this did not mean that the Crown could act arbitrarily; many privileges were protected by institutions and customs, including the nobles' representation in the Cortes.

The Spanish empire encompassed a system of rights and exchange, thus providing for authoritarian political order. It did not, however, provide incentives for long-term economic growth.

Commitment to rights and privileges in the imperial system was created and maintained across the system. The Crown sought empire-wide cooperation of corporate groups in its competition with other European powers. Even if the Crown or its agents might benefit from mistreatment of a corporate group in any one colony, this action would jeopardize cooperation of that group across the system. The Crown's inclinations toward expropriation would be counterbalanced by the potential loss of cooperation of that group in other colonies.

Each corporate group provided important services to the Crown throughout the empire. In exchange, the Crown gave each a series of rights and privileges. Together, the Crown and the corporate groups created an effective imperial system that competed for resources in the new world and for influence in Europe.

Imperial Mercantile Regulation

Although the Spanish mercantile system provided the basis for authoritarian political order, it heavily constrained trade and hence economic development

in the colonies. Trade regulation worked against the development of intercolonial trade, the development of a dense network of ports, and a common market among the colonies. This regulation thus limited the incentives for colonists to capture the gains from specialization and economic exchange throughout Spanish America. Before returning to the problem of order following independence, it is worth considering Spanish mercantile regulation in some detail.

Spain's need to police both its monopoly system and its system for extracting precious metal led to a series of striking economic constraints. First, it concentrated trade in a tiny number of ports to serve its entire empire across two continents, one in Spain and three in America. Instead of developing hundreds of ports across thousands of miles of coastline, allowing each to compete for trade and develop a supporting surrounding economy—paralleling the economic development in British North America—Spain tightly constrained economic development. Second, it created the so-called fleet system governing all transatlantic trade.¹⁵ The fleet system restricted intercolonial trade, forcing most trade between colonies to go through Spain and Portugal. Only with special license could trading ships engage legally in intercolonial commerce, and it was not until 1789 that all of Spanish America was finally freed from these restrictions (Lockhart and Schwartz 1983, p. 364).

In combination, these economic restrictions prevented the development of a dense commercial network in Spanish America. Products from Río de la Plata could not be shipped from its natural port (present-day Buenos Aires), but instead had to travel thousands of miles overland to Peru. In parallel with the political intervention of modern developing countries, these regulations highly constrained economic development, including the development of a stronger system of specialization and exchange across colonies. The monopoly power of the *consulado* merchants prevented free markets, setting prices artificially high and imposing deadweight losses on colonial economies.¹⁶

The wide range of endowments across Spanish America should have led to the same type of dense economic development along many South American coasts as observed on the east coast of North America. Yet the Spanish mercantile system explicitly prohibited this. The monopoly system also transferred profits from producers to “merchants and speculators, thus eliminating incentives to investment in new technology or to hire additional labor” (Burkholder and Johnson 1990, p. 139). In contrast to the view of Engerman and Sokoloff (1997), nothing about factor endowments dictated this regulatory system.

The Crown had its motives, however. Spanish regulations worked to keep the bullion flowing to Spain but did not promote the economic development of the new world. As North (1981, 1990) suggests, the Spanish system was

geared to maximizing short-term rents for Spain, not long-term economic growth for the imperial system. The system of monopolies was in part designed to capture rents today for the monarchy and for Spain. Attempts to trade outside the system were to be prevented so as to maximize the bullion available for Spain (the lucrative trade between the Spanish American colonies and Asia drained away bullion).

The Spanish mercantile system rested on short-term fiscal rationality (North 1981, ch. 11). Allowing free trade and free economic development would have sabotaged this system. Over the long haul, freer economic exchange would have created a richer system. But in the short run, dismantling the mercantile restrictions would have meant less revenue for the Spanish Crown.

One facet of Spanish revenue extraction concerned the arbitrary expropriations under Spanish absolutism. Consider the expulsion of the Jesuits in 1767 from Spanish America. This case illustrates how Spanish absolutism failed to provide complete credible commitments to its supporters. In this case, Spain expropriated the property and revoked the rights and privileges of a once critical but no longer needed set of constituents. After the Glorious Revolution in 1689, nothing comparable could occur in England or British North America. As the Jesuits were among the largest wealth holders in Latin America, this led to huge expropriations. According to Skidmore and Smith (1992), "The best properties of the Jesuits' were auctioned off and the proceeds, of course, went to the crown" (p. 28).

In sum, the Spanish mercantile system had downstream consequences. Forcing the colonies to trade with Spain implied less development of local products for self-sufficiency, including far less intercolonial trade. By means of smuggling, many got around these rules. But this was costly, in no way offsetting the losses imposed by the imperial restrictions.

The late Spanish imperial policy had some negative effects on domestic production in the new world (Lynch 1986). For example, in Mexico, in the twenty years prior to independence, Spain undid much of the Mexican system of local monopolies, destroying considerable local production. Over the long run, this policy might have helped the colonies increase their specialization and exchange. But in a relatively short period, these benefits did not materialize. The Latin American economies were thus far less integrated economically than were the economies of the North American colonies. Of course, geography was a bigger factor.

In sum, Spanish mercantilism appears designed to maximize the Crown's extraction from the new world, at considerable cost to economic development of the empire. In contrast, the British empire's federal structure seems close to a system designed to maximize economic development within the empire. Spain bore large costs throughout the entire system to increase the Crown's share.

The Emergence of Disorder in Spanish America

Post-independence turmoil in Mexico, Peru, and the Río de la Plata extended from the wars of independence. Events both overseas and at home sparked those conflicts. Dissatisfaction among the native-born (Criollo) classes with absolutist policies stemmed from the disruptions and changes of Spain's Bourbon reforms (and Portugal's analogous Pombaline reforms) that unfolded throughout the eighteenth century. In an attempt to generate new revenues for the Crown while preserving peninsular interests in the American colonies, the Bourbon Kings pursued a series of measures designed to increase economic activity with an eye specifically toward generating tax revenue. These policies simultaneously created new opportunities for some colonials, and reduced the opportunities for sectors such as domestic woollens production, while tightening the squeeze on all from the royal fisc. Compounding the economic pressure of the Bourbons' administrative changes was worsening economic performance in the late eighteenth-century economy of New Spain (Coatsworth 1990, pp. 57–80, *passim*), and perhaps Peru as well.

In the environment of growing tensions in the Americas at the end of the eighteenth century, events in Europe sparked the first dose of autonomy for these colonies. Napoleon's imprisonment of the Spanish King in 1807 created a breach between the King's loyal subjects overseas and the French-controlled government in Spain. This quickly evolved into conflict about the redefinition of the colonies' relationship with the metropolis, leading to outright independence struggles between criollo forces and the Spanish Army.

The outbreak of Independence movements in Spanish America was indeed a lagging indicator of the problems that Bourbon absolutism confronted. Initiated in the absence of authority from Spain, local juntas emerged, in many cases to rule in the name of the jailed king. The questionable legitimacy of the French-imposed rulers and the collapse of the Spanish Bourbons left Spanish Americans poised to break away. A final insult from the Spanish Liberals, seeking to maintain trade restrictions on the colonies while simultaneously denying the criollos equal representation in the incipient Parliament, confirmed some of the worst fears of Spanish Americans regarding the true nature of reforms promised by Spain (Lynch 1986, p. 36). Independence wars unfolded in distinct waves; one, beginning in the Río de la Plata, moved over the Andes, while another moved from Venezuela through Colombia, and a third insurgency ebbed and flowed in New Spain. Together, the three main swaths of warfare left the Spanish with too much terrain to control, and too many resisters to dominate.

The defeat of Spanish forces in the 1820s throughout Spanish America resulted in the fragmentation of Spain's former colonies into new republics. These in turn virtually collapsed under the weight of the challenges of what historians refer to as "state building." They lacked self-enforcing institutions

that constrained predatory action. In the face of widespread violence, political organization disintegrated into smaller units, typically organized around a *caudillo* for protection.

The dimensions of potential and actual conflict were numerous, and at once centrifugal and centripetal. In the archetypal cases, Mexico and Peru, the Church and the regular army struggled to maintain their preeminence among society's corporate entities. That preeminence was rooted in wealth, juridically defined privilege, and authority over the affairs of the nation. Working against that centralizing tendency, regional groups with disparate interests sought local political autonomy. Disagreements over trade policies and uncertainty over the intentions of central governments led them to seek to escape the central government's heavy hand. These forces promoted the formation of competing militias. The phenomenon of *caudillismo*—which occurred when regional strongmen vied militarily for the control of the state, exemplified in the extreme by Mexico's Antonio López de Santa Anna—became pervasive. Incessant warfare made rapid turnover of the national officeholders endemic (Stevens 1991). *Caudillos* attained national power in both Peru and Mexico, sapping the economy by leveraging forced loans from merchants. State indebtedness mounted, foreign debt obligations went unpaid, and domestic expropriation grew increasingly common (Tenenbaum 1986). All this fueled economic stagnation and outright contraction. The political turmoil that proved so costly persisted in Mexico through much of the 1860s; a semblance of stability appeared in Peru only in the 1870s, and Argentina remained subject to *caudillo* uprisings, in diminishing degree, until the early 1870s as well.

In most of Spanish America, it was not until a half century later that one of these competing groups emerged victorious. As the opportunity costs of continued conflict grew ever larger, the survivors constructed institutions that created stability. Establishing order became a goal in itself, as widespread elite support grew for institutions that would promote order. And this occurred at the expense of economic growth and individual liberty. The order that emerged in no way constrained the state.

Underpinning this pattern of instability was a complete lack of experience in autonomous decision making and government. For Spanish America, up to independence, autonomous institutions of self-government existed only at the most local level, and possessed heavily circumscribed authorities. Unlike the English colonies in North America, where some limited self-rule served as an institutional precedent for the new nation, state-building in Spanish America required that such institutions be created from scratch in an environment of dramatic change and uncertainty. In the absence of any institutions from the colonial era that would either dampen that uncertainty about the intentions of competing groups or constrain the attempts of groups that might aggress against others, open warfare became the norm.

Theoretical Factors Underpinning Political Disorder and the Failure to Reestablish Political Order and Republican Governments

The theoretical principles developed above shed considerable light on the emergence of disorder and the failure to reestablish order after independence throughout Spanish America.

In contrast to British North America, the break with the metropolis destroyed many of the institutions that provided credible commitments to rights and property within the Spanish empire. Each colony had a centralized political system headed by a governor who answered to the Crown, without an independent legislature and judiciary. Although the governor might be tempted to expropriate a privileged group, the fact that he would have to answer to Spain for his actions dramatically altered his incentives. Unless the Crown valued the expropriation, expropriation risked punishment.

Creoles gaining political power after independence inherited a centralized political system without inheriting critical elements of the formal and informal constraints protecting corporate groups and other elites. Those newly in power did not have to worry about the effects of their decisions across the empire; nor did they have to answer to the Crown for their decisions. The absence of constraints meant a potentially unconstrained executive and administrative apparatus. According to Safford (1987), "organization of the power in the [colonial] system ultimately depended upon the king. Without the presence of the king, the system shattered. 'In the absence of developed and interacting economic interest groups having a stake in constitutional process, the new countries were plunged into alternative regimes of anarchy and personalist tyranny. The contest to seize a patrimonial state apparatus, fragmented from the original imperial one, became the driving force of public life in each new country.'" (p. 116; quotation from Morse 1964, p. 157).

At the same time, independence set in motion contradictory impulses. Most corporate elites wanted to maintain their privileges, rights, and assets that depended on the old system. Countervailing this impulse was the nascent republicanism, exemplified by the adoption of American-like constitutions. Unfortunately, republican and liberal principles conflicted with the system of maintaining corporate privileges, for example, landed elites' right to labor, and the independence and power of the Church and the military (Safford 1987, p. 117).

The conflict implied a tradeoff: stronger rights and privileges for corporate groups weakened republicanism. Because corporate rights placed important policies, privileges, and public benefits outside of the political purview, they directly conflicted with the Republican principles that elected officials should control public policy. This conflict placed at stake political control over a major portion—perhaps the majority—of social resources, including: the army; huge landholdings and related production and commercial activities; various

monopoly rights and privileges associated with productive and commercial activities; rights to a considerable portion of the labor force; and the property of the Church, including its productive and commercial activities. The greater political control demanded by republicanism compromised these privileges, juridically protected under the imperial system. To the extent that any group felt its rights, privileges, or property would be compromised—for example, expropriated by government action—they would undoubtedly fight rather than submit. In many newly independent states, the new political elites threatened to abolish these rights and privileges.

Two further problems emerged at this time. First, major groups at independence typically disagreed about who should make up the citizenry. One conflict concerned the *peninsulares*, who held a privileged position under the empire. Should they be accorded equal rights as the much larger group of criollos? As much of this group's property and special rights was due to the royal system that privileged them, many in the newly independent states felt the new states should abandon this group's privileges. Doing so would effectively expropriate much of this group's wealth, property, and special access to revenue. Some felt, further, that this formerly privileged group should be excluded from political citizenship. A second conflict emerged in other states, particularly Mexico. Native Americans, nearly enslaved under the imperial system, played a significant role in the struggle for independence in some states. Some felt that these groups should be rewarded for their efforts with citizenship and equality. Others disagreed, seeking to maintain the repressive regime that defined and enforced their rights. Second, the new regimes exacerbated problems of uncertainty over rights and privilege by failing to conform to the new constitutional principles.

The principles of political order and disorder discussed above bear directly on the conflicts that emerged. First, in contrast to the inhabitants of British North America, Americans in the former Spanish empire did not come to share a belief system about the role of government, the state, corporate privilege, and citizenship. The conflicts noted above imply a deep division over the definition of society (who should comprise the citizenry) and over the principal ideas along which society should be organized. This division reflected the absence of consensus over the legitimate ends of government and hence over the nature of government transgressions. Our first principle of political order suggests that these deep divisions implied the failure of the shared belief system necessary to police limits on the state.

Second, constitutional adherence requires that the constitution limit the stakes of political power and controversy. The absence of agreement about the basic elements of political structure and public decision making combined with the absence of a shared belief system to imply an absence of credible commitments by the new states. This absence had several consequences. First, it

indicated an inability to create the appropriate political institutions defining citizen rights, limiting the stakes of political power, and creating incentives for economic growth. Indeed, the inability to agree on and create basic political institutions led directly to political instability in both the rights established under the old system and the new rights that the new regimes attempted to create.

Under these conditions, our theory shows, citizens in the new societies were unlikely to be able to police adherence to limits on political power. Instead, these conditions fostered the development of an authoritarian system. The absence of widespread support for constitutional principles made adherence to them unlikely. The principles of rent-seeking and limiting the stakes combine with the absence of consensus to produce the following implications. Because the basic disagreements covered such a large portion of social resources, the stakes were high. Because basic issues were not settled, the rewards to capturing power and the costs of being out of power were both large.

The absence of the first two conditions indicates that the third principle of rent-seeking comes in to play. The absence of credible limits on the state implied rational anxiety on the part of corporate groups and other elites. Their rights, privileges and wealth, often representing the lion's share of productive assets in these societies, were at stake. Those seeking to uphold what they view as their rights are willing to fight to protect them. Those in power have incentives to oppose these groups, either because they want to implement republican principles or because they want access to these groups' wealth. The absence of credible limits implies an absence of political institutions that would prevent this. The result is political turmoil and disorder. The main consequence was civil war.

The internecine wars following independence reflected the standard problem of an absence of credible commitment, high stakes, and rampant rent-seeking. Additional factors helped perpetuate political struggle based on an unconstrained political system and the resulting civil war. The wars for independence and the subsequent civil wars left debts—sometimes quite large. These debts, in combination with an economy that had contracted, implied that the new governments had substantial financial difficulties. Financial problems, in turn, indicated a short time horizon and thus an absence of thinking about long-term economic development. This combined with the absence of credible limits on their power to seek additional sources of revenue. Political survival depended on financial survival. That reinforced the tendencies to threaten corporate groups and other elites.

This behavior by the government induced local groups to seek protection, and hence the emergence of *caudillismo*, further contracting the economy. Groups outside of the ruling group would act to insulate themselves, implying limits on the reach and authority of those in power. In combination with the

economic contraction, this indicated growing political autonomy across regions within each new state. In this climate, repressed groups sought greater freedoms, often using violence to create local independence. All this activity sowed the seeds of spiraling disorder and a contracting economy. When order reemerged, it took the form of authoritarian coercion.

Safford (1987) provides some support for this perspective: "Formal constitutional systems were enacted, most of which provided for the transfer of power through elections and guaranteed individual liberties. But these formal constitutional provisions frequently proved a dead letter. No political group believed its adversaries would abide by them. Those who held power bent constitutional principles and often harshly repressed those in opposition in order to retain the government. Those out of power believed, generally correctly, that they could not gain possession of the state by means formally prescribed by the constitution, because those who held the government controlled the elections. Opposition politicians, both military and civilian, therefore waited for, and took advantage of, moments of government weakness in order to overthrow the ruling group" (pp. 50–51). Safford also provides evidence for the rent-seeking account: "Many, if not most, of the political conflicts in Spanish America in the period after independence were fought simply to determine who would control the state and its resources" (p. 84).

In the end, reestablishment of political stability required a return to many of the traditional forms of Spanish society. According to Wiarda and Kline (1990):

Precisely because [the first thirty years of independence] were so chaotic and governments so prone to breakdown, this period gave rise to a number of what would become the historic drives of Latin American development policy. These may be identified as the quest, given the prevailing instability, to secure and maintain order at all costs; to populate and thus to fill the area's vast empty spaces; to control and civilize the Indian and African elements so as to prevent future social upheavals; to strengthen the oligarchy through immigration and a general Hispanicizing of the population; to maintain and strengthen existing structures such as the army and, in many areas, the church; to fill the organizational void and correct the historic *falta de organización* (absence of organization); and to develop a political model that would reflect the area's earlier glory and its hope for the future. That model was frequently the authoritarian-autocratic model of 16th century Spain and Latin America. (p. 33)

Sustained political disorder emerged in the struggles for independence throughout Spanish America and continued well beyond independence. Although some areas managed a degree of stability, such as Chile, the more common pattern was that of internecine wars, such as Mexico and Peru.

Our theoretical perspective helps explain this disorder. On independence, people throughout Spanish America disagreed about the fundamental basis of political, economic, and social organization. They therefore disagreed about the basic form of rights and privileges, of political institutions, and the legitimate ends of the states. Further, they often disagreed about who should be citizens.

These factors combined to imply that the first two conditions of our theory of political order fail to hold: an absence of a shared belief system and an absence of political institutions that limit the stakes of political conflict. The absence of these conditions implied that nothing was immune from political controversy. Because the stakes were enormous, virulent and violent rent-seeking ensued and a vast portion of social resources was subsequently dissipated. The result was warfare and economic contraction.

CONCLUSIONS

Too often, economists and political scientists take political order for granted. When studying the everyday politics and economics of taxation, legislative voting, or economic regulation in the developed world, scholars can safely abstract from concerns about political order. For many developing societies, however, political order is a more central concern. And the history of every developed country is replete with moments of disorder, demonstrating that political order is not always a given.

To prosper, societies require a means for securing political order. Because political order is a necessary condition for economic and political development, we must enquire about the conditions that provide for it. Citizens behave very differently when they fear for their lives, their families, and their sources of livelihood.

Our chapter provides a series of propositions about the establishment and maintenance of political order and about its breakdown. In brief, we argue that political order can emerge in one of two ways: an authoritarian society where order is based on coercion, and a consensual society where order is based on social cooperation. Consensual order requires that the state provide a degree of credible commitment to political institutions and citizen rights. The first proposition about consensual political order concerns citizens and embodies three conditions for consensual political order: there must be sufficient agreement among the citizenry that their political institutions are desirable; citizens must be willing to live under the decisions made by these institutions; and citizens must be willing to defend these institutions against abuse by political officials (Weingast 1997). When citizens disagree about desirable political institutions or the legitimate ends of the state, they cannot police limits on political officials, which leads to an authoritarian society.

The second proposition about consensual political order is that successful

societies must limit the stakes of political decision making. Citizens must have sufficient rights—whether *de facto* or *de jure*—ensuring that substantial aspects of social, economic, and political life are beyond the reach of the state. The absence of sufficient rights implies that high stakes attend normal politics. This, in turn, has two major consequences. First, those in power will be less likely to give up that power when they lose elections. Second, those out of power are more likely to resort to extralegal means of political transformation.

The third proposition highlights an implication of the second. When rights to valuable assets (whether physical capital, land, or technology) are absent, incompletely specified, or inadequately enforced, individuals will compete for those rights, often expending in the aggregate up to or more than the asset's value. Resources devoted to competing for the right—as opposed to its use—are unproductive and therefore dissipate the net social value of establishing the right, possibly to zero. The greater the uncertainty over citizen rights, the greater the social resources devoted to competition for them. In the limit, everything is at stake in a society without basic agreement about rights or the rules governing economic and political choice. Citizens in such a society devote most of their resources to fighting one another, and the society is characterized by conflict, turmoil, political disorder, and economic contraction.

The final proposition is that providing political order requires that the state credibly commit itself to establish and maintain a variety of citizen rights, ensuring that citizens possess a sufficient degree of political security from political opportunism. Without this protection, rights are insecure. Furthermore, without it, citizens will insufficiently invest in economically productive activities, investing instead in means of protecting themselves from undesirable action from one another and from the state. Credible commitments also tie together the principles of political order just noted. The willingness of the citizenry to defend their rights and their institutions helps make these institutions and rights credible.

Force plays an important role in the emergence and maintenance of authoritarian order. First, it lowers the degree of support necessary to remain in power. Second, because many authoritarian regimes emerge from political disorder, many citizens are willing to submit to the regime if it establishes order. The threat of a return to disorder drives many to support the regime, if somewhat reluctantly.

Authoritarian states typically fail to establish any form of consensus over citizen rights. This has two consequences. First, citizens cannot police limits on government; therefore, universalistic rights are difficult to enforce. Second, the absence of consensus indicates that the regime draws support from some segment of the population, and often tramples the rights of the rest.

Revolutionary America

We apply our approach to a comparison of economic and political development in the Americas. Specifically, we study the years before and after independence in British North America and Latin America. Both regions began as colonies of major European states. Independence in both began with revolutions to throw off the metropole. Yet independence brought on stark contrasts in political and economic behavior. Fifty years after independence, the United States was well on its way to being the richest nation in the world. Fifty years after independence, most of Spanish America was emerging from decades of internecine warfare and economic contraction.

The Spanish (North 1987) and British carried their governance systems for political and economic systems across the Atlantic. In both systems, rights to land in the new world began with grants from the Crown. Yet there the similarities ended. The Spanish empire lodged these rights in a system of privilege based on personal and corporate connection to the Crown. In contrast, the British system lodged rights in what became a system of transferable titles enforced by the judiciary.

The foundation of the Spanish system was political exchange, whereby elites gained rights and privileges by virtue of sustained loyalty and support for the Crown. Given the powers of and constraints on the absolutist Crown, the political exchange of rights for political support helped ensure its long-term survival. In contrast to the English monarchy, the Spanish Crown was never forced to create a more decentralized and less personalistic system of rights.

A second aspect of the Spanish system was that the Crown was financially constrained, forcing numerous bankruptcies. Because this resulted in a short-time horizon for the Crown, many critical economic and political decisions were made for short-term financial expediency rather than long-term gain.

The English system of rights depended directly not on political loyalty, but on legally enforced rights. Although the English experienced considerable conflict over rights, their enforcement, and royal power during the seventeenth century, these controversies were decisively settled in the Glorious Revolution of 1689. A representative system emerged as central to enforcing rights and other systematic limits on the Crown. In contrast to the Spanish Crown, the British Crown was not financially constrained after the Glorious Revolution, reducing the scope of political decisions made for short-term financial expediency.

These two systems had direct consequences for economic development in the Spanish empire. The economy throughout the empire resembled more of a modern undeveloped country than a thriving market system. In contrast, after the Glorious Revolution, the British empire represented one of the largest common markets in the world, with a relative absence of government intervention.

The Spanish Crown governed the empire in large part to raise revenue, often sacrificing long-term economic growth. Static deadweight losses from trade restrictions and customs fees in New Spain were considerably larger than those estimated for British North America. Sundry royal monopolies and monopsonies, the most famous example of which was tobacco, created further disincentives to invest and undertake productive activity in Spanish America. Economists and historians have not precisely determined the dynamic consequences for long-term growth of colonial economic distortions intended to benefit the king's coffers. But there can be little doubt they were considerable. The set of trade restrictions greatly increased transportation costs. Huge land grants absent a system of titling often prevented land from being traded to its highest valued user. The fleet system, as economically inefficient as it was, generally served its purpose of moving bullion safely to Spain (Burkholder and Johnson 1990, p. 139). Finally, the Crown's short-time horizon implied that it preferred the immediate revenue to a more competitive system that would foster greater development, and perhaps greater revenues later.

Prior to the revolutionary struggles, the British mercantile system was comparatively lax. It allowed the development of seemingly endless numbers of ports across British North America, did not constrain intercolonial trade, and did not impose a range of monopolies on critical economic activities. The British did constrain aspects of trade within the empire (some products could be shipped only to England), but these constraints were considerably weaker than those of the Spanish system.

British colonies were governed locally through representative assemblies, an independent judiciary, with a British-appointed governor. This system provided a systematic rule of law protecting individual rights and governing local production.

The federal structure of the British empire combined with a decentralized investment and a common market (with an absence of local trade barriers) to develop a flourishing system of specialization and exchange within the empire.

Our principles of political order help explain the differences between British North America and Spanish America that emerged after independence. In British North America, the revolutionary struggles helped produce a new shared belief system concerning the Constitution, liberty, federalism, and the role of the national government in the society. These ideas and institutions represented natural adaptations of those preceding the revolutionary struggles. A new constitution—encompassing strong systems of separation of powers and federalism—combined with the new shared belief system to provide credible limits on the national government. A range of rights, protected under the British system by colonial assemblies and limits on the degree of British intervention, came to be protected by the new states and by limits on the degree

of national intervention. Secured rights included property, contracts, and religious freedom. In particular, asset holders felt secure in their property rights; citizens felt secure in their political rights (including, it must be noted, slaveholders who felt secure in their right to own human chattel). The constitution and market-preserving federalism greatly limited the stakes of politics and helped provide the secure political foundations for markets. Complementing these formal institutions was the shared belief system that these institutions should be protected and that elected officials that sought to violate them should be punished.

Our perspective thus emphasizes the importance of path dependence, and we have sought to explicate the mechanisms underlying this phenomenon. The political interests of most British colonists led them to seek protection for their rights held under the old system. Colonists were able to adapt the rules of the political and economic game, including citizens' rights, to the new environment. In particular, the new rules of the game preserved the means of defining rights, of making political decisions, and of underpinning economic production and exchange. Self-governing colonies became self-governing states. One of the main changes concerned the substitution of the national government for the British. The new United States also retained most of the British rules of the economic game, from property rights to free trade across colonies/states.

Agreement over rights and the rules of the game kept the costs of rent-seeking to a minimum. Although some problems emerged with respect to security and the common market under the Articles of Confederation, these were largely resolved by the new Constitution. In short, British colonists had experienced considerable political and economic freedoms under the empire, and these were maintained after independence.

In Spanish America, by contrast, the demise of the old system raised new conflicts that the nascent states proved unable to resolve. Throughout this region, attempts to create new republican institutions came into conflict with the old order. Under the royal system, rights were granted to individuals and groups based on personal ties to the Crown. The result was huge land grants to wealthy individuals and the church; rights and privileges for the military; and a large series of local monopolies ranging from production, to commerce, to long-distance trade. Self-government occurred nowhere in the Spanish system.

Unfortunately, the new republican constitutions, typically modeled on that of the United States, threatened the old system of corporate rights and privilege. The political interests of those holding rights and privileges led many if not most to fight to keep them. In contrast to the United States, no set of political mechanisms from the Spanish empire could be easily adapted to fit the new political environment.

The contradiction between the republican principles and corporate rights

had several implications. Upon independence no shared belief system emerged in any state within Spanish America. Deep political conflicts emerged instead. Many favoring corporate privileges demanded political restrictions that threatened central aspects of the liberal republican aspects of the constitution, while the political institutions favored by those favoring republican institutions threatened critical aspects of the system of corporate privilege. Moreover, economic and political rights were deeply intertwined. By and large, those holding monopoly rights sought to preserve them.

The structure of the Spanish empire, therefore, created in every colony a wide range of politically powerful groups that demanded restrictions on economic activity. These groups also played a role in dooming attempts to create a common market across the former colonies. An understanding of the political interests created under the empire thus helps explain the continuity between the Spanish system and that after independence of the strong limits on economic activity. The result was—and remains—a significant burden on economic development.

Political clashes among the various groups within most newly independent states inevitably led to political conflict, which was often violent. The inability to resolve the contradictions indicated considerable uncertainty regarding economic and political rights, the structure of economic production, and everyday life. The absence of a shared belief system implied that political officials did not face a population willing and able to police limits on their behavior. Thus, rather than limit the stakes of political conflict, the new constitutions exacerbated political conflicts. Put simply, the lack of agreement on the basic rights and political structure implied that virtually everything was at stake.

Under these circumstances, the principles of rent-seeking yield the familiar implication: when citizens' lives, families, and sources of livelihood are at stake, they are willing to divert huge amounts of resources from productive activities to defend their families and possessions. Within the Spanish empire, the result was political disorder throughout most of the region. This framework thus helps explain the emergence of internecine warfare, the local *caudillo* organization of politics, and the spiraling economic contraction.

Our perspective complements that of neoclassical economics. As Engerman and Sokoloff (1997) argue, factor endowments played critical roles in the development of the Americas. Endowments were clearly the driving force underlying the pattern of European colonization. But endowments alone are insufficient to explain the variation of behavior after independence, even when we expand the notion of endowments to include a society's racial diversity and inequality. These endowments were constant across independence, so they alone cannot explain the divergence among the United States, Spanish America, and Brazil. In particular, nothing in the neoclassical perspective

shows why the United States took the path toward becoming the richest nation in the world—instead of remaining a well-to-do state on the European periphery. The neoclassical perspective also fails to explain the violence and economic contraction in Spanish America, as opposed to the relative stability in Brazil.

Endowments are critical in explaining the economic and political behavior after independence, but no *deus ex machina* translates these endowments into political order and political choice. We emphasize instead the principal political mechanisms translating endowments and other aspects of political interest into political behavior and economic performance. Political interests at independence were not solely a function of endowments, but included a range of economic and political factors in the Spanish empire.

Our approach emphasizes the political mechanisms of path dependence as a critical feature of the political and economic landscape in the Americas following independence. British colonists held considerable political and economic freedoms. On independence, their political interests led them to seek to preserve their system of political, economic, and religious freedom, and these interests were largely in harmony. Spanish colonists faced considerable restrictions on their political and economic freedom. These colonists inevitably clashed over how to create a new political order out of the older royal system of central administration.

In closing, we observe that aspects of the patterns we study remain with us at the turn of the twenty-first century. The United States retains a robust system of federalism, democracy, limited government, and thriving markets. Much of Latin America retains incompletely secure democracy and a questionable foundation for citizen rights and markets. Indeed, important aspects of the impediments to economic growth under two centuries of empire remain today. Central aspects of conflicts over land rights, for example, have never been completely resolved. As recent events in Chiapas, Mexico, suggest, these struggles are still capable of yielding violence.

Notes

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1. Engerman and Sokoloff (1997) and Engerman, Haber, and Sokoloff (1997) explore this view.
2. A long list of works in political science emphasize this point. See the literature on ethnic conflict (Horowitz 1985), Consociationalism (Lijphart 1975) and democratization (Diamond 1999; O'Donnell and Schmitter 1986).
3. This proposition draws on the model in Weingast (1997), in turn drawing on a long tradition in political science, including Almond and Verba (1963), Lipset (1960), and Putnam (1993).
4. We use this term in the sense of Barzel (1989), Frank and Cook (1995), Krueger (1974), Milgrom and Roberts (1990), Tollison (1981) and Tullock (1975).
5. As Migdal (1988) suggests, these are "strong societies, weak states."
6. The following material on the British empire, the revolutionary crisis, and the eruption of revolution draws on Rakove, Rutten, and Weingast (1999).
7. On the emergence of a predominant idea, see Wood (1969). General works include Bailyn (1967) and Morgan (1992); more recent works, Greene (1986) and Reid (1995).
8. Also significant was the large exodus of the loyalists after the revolution, removing the most extreme opponents of the newly independent states from the polity.
9. Weingast (1997) explores the mechanisms by which widely shared belief systems help police limits on the behavior of public officials.
10. See, e.g., Davis (1963) on banking and Romano (1985) on corporate charters.
11. Hard budget constraints limit a government's ability to sustain endless losses. Under the Constitution, states faced a hard budget constraint because of two conditions: the inability of the federal government to bail out states from their financial losses and the inability of the states to borrow endlessly. In contrast, a government whose financial losses are subsidized by the national government does not face a hard budget constraint.
12. Although there was some debate in the 1790s about the role of the national government in economic development (Hamilton's position), the opposition led by Jefferson decisively defeated the Federalists in 1800 (see Wood 1991).
13. Historians agree that throughout the Constitutional Convention, Southerners demanded institutional protections for their peculiar institutions. See, e.g., Banning (1995), Finkelman (1996), North and Rutten (1987), Rakove (1995).
14. Like all generalizations, this one ignores some important differences across the former Spanish colonies. For example, around the turn of the century, Argentina became one of the richest nations in the world. Argentina's failure to sustain this level of development is thus a twentieth-century phenomenon.
15. The fleet system was highly inefficient, and became less regular over time. Only twenty-five sailed from New Spain from 1650 to 1699; and only sixteen to Panama. If this system had large economic costs, "[n]onetheless, in meeting its primary responsibility—getting American bullion safely to Spain—the fleet system was remarkably effective" (Burkholder and Johnson 1990, p. 139).

16. According to Skidmore and Smith (1992, p. 30) prior to the proclamation of 1778, commerce from Río de la Plata was required to make the "long torturous route overland to Panama and finally across the Atlantic" (p. 30) After the removal of restrictions, Río de la Plata grew. In 1776, the port of Buenos Aires was a "small and lackluster town" but it grew to "a city of 50,000 by the year 1800" (p. 28).