GLOBALIZATION AND STATE DEVELOPMENT:
TRADE AND CRISIS IN THE MAKING OF POLITICAL INSTITUTIONS

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GLOBALIZATION AND STATE DEVELOPMENT:

TRADE AND CRISIS IN THE MAKING OF POLITICAL INSTITUTIONS

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

Among non-industrialized countries I find that the costs of a prolonged foreign exchange crisis, and the import scarcities that ensue, are borne disproportionately by the middle classes. I also find that the ability of markets in non-industrialized countries to replace foreign imports with domestically produced substitutes is constrained by investment coordination problems. Thus, where income distribution

favors a proportionally larger middle class, the political coalitions that emerge out of shared economic hardship exert adaptive pressures on state institutions to resolve coordination problems associated with import substitution. In countries where income distribution favors a proportionally smaller middle class, conversely, these political coalitions falter and attempts at import substitution succumb to market coordination failure. Highlighting the importance of global trade integration beginning in the 1850s for reshaping class structure across Latin America, these findings challenge recent explanations of post-colonial development that emphasize geographic or colonial path dependency.

BIOGRAPHICAL SKETCH

Don Leonard was born in Fairbanks, Alaska. He graduated from A.J. Dimond High School in Anchorage and received an associate's degree from the University of Alaska Anchorage. He transferred to the University of Massachusetts Lowell, where he received a Bachelor of Arts in political science and a Master of Arts in economic and social development. Having quenched his thirst for development theory for a time, his search for practical experience and tacit knowledge led him to join the U.S. Peace Corps, where he served for two years in Cochabamba, Bolivia. Bookending his Peace Corps service were three very rewarding semesters spent as an adjunct professor in the Department of Political Science at UMass Lowell. In 2007 he journeyed to Ithaca, NY, where six years spent living and learning at Cornell University culminated in a doctoral degree from the Department of Government. He begins his post-graduate career as a Niehaus postdoctoral fellow in the Woodrow Wilson School of Public and International Affairs at Princeton University.

For my mother and friend,

Jean Danker Leonard

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"No man is an island, entire of itself; every man is a piece of the continent, a part of the main."

-John Donne (1572-1631)

Thoreau may have been able to crawl into a cabin in the woods one fine autumn day and come out two years and two months later with a book, but I could not. I am happy to report that this effort towards social science was very much a social endeavor. It is a product of my gorges Ithacan and Latin American environs, and the institutions, family, friends, mentors, and colleagues who sustained me along the way. Despite my gratitude, I will forget some of you here. Those whom I do not forget, I will still fail to find adequate words to thank you for all that you have given me. Of all the errors committed in the pages that follow, numerous and my own, these sins of omission and commission are the gravest of them all.

This dissertation is about the imaginary lines drawn by human beings, the lines that separate the prosperous from the materially deprived. The project was probably born with my own birth, into a society that combines spectacular wealth with spectacular inequity. Having spent much of my life straddling the lines between these two worlds, I have often struggled to make sense of why those lines exist and where they came from. The pages that follow represent my first attempt to answer that question with science. I do so by tapping into the experience of two proud island peoples that, though sharply divided by a national border and complex national and inter-national histories, have much to teach us about the meaning of development.

As a student of institutions, it is perhaps fitting that I begin by thanking the public school system that I am a product of, and the teachers and administrators who make that institution work. From the primary and secondary schools that prepared me for college, to the public universities that prepared me for a lifetime of learning, my completion of this degree is a testament to the moral and ethical commitment made by public educators to leave behind a more literate and learned society than the one that they were born into. Mr. Birdsall, Mr. Dwyer, First Sergeant Creek, Mrs. Wagner… .

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To the faculty and administrators of Cornell University, the hardest part was getting in. From the moment I arrived you conspired to help me succeed, showing patience as I learned to think and talk like a political scientist, and opening doors to the resources that helped me along my way. To the Government Department graduate field assistant and shepherd, Tina Slater, thanks for fending off all manner of bureaucratic dragons and working diligently to get me and so many of us across the finish line. To Chris Way, the time and effort you expended as director of graduate studies left our program even stronger and provided us with a foundation to succeed.

To Peter Katzenstein, the quantity of paper drafts you asked of us during your seminars provides a reasonable estimate of your commitment to student development, but this commitment is best measured by the quality of your feedback, both in and out of class. It is no accident that both of the research projects that populate my C.V. had their genesis in your seminars. To Jonathan Kirshner, the commitment to clear thinking and writing that characterizes your scholarship is also reflected in your teaching. As a student in your graduate seminar and as a teaching assistant in your undergraduate courses, I was constantly inspired by your efforts to bring order and a welcome measure of Hitchcock-*esque* suspense to the study of a confusing world.

A tremendous debt of gratitude is owed to my dissertation committee—Ken Roberts, Nic van de Walle, Kevin Morrison, and Tom Pepinsky—for being a source of inspiration, pragmatic counsel, and intellectual camaraderie. To Tom, thank you for being someone I could come to during those times when this project, and its author, were in the proverbial weeds. It is a special gift to be fiercely intelligent yet sensitive to the vicissitudes of the creative process. To Kevin, thank you for being willing to offer critical feedback regardless of whether or not it was popular. You have been a good friend and counselor to me throughout my years at Cornell, and the project is stronger for your efforts at helping me find the holes in the boat. To Nic, thank you for your constant support of this dissertation since its conception. Hispaniola is not exactly a household name, and selecting an obscure tropical island for dissertation research is not a risk-averse strategy. It was in no small part the value that you saw in the project that gave me the courage to proceed.

To my dissertation chair, Ken, I am now and will forever remain grateful to you for the depth of your intellectual generosity. In a discipline that is not without powerful egos, you mentor your graduate students without a trace of prejudice regarding the direction of their research or the intellectual predispositions that guide them along their way. You encouraged me to choose courses and questions based on what I was most passionate about rather than which was closest to your own research. Thank you for being a true mentor.

I am also obliged to recognize the generosity of my external reader, Richard Bensel. Our conversations concerning political development date back years now. Although you were not a member of the committee, your willingness to read memos and provide thoughtful feedback during our several enjoyable meetings made the choice of external reader an obvious one. I am so grateful that you accepted, as the quality of the feedback you provided on this dissertation draft will truly light my way as I embark on revisions for the book manuscript.

Different segments of this dissertation were presented at the annual meetings of the 2012 International Studies Association and the 2013 Western Political Science Association. Here I would like to express thanks for the generous and helpful comments from discussants Jason Enia and Parakh Hoon. I would also like to thank the members of Cornell's 2011 and 2012 dissertation colloquia. Timely and constructive feedback from Noelle Brigden, Ron Herring, Gaurav Kampani, Jing Tao, Danielle Thomsen, and Chris Way were instrumental in moving the project along. Many thanks also to Peter Enns and Cornell's PSAC colloquium for the opportunity to present my findings to the larger community of Government Department faculty and

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Profound debts of intellectual and personal gratitude are also owed to the following individuals in Haiti and the Dominican Republic. My research in Haiti would not have been feasible without the help of James Darbouze. First as a representative of the *Université d'état d'Haïti,* later as a friend, you opened up the doors to the vibrant academic community of Port-au-Prince to a fumbling stranger, putting me in touch with brilliant scholars and archivists who know more about their country than I ever will. I am especially grateful for the rewarding exchanges I had with Michel Acacia, John Picard Byron, Suzy Castor, and Eddy Lucien; each of you shaped the direction of this project in meaningful ways. At Haiti's *Bibliothèque National* I would like to thank Gertha Café and her staff for their eager assistance in helping me access the rich collection of knowledge that the Haitian people have accumulated and preserved over the years. At the Archives National d'Haiti I would like to thank Antoine Cesaire for helping me navigate the bureaucratic hurdles necessary to be among the first to get access to primary documents since the terrible earthquake of 2010. Your tireless efforts to reconstruct the collection are both a boon to scholars like me, who otherwise might have been forced to abandon their projects, and a tribute to the national patrimony. At the *Institut Haitien de Statistique* I would like to thank Renand Dorelien for permission to work with the capable staff of research librarians under his charge—special thanks to Sam Andre. Finally, I would like to pay special mention to the librarian of the Bibliotheque des Freres St. Louis, Ernest Even, f.i.c. You have made the preservation of Haitian history your life's work, and despite your advanced age you began that work anew when an earthquake tore the library apart. Your efforts are no longer tireless, making your devotion all the more inspiring.

In the Dominican Republic I am grateful for the air conditioning in the national archives and central bank library, but mainly for the archival materials that the Dominican government has dedicated itself to preserving and opening it up to the world. This accessibility is in no small part the labor of its national historians who, by necessity, act as both scholars and administrators. A special thanks to Roberto Cassá, director of the *Archivos Generales de la Nación,* Frank Moya Pons, President of the *Academia Dominicana de la Historia*, and Franklin Franco Pichardo for taking time away from their responsibilities to talk Trujillo. This project benefited greatly from the insights of Franklin Franco's economic history of the Republic, which first pointed me towards the puzzle of the developmentalist dictator. The major breakthrough came from reading the doctoral dissertation of Frank Moya, whose detailed survey of Dominican industrial history was a guiding light for the theoretical argument I advance below. Tremendous thanks are also owed to the Dominican librarians and archivists who patiently attended to me as my research topic narrowed from the vague and unwieldy to the narrow and (at times I'm sure) unnerving. At the *Archivos Generales de la Nación* I owe thanks to Vetelio Alfau for his knowledge of the Dominican historiography, and Oscar Feliz Caris for being a daily source of laughter and enthusiasm in building full of dusty books and newspapers. At the *Oficina Nacional de Estadistica* I would like to thank Julia del Orbe and Glenis Diaz Kirssy Richetti for their competent assistance. Finally, I would like to thank the entire library staff of the *Banco Central* for their eager help and willingness to hold my stack of books for weeks at a time.

It is no exaggeration to say that I would not have had the energy to pursue a dissertation-length research project without the conversations shared with dear friends over the passed six years. Beginning with the talented cohort of women and men I entered the Department of Government with in August of 2007, I would like to thank Phil Ayoub, Berk Esen, Desmond Jagmohan, Melissa Mistretta, Sree Muppirisetty and Pablo Yanguas for fostering a spirit of cooperation and collaboration in our colloquia and throughout our time wandering the corridors of White Hall. It never felt like a competition between us; it was always about the ideas. I learned so much from each of you, and I am grateful that Cornell brought us together. A token of my sincere affections is owed to Igor, Phil and Pablo. Brothers on the road to becoming political scientists, you were always there to celebrate the victories and brush off the defeats.

For the cohorts that came before us and helped light the way, I would especially like to thank Jaimie Bleck, Julie Ajinkya, Ben Brake, Mike Miller, Jen Hadden, Deondra Rose, Tariq Thachil, and Chris Zepeda. I didn't always fully understand the magnitude of your accomplishments at the times you were accomplishing them, in part because I hadn't been through the hurdles yet and in part because each of you walk on water in my eyes. Now that I have been through some of those hurdles myself, I offer a heartfelt "Wow! You did it!"

For the cohorts that came after, bringing new friends into my life as old ones moved along and cohort-mates drifted in and out of town, I would like to thank Rachel Behler, Janice Gallagher, Triveni Ghandi, Erin Hern, Lauren Honig, Greg Thaler, and the Texas Hold'em crew for bringing much light to Ithaca's long winter nights. You are already equipped with everything you need to succeed, and it will unfold faster and more spectacularly than you can possibly imagine.

It must also be said that there are no friends like the friends you make when you are far from home. Corrie Kramer, you were a port in the storm as I was making my way through the bustling streets of Port-au-Prince. Our friendship dates back to our days in the Peace Corps, but I am so grateful we got to know each other better through our shared connection to Hayti. To Sabine Cadeau, our conversations about your nation and meanings of development that extend beyond material standards of living challenged me and brought great richness to my field research. Your cousins, Patrick and Bruce Lee, were fantastic research assistants without whose help I would still be in the archives. To your husband, Hank, your dissertation on the early Haitian Republic is a shoulder upon which all students of Haiti will stand.

In the Dominican Republic I found a home and a family with the Collados—Doña Altagracia, Melba, Yasmill, Reynaldo, and Willy. Les debo mucho por su amistad y cariño verdadero durante las visitias mías. Nunca les olvidaré. To April Yoder, I am so glad our PhD field research stints coincided; our friendship was the perfect accident.

Finally, this project and its author were sustained over the last six years by the family I was given at birth and the family I met along the way. The two groups are indistinguishable in my heart. To my father, Dean, I thank you for seeing the best in me and pushing me to become that man. You have been a friend to me throughout, and I could not have done this without you. To my brother, André, thank you for seeing me for who I am and loving me anyways. I will never be as good of a friend to you as you have been to me over the years, but that will not stop me from trying. To my sister Jess, thank you for taking up the task of keeping one of your brother's ponderous feet planted in the real world with good conversation and all manner of Americana care packages over the years. What kind of social outcast would I be without The Office, Mad Men, and my really awkward guitar hero drum solo at your Christmas party? To my sister Vicki, I ain't got the words. Thank you for all the unsolicited advice during our hiking trips over the years. You have helped me cheat fate time and again by passing along answers to some of life's most daunting tests. To Aunt Sharon, you spoiled your nephew from near and from afar. Your care packages kept me caffeinated and carbohydrated through so many long library nights.

Lastly, this dissertation is dedicated to my mother. You raised me to believe that we have much to learn from other peoples, and our adventures together prepared me to strike out into the world to encounter and to listen. Borrowing from that lanky president from Springfield, Abraham Lincoln, all that I am, or ever hope to be, I owe to you.

Don Leonard

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CHAPTER 1

The Hispaniola Puzzle

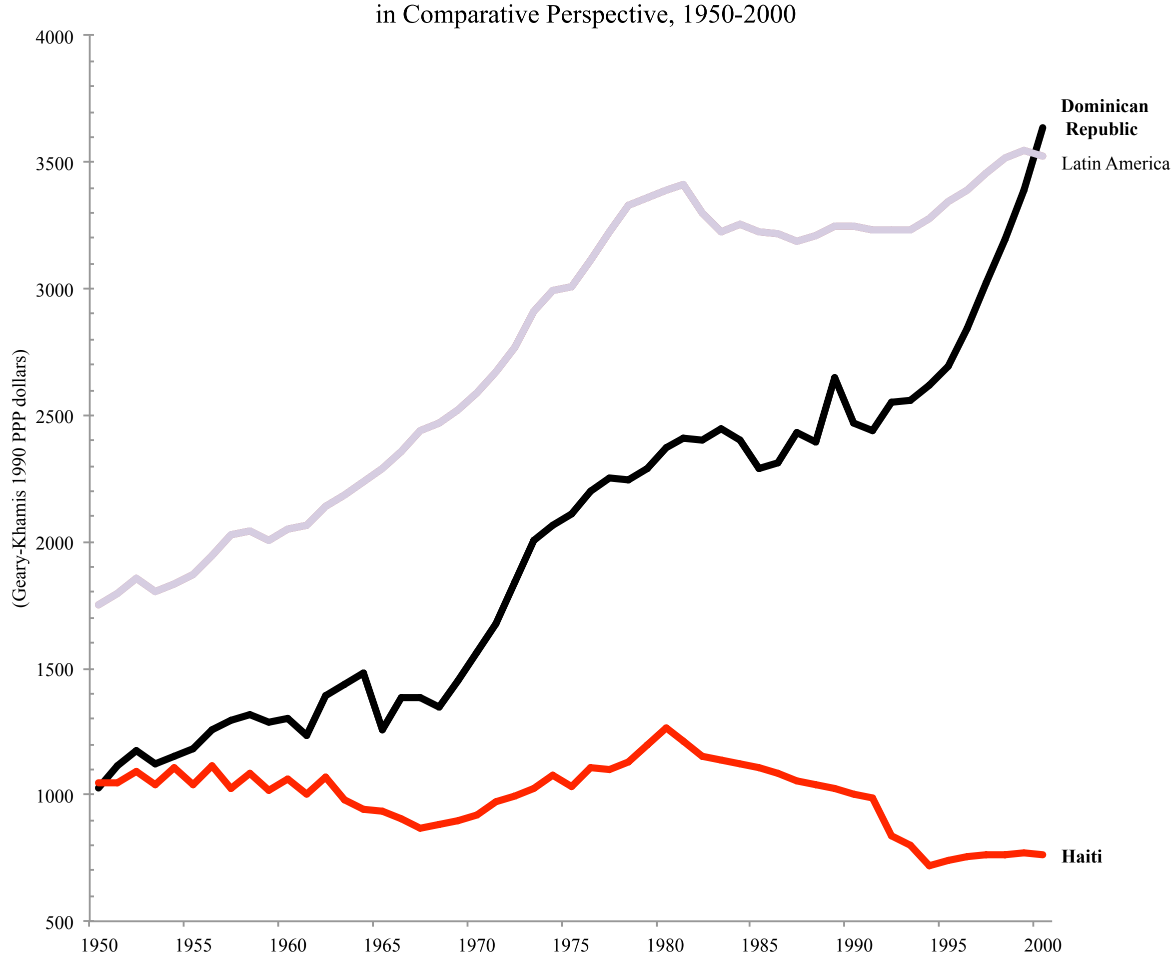
Imagine you had been born into this world on Hispaniola, the Caribbean island that is home to both Haiti and the Dominican Republic. If you were born on the eastern side of the island as the statistically average Dominican—as estimated by the United Nations Human Development Report (HDR 2011)—your material life would not be without hardship. You would stand an exceptionally good chance of being literate, however you would only attend school for about seven years. Your annual income would be around $8,000 US dollars, a far cry from the $43,000 per capita income of the average *yanquee norteamericano*. Your life expectancy, 73 years, would be about five years shorter than theirs. If you were to be born on the western side of the island as the average Haitian, however, the prospects for your material life would be considerably grimmer. The odds of dying before your fifth birthday would be almost triple what they are for your neighbors on the Dominican side. Assuming you survived childhood, you would have less than a 50/50 chance of ever learning how to read. This level of education would support an annual income of only $1,100 and a life expectancy that is eleven years shorter than that of the average Dominican. The differences in standard of living separating your life as a Dominican from your life as a Haitian would not be trivial.

Why do Haiti and the Dominican Republic (DR) look so different today in terms of economic and social development, and what were the historical processes that produced this variation? Research has established the importance of political institutions for shaping economic outcomes. This is observed primarily through the effect that the provision of public goods such as infrastructure, property rights, and the rule of law has on the incentives of market actors to make investments that lead to higher productivity. Efforts to identify the origins of 'growth-friendly' institutions are often complicated, however, by their endogenous relationship to factors like geography, colonial legacies, and even economic growth itself. This dissertation seeks to untangle the complex web of causal relationships linking institutions to development outcomes. It does so by leveraging a paired historical comparison of two countries that minimizes variation in such factors as geography and regime type in order to shed light on the causal processes that produce the variation in development outcomes that we observe today. It explains why the economies of Haiti and the DR—two former European colonies that share the same tropical island as well as long histories of kleptocratic authoritarian rule—diverged so dramatically during the second half of the 20th century.

In 1950 per-capita gross domestic product (GDP) across the island of Hispaniola was nearly identical (Maddison 2003). By the narrowest of margins the Dominican Republic eclipsed Haiti as the poorest country in the Western Hemisphere, with a per capita income of $1,027 in constant 1990 international dollars at purchasing power parity (PPP). (Figure 1.1)

[FIGURE 1.1 ABOUT HERE]

Figure: GDP per capita of Haiti and the Dominican Republic
in Comparative Perspective, 1950-2000



Source: Maddison (2003)

Yet between 1950 and 2000 the DR entered into a period of economic dynamism that produced the fastest growth rates in Latin America (World Bank 2009). By the end of the century the Dominican economy had grown approximately five times as large as Haiti's, converging with average per capita income in the region. Over the same period Haiti traded places with the DR as the poorest country in Latin America. It ended the century with collapsing political institutions, dismal levels of literacy and life expectancy; these basic prerequisites of human security undermined by an economy that could no longer provide for the basic needs of the population. Why did one side of Hispaniola achieve such impressive gains in economic growth and development during the second half of the 20th century while the other side deteriorated into a failing state?

That Haiti generated abysmal rates of economic growth over the course of the twentieth century is overdetermined. The reign of successive patrimonial rulers over a tropical society that previously endured centuries of extractive colonial rule resulted in a predictably underdeveloped public sector, an economy that dependent almost entirely on agricultural exports, and a weak, predatory state that continues to foster dire poverty by distributing public resources for the benefit of a narrow group of elites. However, neither geography nor historical institutions can adequately account the economic performance of neighboring Dominican Republic, a country that historically shared many of the same development handicaps that continue to plague Haiti today.

Like Haiti, the Dominican state emerged in the early 19th century from a history of extractive colonial rule. Also like Haiti, the DR would experience a dramatic rupture with its colonial institutions during the 19th century as colonial institutions and the traditional elites that benefited from them were replaced. The economic performance of the DR under the overtly kleptocratic patrimonial[1] regime of Rafael Leonidas Trujillo (1930-61)—a regime that endured for decades after the death

[1] Patrimonial regimes are characterized by personalistic leaders who seek public office to gain control over state resources and distribute them to their patron-client networks as private goods, rather than distributing them more programmatically as public goods.

of Trujillo in neo-patrimonial[2] forms (Hartlyn 1994, 93)—challenges much of the received wisdom about the relationship between regime type and economic growth.

Subsequent chapters demonstrate that the contrasting development outcomes on Hispaniola were not due to the minor differences in geography separating these two peoples; nor were they a direct result of differences in the French and Spanish institutions that governed Haiti and the DR, respectively, during colonial times. Rather, the development trajectories of these two agrarian societies diverged because they were governed differently. When confronted with comparable economic shocks during the 1930s and 1940s, Haitian and Dominican rulers made different choices about how to adjust to foreign exchange crises and import scarcity. The adjustment policies that followed determined whether state resources would be invested in the infrastructure, physical and human capital required for a strategy of import substitution and state-led industrialization, or whether these resources were siphoned off by a narrow group of elites to be squandered through private consumption. Why these rulers made the choices they did, and the consequences of their choices for shaping the economic purpose of the political institutions, is the subject of this dissertation.

In order to understand how development outcomes on Hispaniola were shaped by variation in adjustment to crisis generally, and the institutional legacies of import

[2] Whereas traditional patrimonial regimes are often authoritarian, neo-patrimonial regimes are ones that adopt liberal institutional forms while permitting their rulers to engage in clientelistic behavior that nevertheless fails distinguish between public and private resources, "…combining an external façade of modern rational-legal administration with an internal patrimonial logic of dyadic exchange, prebendalism, and the private appropriation of public resources by state elites. Neopatrimonial systems tend to favor consumption over investment, they produce unsustainable economic policies, and they systematically underinvest in institutional capacity, which threatens power holders" (van de Walle 2001, 16).

substitution industrialization (ISI) and agro-export dependency more specifically, it is first useful to identify the more proximate determinants of economic growth. In its most reduced form, growth accounting considers the product of factor inputs (such as land or labor) multiplied by capital (which determines the rate of output per unit of factor input, or productivity). Holding factor inputs constant, growth is achieved through productivity-enhancing investments in infrastructure, physical and human capital.[3]

Despite having near-identical levels of per capita national wealth in 1950 (Figure 1, above), important differences in the determinants of productivity and growth had already emerged across the island of Hispaniola prior to the onset of their divergence in the mid-twentieth century (Table 1.1).

[TABLE 1.1 ABOUT HERE]

[3] Over the long run, different models expect that growth takes place through changes in technology and innovation that are either taken as exogenous (Solow 1956) or endogenous to the choices that market actors make about whether to invest in innovation (Romer 1986). For the purposes of this discussion, however, the class of agrarian societies considered here are by and large "technology takers" rather than "technology makers."

Table: Investment in infrastructure, physical and human capital in Haiti and the Dominican Republic, 1950

	Haiti	Dominican Republic
Infrastructure and Physical Capital		
Electrification (GwH per capita)	3.0	35.3
Agriculture, Forestry and Fishing (% of GDP)[1]	51	33
Manufacturing (% of GDP)	8.2	12.5
Gross Fixed Capital Formation (% of GDP), 1963	7.3	13.8
Human Capital		
Urbanization (%)	12.2	23.9
Life Expectancy, 1960 (years)[2]	42.2	51.8
Hospital beds, 1960 (per 1,000 persons)[2]	0.6	2.3
Primary School Enrollment (per 1,000 persons)	35.1	102.7
Literacy (% of total adult population)[3]	10	32

Source (unless footnoted): Astorga, P., A. R Bergés, and E. V.K FitzGerald. 2003. "The Oxford Latin American Economic History Database (OxLAD)." The Latin American Centre, Oxford University. Accessed online, April 2009.
[1]Mitchell 2007
[2]World Bank, World Development Indicators
[3]Vanhanen 1997 (data are for 1948)

At the beginning of its economic takeoff in 1950, the Dominican Republic was qualitatively more developed than Haiti in terms of most predictors of growth. Measures of physical capital and infrastructure, including electrification and gross fixed capital formation, were two-to-three times greater in the DR than in Haiti. The availability and quality of labor, according to estimates of human capital including urbanization, health, and education, exhibited differences of a similar magnitude.

By investing in infrastructure, physical and human capital, societies reduce the costs of transactions between market actors, touching off a self-reinforcing process that, over the long run, alters the development trajectories of nations (North 1990). It is not surprising, then, that the Dominican Republic enjoyed remarkably greater success than Haiti in achieving higher rates of investment and growth over the second half of the 20th century. The business environment created by the presence of basic infrastructure and a semi-skilled, semi-literate workforce was the primordial factor that drove Dominican growth during the second half of the 20th century.

To understand why the Dominican Republic accumulated comparatively greater levels of infrastructure, physical and human capital by 1950 requires a theory that can explain why growth-friendly investment takes place in some agrarian societies but not others. Institutional accounts have become ubiquitous in discussions of pervasive poverty across the Global South. As the formal and informal rules that structure social interactions, institutions are believed to explain why some societies remain trapped in unfortunate equilibria of underinvestment and poverty while others do not (Acemoglu and Robinson 2012; P. Collier 2007; Sachs 2005). Often tracing back to colonial encounters, most accounts portray institutions as structural endowments of geography or history—outcomes derived from exogenous processes that persist due to their self-reinforcing nature.

There are two problems with existing institutional approaches: The first is one of equifinality. Rapid and sustained rates of economic growth have been found to occur under a variety of institutional environments. These run the gamut from liberal institutions with the power to constrain even society's most powerful actors to developmentalist authoritarian regimes that operate with few institutional constraints on the power of the elite to expropriate.[4] The second problem is the paradoxical correspondence between state weakness and institutional durability. The weakest institutions tend to be found in the poorest economies of the global south. Lacking in

[4] The concept of a stationary bandit (Olson 1993) is a prime example of developmentalist authoritarianism. The concenpt stands in stark relief to the inclusive institutions-growth thesis forwarded most recently by Acemoglu and Robinson (2012), which struggles to account for growth in less-auspicious institutional contexts.

state capacity to do basic things like enforce the rule of law and collect internal tax revenues, these political regimes persist primarily by extracting wealth from more vulnerable revenue streams—taxing indirectly through the collection of customs duties at the ports, claiming royalties derived from vulnerable fixed assets like extracted minerals, and/or preying on international markets for sovereign credit and foreign aid. The paradox is that if existing institutions are so weak, how do they manage to persist and reproduce themselves over time—often despite concerted efforts by the international community to reform them? Which domestic attributes make weak states resistant to institutional change, and what are the conditions under which institutional change can actually occur?

This dissertation provides an account of the diverging trajectories of economic and social development on the island of Hispaniola that treats institutions as endogenous, both an explanatory variable as well as a variable to be explained. As an explanatory variable, I highlight the developmentalist role played by the Dominican state as both investor and investment coordinator during the 1930s and 1940s, identifying the institutional dynamics that explain the significant gains in economic and social development the Dominican Republic achieved by 1950. Yet if institutions are the proximate causal variable accounting for why the Dominican Republic made crucial gains in economic and social development during the 1930s and 1940s, then an account of diverging development trajectories must also explain where developmentalist institutions come from. This dissertation identifies those critical domestic and international factors antecedent to the 1929 crisis that that shaped subsequent institutional development for these two agrarian societies.

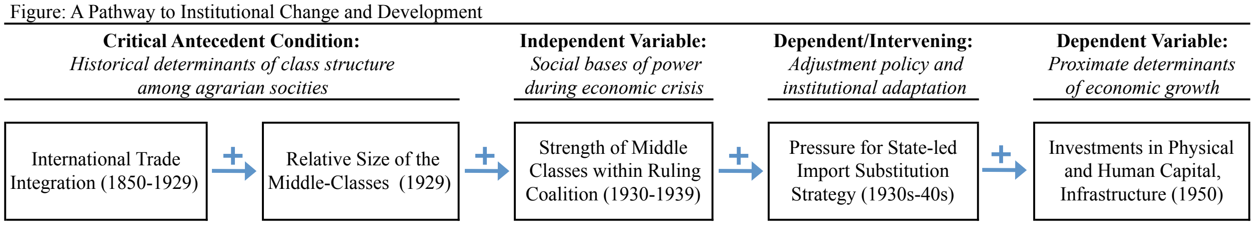
The analytic narrative that emerges from the Hispaniola puzzle explains how class structure, and the coalitional politics that emerge from that structure, shapes the relationship between states and markets. This narrative demonstrates how protracted economic crises can create critical junctures where the continuity of historical institutions becomes contested. During such junctures, I show how the relative power of different class coalitions vying for their respective material interests can play a decisive role in determining whether historically inherited institutions change or persist.

Among non-industrialized countries, I find that the economic costs of a prolonged foreign exchange crisis and the import scarcities that ensue are borne disproportionately by the middle classes. The ability of domestic markets to respond to this scarcity through import substitution is constrained by investment coordination problems intrinsic to the initial phases of industrialization. Thus, where income distribution favors a proportionally larger middle class, the political coalitions that emerge out of shared economic hardship exert powerful adaptive pressures on states to resolve these coordination problems. In countries where income distribution favors a proportionally smaller middle class, conversely, these political coalitions falter and attempts at import substitution succumb to investment coordination failures.

Furthermore, I demonstrate how differences in international trade integration during the antecedent period explain why one side of the island developed a politically viable middle class political coalition prior to the 1930s economic crisis while the other side did not. Thus, by highlighting the importance of expanding global trade beginning in the 1850s for reshaping income distribution within Latin American societies, these findings challenge recent accounts of post-colonial development that emphasize exogenous factors such as geographic endowments or colonial path dependency. This theory is summarized in Figure 1.2.

[FIGURE 1.2 ABOUT HERE]

Figure: A Pathway to Institutional Change and Development



The Argument

The economic divergence that we observe on the island of Hispaniola pivoted around the politics of adjustment to the economic crisis of the 1930s and the consequences of those adjustments for the relationship between state and markets. During this critical juncture the Dominican government adjusted to a balance of payments crisis stemming from a collapse in the international terms of trade for agricultural commodities by pursuing a strategy of state-led import substitution industrialization. Meanwhile, the Haitian government responded to the same external shocks through increased rates of taxation and elite consumption of declining agro-export revenues.

Why did the authoritarian regime of one agrarian society respond to the economic crisis of the 1930s by investing in the infrastructure, physical and human capital necessary to develop an import substitution sector while another, similar regime, continued to rely on the agro-export model? Outlined below is a preview of the theory I develop in Chapter 2.

Coalitional politics, import scarcity, and obstacles to early industrialization

There are three characteristics specific to agrarian societies that are crucial for understanding why and under what conditions economic crises lead to industrialization. First, by definition these societies lack any significant industrial capacity. Accordingly, they rely exclusively on imports for the supply of many non-durable consumer goods like textiles, processed foods, and hygiene products. The capacity of an agrarian society to import such goods is determined by the amount of foreign exchange it can earn, primarily a function of export volume and the relative prices, or terms of trade, that volume commands on international markets. Any decline in foreign exchange directly impacts the material wellbeing of agrarian societies and their capacity to consume manufactured goods.

Second, in agrarian societies the adjustment costs of such crises are born disproportionally by the middle classes. In these societies the middle classes depend heavily on the economic activity and demand spillover generated by cross-border commerce for both income-generating opportunities as well as the supply of imported goods. Whereas the economic livelihood and consumptive habits of the agrarian peasantry rely primarily on materials that are locally grown or gathered, and economic elites have sufficient savings to continue consuming imported goods even during protracted episodes of import scarcity, it is middle class merchants, tradesmen, and professionals who bear the heaviest burden of an extended disruption in the terms of trade.

Third, during the initial phase of industrialization private entrepreneurs face qualitatively greater coordination problems when deciding whether or not to invest capital in the domestic production of manufactured goods than market actors in economies where industrialization is already underway (Gerschenkron 1962; W. W. Rostow 1960; Wydick 2008, 34). During a period where the relative price of manufactured goods imports rises due to declining terms of trade for agricultural commodities, decreased competition from foreign producers creates a window of opportunity for a domestic import substitution sector to emerge. However, import substitution requires reliable supply chains of raw inputs, and simultaneous capital investment in public goods such as infrastructure and human capital as well as the capacity to manufacture intermediate goods; this level of investment is beyond that which is required by an agricultural economy. For individual firms, then, the coordination problems associated with simultaneous investment in the backward and forward linkages that constitute the initial phase of import substitution industrialization can be prohibitive—their perceived probability that all necessary capital investments would take place simultaneously being too low to spawn investment. Absent well-developed domestic or foreign capital markets that might otherwise be capable of resolving these coordination problems, such as is the case during periods of international economic and financial crisis where foreign markets for domestically produced goods are weak, foreign exchange is scarce, and foreign capital is not forthcoming, import substitution requires statist intervention to direct investment capital towards the formation of the necessary forward and backward linkages—a kind of bootstrap industrialization.

These insights help us make predictions about the conditions under which economic crises will lead to the kinds of institutional transformations that allow agrarian economies to industrialize and grow. Deteriorating terms of trade for agricultural commodities both reduce the amount of income circulating within the domestic economy as well as constrain the supply of imported goods when foreign exchange reserves become depleted. During a protracted international economic crisis like the 1930s global depression, where neither foreign lending nor aid were forthcoming, the only choice available to an agrarian state is either to stumble along with the agro-export model and accept a contraction of the domestic economy or to offset such a contraction through a strategy of import substitution.

During such a crisis, the political survival of rulers is contingent on choosing the adjustment policy that best provides for the material wellbeing of a winning political coalition. Thus, where the middle classes are proportionally larger and more powerful, the regime faces greater incentives to elect import substitution as a means of adapting to the crisis. By pursuing such a strategy, rulers not only consolidate their hold on political power by improving their legitimacy via greater economic stewardship; they also increase the size of the national economic pie that they can siphon resources off from. This insight helps explain why state investment is paradoxically compatible with the kleptocratic nature of most patrimonial authoritarian regimes. What follows from a strategy of import substitution is transformation of the economic purpose of state institutions, as well as an increase in state capacity as rulers set about investing resources and coordinating the production of domestic substitutes for those goods that the country can no longer afford to import. These are the characteristics of a so-called developmental state.

Conversely, in agrarian societies where the political power of the middle class is proportionally smaller and weaker, the ruling coalition is more likely to be constituted of economic elites with sufficient personal assets to basically maintain their standard of living throughout the crisis. Such a coalition permits rulers to continue consuming state resources privately rather than investing them in the infrastructure, physical and human capital required by ISI. Absent coordinated state investment in public goods and capital, market actors face prohibitive levels of uncertainty about the willingness of other private entrepreneurs to invest in the forward and backward linkages that constitute an industrial supply chain; thus, they withhold private investment. What results is a Pareto-inferior outcome where failure to exploit the economic opportunities created by a major disruption in the international flow of manufactured goods by shifting to a new equilibrium of higher value-added production leaves everyone worse off. Over time, these differences in investment shape the labor productivity rates and transaction costs that determine long-run trajectories of economic growth and development.

Critical historical antecedent: Trade integration and class structure (1850-1920)

The analytic narrative of these two countries reveals two connected historical processes to be crucial for explaining the different decisions rulers took when confronted with a prolonged economic crisis during the 1930s: variation in international trade integration during Latin America's liberal reform period (roughly 1870-1920), and the consequences of that variation for the expansion of the middle classes. These variables operate as critical historical antecedents, a kind of "cause of causes" (Slater and Simmons 2010) that determine the value of the successive variable—in this case the relative size of the middle class income distribution—that in turn shaped the adjustment policies chosen by elites during a protracted economic crisis.

Opportunities for agrarian states to integrate into the international economy increased dramatically during the second half of the 19th century. The demand for primary commodities in the early industrializing countries of England, France and Germany surged during this period, both as inputs for their industrial activities and for consumption by their rapidly expanding, urbanizing, and industrializing populations.[5] Such trade was facilitated by an equally dramatic decrease in the costs of transactions between nations. During this period the combination of British management of monetary exchange through the gold standard, as well as improvements in transportation introduced by technologies like the steamship and the railroad, removed significant barriers to exchange between the industrial core and the agrarian periphery (Frieden 2006).

The greater profits to be had through international trade in primary commodities during this period provided the material incentives for a set of liberal economic reforms that swept across the decolonized states of Latin America and the Caribbean. Between roughly the 1870s and the 1920s, countries across the region transitioned in varying degrees from feudal land systems inherited from the colonial period to commercial agriculture—particularly the transfer of communal and fallow

[5] Cite historical narrative about demand for coffee and sugar for industrial workers as a means of artificially increasing their productivity.

land to private ownership—adopting these liberal reforms in order to take advantage of the export opportunities presented by this increasingly lucrative system of international trade.

The adoption of these liberal reforms did not go uncontested and they were not uniformly adopted across the Americas (Mahoney 2001b). Factors related to the domestic social and productive structures of agrarian societies as they emerged from the colonial period, and the international environment into which these newly independent states were born, all shaped the ability of Latin American states to capitalize on the economic opportunities presented by increased demand for agricultural commodities on the international market.

For agrarian societies that were more successful in transitioning to commercial agriculture, the expansion of the agro-export sector provided opportunities for increased income and social mobility. This social transformation occurred directly through arbitrage[6] and the provision of services complimentary to the export sector such as accounting, domestic shipping, legal services, and short-term lending. It also occurred indirectly through demand spillover effects in the areas of consumer goods retailing, cottage (artisan) manufacturing, and service provision. These occupational opportunities became the economic basis for the expansion of the middle classes during Latin America's liberal reform period.

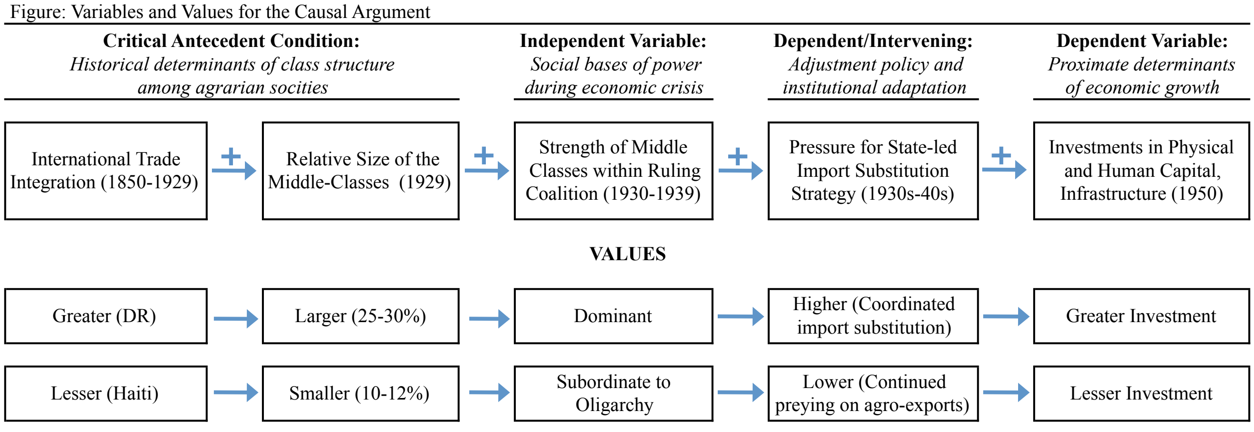
The theory that emerges from a comparative historical analysis of diverging trajectories of institutional development and economic growth on the island of

[6] Most basically, arbitrage describes the activity of deriving profit by exploiting the difference in price between two markets—in this case the difference in the price for agricultural commodities across the domestic market (e.g. rural hinterlands versus cities) and between domestic and international markets.

Hispaniola is that during a protracted economic crisis, the relative size of the middle classes conditions the effect of exogenous trade shocks on the industrialization of agrarian states. It does this by shaping the incentives rulers faced about how to provide for the material wellbeing of a winning political coalition and thus secure their political survival during a near-collapse of the agro-export model. For Haiti and the Dominican Republic, the relative size of the middle classes was determined by those antecedent historical conditions that constrained or facilitated economic integration into expanding global markets for agricultural commodities during the late 1800s and early 1900s. This argument is summarized in Figure 1.3.

[FIGURE 1.3 ABOUT HERE]

Figure: Variables and Values for the Causal Argument



Plan of the Dissertation

In the following chapters I present the analytic narrative of industrialization and economic growth derived from the Hispaniola puzzle. Chapter 2 explores the theoretical underpinnings of a theory of institutional continuity and change, highlighting the importance of social structure for pressuring states to resolve the coordination problems associated with *bootstrap industrialization*.

Chapter 3 identifies the critical historical antecedents that explain why Haiti did not integrate into international markets to the same degree as the Dominican Republic between 1850 and 1920. I identify international and domestic-level factors specific to Haitian history that explain this variation, focusing on the collapse of the plantation system and closure to foreign investment. The empirical records of these two countries demonstrate the consequences of variation in integration into global markets during this period for occupational diversification, literacy, and the corresponding share of national income and political power accorded to the middle classes.

Did the relative size and political power of the middle classes explain the economic divergences we observe in these two societies, as I argue here? Or did the higher levels of trade integration that we observe during the late 1800s predetermine their development paths independent of class structure and the political mechanisms I emphasize? Where Chapter 3 discusses the differences in trade integration and social structure that emerged on Hispaniola during the nineteenth century, Chapter 4 documents the underlying similarities connecting these two agrarian societies at the turn of the twentieth century. Governed by weak states on the verge of collapse, these countries shared an institutional logic of economic predation; namely, the extraction of wealth from the agro-export sector without the provision of state goods and services in return. While the Haitian economy did not integrate with international markets as deeply as the DR on the basis of per capita trade value, in terms of foreign borrowing Haiti exhibited the same level of debt dependency.

In both cases, exploitative foreign lending emerged as the banks of major powers jockeyed with one-another over spheres of interest in the Caribbean. This exacerbated the fragility of the already weak political institutions governing these two societies. Access to sovereign debt played on the patrimonial logic of these regimes, pitting regional *caudillo* warlords against one another and the incumbent as they competed for the spoils of state power. Mounting political instability quickly attracted the attention of the U.S., whose general interest in dominating the region was heightened by its interest in protecting the shipping lanes to the Panama Canal. This led the U.S. government to broker the acquisition by its financial sector of all sovereign debt held by European banks. Eventually, state collapse on both sides of the island triggered twin U.S. military interventions that built centralized states and restored the capacity of these agrarian societies to repay their sovereign debts by maintaining customs receiverships that lasted until 1947.

In Chapter 5, I show how differences in middle class political power emerging from the liberal reform period conditioned the economic policies of Haitian and Dominican rulers during the critical juncture of the 1930s. In the Dominican Republic, the Trujillo regime simultaneously acquired great material wealth and maintained the support of his middle class coalition by adjusting to the foreign exchange crisis of the 1930s through a coordinated set of import substitution policies. In Haiti, by contrast, the middle class was relegated to the periphery of President Vincent's ruling coalition. Because they did not pose a serious threat to the political survival of the oligarchy or their prevailing mode of accumulation—arbitrage and confiscatory taxation of the meager export crop—the economic crisis of the 1930s failed to translate into the same adaptive pressures for import substitution as it did in the DR. I show how both the developmentalist adjustment strategy of import substitution in the DR and the predatory adjustment strategy of rent-seeking that targeted peasant agro-export producers in Haiti was reinforced by the international events of WWII and Korea, where wartime mobilization by the industrialized countries simultaneously improved the terms of trade for agricultural commodities while at the same time contributing to an ongoing scarcity of manufactured goods imports. This configuration of relative prices rewarded both the import substitution mode of accumulation that was emerging in the Dominican Republic as well as the agro-export model that persisted in Haiti.

Chapter 5 also features a statistical appendix that evaluates the generalizability of this analytic narrative cross-nationally. Using pooled cross-sectional data spanning three historical junctures between 1870 and 1960, I compare the analytic narrative of industrialization presented here against the empirical record of 20 Latin American states. The first stage provides a snapshot of trade integration and changing class structure during the liberal reform period (1870s-1920s). The second juncture provides a baseline measure of class structure and industrialization just prior to the onset of the global depression in 1929. Finally, I provide a third-stage analysis of changing levels of industrialization between 1925 and 1960. The results of this three-stage model provide preliminary evidence consistent with my argument linking pre-1929 class structure in Latin America to industrialization over the 1930s-1950s. I also test two alternative hypotheses: First, I consider the possibility that trade exerted an independent effect on the likelihood of future industrialization, suggesting that class structure was merely an epiphenomenal outcome of the gains from trade and the move towards capitalist modes of production. Second, I test my *politics* hypothesis concerning the relative size and power of the middle classes against the alternative *markets* hypothesis of Murphy et al. (1989a) that it is the absolute size of the middle classes, and the attendant opportunities for economies of scale that class size provides for, that constrains industrialization. In both cases the statistical evidence rejects these alternative hypotheses; this suggests that it was the politics of adjustment to economic crisis, rather than any independent effect that trade or internal market size might have had on the prospects for industrialization, that account for differences in political and economic development on either side of the island.

Chapter 6 concludes by placing the development trajectories of Haiti and the Dominican Republic in cross-regional perspective, drawing upon comparative evidence of East Asian developmental states and the late-decolonized countries of Africa and southern Asia to shed further light on the conditions under which the foreign exchange crises and import scarcity lead to the emergence of a developmental state. Lastly, it surveys the contributions this theory makes to the enduring question of whether trade leads to development, identifying important conditions related to whether or not the gains from trade alter the distribution of income within a society.

CHAPTER 2

Theory: Institutional development and industrialization in agrarian societies

Why were some agrarian societies more successful than others in embarking down the path of industrialization during the 20th century?[7] Whether it is through formal institutions like property rights that promote productive activity and investment (North 1990), or through informal institutions of norms and beliefs that reduce uncertainty during market transactions (Greif 2006), the idea that institutions shape economic outcomes has become received wisdom. In his seminal work examining the different pathways to industrialization followed by Europe's early and late-industrializers, Gerschenkron (1962) identified a central role for the state as investor and investment coordinator among those "late-late" industrializing countries that lacked well-organized domestic capital markets. More recently, the literature on the so-called East Asian economic miracle brought into question many of the assumptions of liberal economic theory; these studies find that highly interventionist economic policies pursued by "developmental states" were integral to the viability of the export-oriented industrialization model (Amsden 2001; Evans, Rueschemeyer, and Skocpol 1985; Evans 1995; Haggard 2004). Even more recently, scholars of Latin American economic development have begun to rethink the development legacy of import substitution industrialization, arguing that it is best understood as a variant of the same

[7] This project concerns itself with the population of non-industrialized countries that Gerschenkron (1962) might have called the "late-late-late developers"—countries that, by the dawn of the 20th century, remained predominantly agrarian and poor.

kinds of state-led industrialization that we observe in other regions (Bértola and Ocampo 2012). In order to make sense of the puzzling variation in industrialization among agrarian societies, we must account for why developmentalist state institutions emerge in some agrarian societies but not others.

This question is motivated by the dramatic divergence in institutional development and economic growth evidenced by Haiti and the Dominican Republic, two agrarian states that share the same tropical island as well as a host of other features often believed to matter for shaping development outcomes. I find that historical antecedents related to variation in income distribution during the late 1800s and early 1900s, and the way that these different patterns of income distribution determined the relative size of the middle classes in each society, explain the policies governments chose in order to adjust to the international economic crisis of the 1930s and the disruption in the flow of manufactured goods imports from the industrialized world that lasted through the end of World War II and the Korean War. Differences in the way that economic crises affect the middle classes as compared to the peasantry and the oligarchy, combined with differences in the political power of the middle class relative to the other two sectors of society, exerted distinct political and economic pressures on the political class in each of these countries. Different constellations of incentives and pressure, in turn, conditioned the decisions of the ruling elite about whether state resources should be used solely to sustain the private consumption, or whether they should be invested in the development of domestic substitutes for the increasingly scarce imports. Finally, the decision to favor consumption or investment during the 1930s and 40s had important consequences for the long-run determinants of economic and social development.

This answer sheds new light on where institutions come from and how they develop over time. Challenging existing historical institutionalist accounts, my theory helps us understand why the continuity or discontinuity of institutions is contingent upon the distributional preferences of the ruling coalition. When the distributional preferences of that coalition to change, or when the distribution of power within the national political arena is altered in such a way that the composition of the ruling coalition itself changes, the continuity of state institutions becomes contested. Under such circumstances, it is the relative power of different political coalitions united primarily by shared distributional interests that determines whether historically inherited institutions change or persist.

The idea that external shocks can promote institutional change and state development is not a new insight. At least since the warmaking-statemaking formulations of Tilly (1985, 1992) and Spruyt (1994), scholars of comparative politics have taken seriously the prospect that external forces related to international threat play a crucial role in shaping and reshaping domestic institutions, generating adaptive pressures and selection effects that promote the formation and development of stronger states (Doner, Ritchie, and Slater 2005; Zhu 2002). By employing a research design that minimizes variation in a variety of potentially confounding variables, including international threat environment, I am able to identify conditions under which international economic crises lead to the emergence of a developmental state—one capable of acting as a catalyst for industrial transformation.

Before proceeding, it should be noted that the logic of this argument does not depend on whether these changes to the political and institutional landscapes happen gradually over time, or whether the social system exhibits behavior that has been referred to as punctuated equilibria—distinct breaks in institutional continuity usually brought about by exogenous shocks. While recent scholarship on institutional change has attempted to distinguish between these punctuated, exogenously-driven pathways to institutional change from gradual and presumably more endogenous pathways (Lewis and Steinmo 2012; Mahoney and Thelen 2010), the political dynamics driving institutional change in my account are identical. Following Riker (1980), I argue that institutions are the congealed preferences of the powerful; if they remain stable over time it is because the underlying political terrain of power and preference of a given society is also stable.

This theory furthermore demonstrates how a developmentalist relationship between state and markets can emerge from states of comparatively low initial levels of bureaucratic capacity. Contrary to the expectations of Kohli (2004), the formation of cohesive states during the colonial period was not a necessary condition for agrarian societies to pursue state-led industrialization. Following Haber, Razo, and Maurer (2003), I show that a meaningful agenda of state-led developmentalism can be pursued even under initial conditions where the bureaucracy lacks cohesive capacity, as well as the kinds of autonomy from the incumbent ruler that Evans (1995) finds to be a necessary condition for industrial transformation. I challenge structural narratives that take institutional development to be exogenously determined by geographic endowments or colonial encounters.

In this chapter I unpack the several dimensions of this theory. What emerges is an analytic narrative (Bates et al. 1998) that identifies those critical historical antecedents (Slater and Simmons 2010) related to relative class size that exert a causal effect on the policy choices of political elites during a protracted economic crisis. I begin with a discussion of the historical origins of variation in social structure, highlighting the ways that international trade integration during Latin America's liberal reform period (ca. 1870-1920) created opportunities for the expansion of the middle classes. I then discuss two types of exogenous trade shocks, the international economic crisis of the 1930s and the mobilization for war in the industrialized world during the 1940s, emphasizing the economic adjustment problem these trade shocks posed for agrarian societies. Here I preview the different consequences of the trade shocks for different sectors of society, examining the consequences of declining terms of trade for the ability of an agrarian society to continue importing and consuming manufactured goods.

Next I discuss in greater detail what the adjustment policy options available to these states were. I argue that the two fundamental choices available to the ruling class were either to engage in greater taxation on other sectors of society in order to sustain elite consumption, or to alleviate the pressure on the national balance of trade posed by expensive imports through investment in the development of domestic substitutes. I go on to discuss the role of the state in coordinating the investments required to sustain such a policy of import substitution industrialization (ISI), observing that the formation of "pro-growth" political institutions is endogenous to the economic preferences of the political class. I show how the material security of the middle classes were the ones most directly threatened by the trade shocks of the 1930s and discuss how their political power to press their grievances on the state was a function of their stock of human capital and their relative class size. I also attempt to illustrate how the rulers of agrarian societies, when confronted with the political incentives to adjust to a terms of trade crisis via ISI, can pursue a developmentalist strategy that is consistent with the patrimonial character of their regime.

Finally, I conclude with a preliminary attempt at operationalizing this causal narrative as an adjustment problem. First, I derive the microfoundational preferences of actors in different sectors of the society based on their share of the national income. Second, I make predictions based on these preferences about how they shape the adjustment policy choice of the ruler. This exposition illustrates how the historical antecedents that combined to produce variation in the relative size and class power of the middle classes conditioned the effect of the global depression of the 1930s on institutional development and industrialization.

Critical Antecedent: Trade Integration and Changing Class Structure

Before exploring the political consequences of international economic crises for agrarian societies, and the effect that different patterns of middle class income distribution have on the incentives a government faces for choosing an adjustment strategy in response to such a crisis, I introduce one historical variable that I hypothesize to have a significant impact on income distribution within agrarian societies—international trade integration between roughly 1850 and 1929. Within the framework presented here this variable operates as a critical historical antecedent

(Slater and Simmons 2010), a kind of "cause of causes" that determines the value of a successive variable, income distribution, that in turn determined the economic adjustment policies selected by elites during a prolonged international economic crisis by conditioning the effect of the crisis on the distributional politics of the regime.

Opportunities for agrarian societies to integrate into the international economy increased dramatically during the second half of the 19th century. The demand for primary commodities among the early industrializing countries of England, France and Germany surged during this period, providing raw inputs for their industrial activities and providing for the consumptive needs of their rapidly expanding, urbanizing populations.[8] Such trade was facilitated by an equally dramatic decrease in the costs of transactions between nations. The combination of British management of monetary exchange through the gold standard and improvements in transportation, introduced by technologies like the steamship and the railroad, removed significant barriers to exchange between the industrial core and the agrarian periphery (Frieden 2006).

The greater profits to be had through international trade in primary commodities during this period provided the external material incentives for a set of domestic liberal economic reforms that swept across the decolonized states of Latin America and the Caribbean. Between roughly the 1870s and the 1920s, countries across the region transitioned in varying degrees from feudal land systems inherited from the colonial period to commercial agriculture, especially the transfer of communal and unused land to private ownership, adopting these liberal reforms in

[8] Cite historical narrative about demand for coffee and sugar for industrial workers as a means of artificially increasing their productivity.

order to take advantage of the export opportunities presented by this increasingly vibrant system of international trade (Mahoney 2001b).

The adoption of these liberal reforms did not go uncontested within Latin American societies and was not uniform across the region. As I explore in greater detail in the following chapter, factors related to the domestic social and productive structures of agrarian societies as they emerged from the colonial period, and the international environment into which these newly independent states were born, all shaped the ability of these states to capitalize on the economic opportunities presented by increased demand for agricultural commodities on the international market.

For those agrarian societies that achieved higher levels of trade integration during this period, the expansion of global markets provided opportunities for greater income potential and social mobility for the middle class. This social transformation occurred directly through economic activities related to arbitrage[9] and the provision of services complimentary to the export sector such as accounting, domestic shipping, legal services, and banking. It also occurred indirectly through demand spillover effects in the areas of consumer goods retailing, cottage (artisan) manufacturing, and services. These occupational opportunities became the economic basis for the expansion of the middle classes.

In their influential volume *Capitalist Development and Democracy,* Rueschmeyer, Stephens and Stephens (1992) argue that the prospects for democracy have depended historically on the relative power of the working class, the middle-class

[9] Most basically, arbitrage describes the activity of deriving profit by exploiting the difference in price between two markets—in this case the difference in the price for agricultural commodities across domestic and international markets.

"petit bourgeoisie," and the land-owning oligarchy. In their model the working class always support democratization due to its prospects for greater political and economic equality. The landed oligarchy always opposes it for similar reasons. The middle class may support democracy if the working class isn't so powerful and autonomous that it threatens their propertied interests. In those instances where the petit bourgeoisie perceived such a threat from the working class, these authors argue that the middle class have historically allied with the traditional oligarchy against lower class political inclusion. But under specific "constellations of class interest and power" (63) where the landed oligarchy is weakened, often due to the development of new modes of production that favor capitalist markets over feudalistic structures of accumulation, and working class mobilization isn't too threatening to the material interests of the middle class, a coalition may form between them that favors greater political inclusion.

Whereas Rueschmeyer et al. (1992) are concerned primarily with regime type outcomes, this focus on the landscape of social power within a country has since been applied to explain relative levels of development within the Americas. Recent scholarship has attempted to identify the mechanisms linking income inequality and the size of the middle classes with economic growth and development. Engerman and Sokoloff (1997) and Sokoloff and Engerman (2000) argue that initial conditions such as native populations that survived colonial contact and could be enslaved, as well as climates and soils conducive to labor-intensive commodities like cotton or sugar that profited from abundant labor, shape long-run development levels by generating highly unequal social structures. These social structures are believed to lead to economic underdevelopment through self-reinforcing patterns of elite privilege that limited liberal economic competition and human capital formation. Eventually, these patterns of social relations become institutionalized over time, reproducing the inequalities in wealth, human capital, and political power that we observe today.

The work of William Easterly et al. (2006; 2001, 2007) extends the findings of Sokoloff and Engerman beyond the Americas, observing significant and robust worldwide correlations between commodity endowments, the size of the middle class, and economic development during the second half of the twentieth century. Like Acemoglu and Robinson (2006), they consider mechanisms by which human capital endows the middle classes with the political power to press their economic interests upon the state, illustrating why industrial reforms are consistent with those interests.

The commodity endowment mechanism theorized by Engerman and Sokoloff is not able to account for underdevelopment in Haiti. Climates and soils were initially comparable with those of the DR, the pre-colonial population was exterminated on both sides of the island well before independence,[10] and sugar plantations were abolished and land was redistributed into smallholder plots within 20 years after the end of the 1804 revolution. Furthermore, the reliance on available cross-national statistics that don't begin until the 1950s forward complicates the efforts of Easterly et al. to identify the underlying causal process(es) that connected social structure with economic growth during the 20th century.

[10] The coercive labor policy of slave mineral extraction adopted by the Spanish crown during the 15th and 16th centuries, coupled with the spread of European diseases, exhausted much of the accessible precious mineral wealth of the island and at the same time all but exterminated the indigenous Taíno peoples who inhabited the island.

Nevertheless, this literature makes an important contribution to our understanding of the relationship between political institutions and economic growth. In their exploration of the relationship between human capital, class power, and the political will to pursue economic change they illuminate the crucial point that economic institutions are not always given but are often merely the congealed preferences of those who wield political power (Riker 1980). Under conditions where the economic interests of the middle classes are threatened by an international economic crisis, the political will to adopt economic reforms and construct the political institutions to implement those reforms depends more primordially upon the relative political power of that class.

As I elaborate in greater detail further below, variation in the social structure of the agrarian societies that emerged from early globalization, due in part to differences in the level of international trade integration and the opportunities for occupational diversification that resulted, had important consequences for middle class income distribution and the political power of this class to pursue their economic interests during the subsequent economic crisis of the 1930s.

It should be clear to the reader that a thriving agro-export sector at the turn of the twentieth century is but one cause of historical variation in the class structure of agrarian societies. In other contexts, historical differences in social organization that emerge from colonial rule (Mahoney 2010) and ethno-linguistic fractionalization (Easterly 2001), might also be expected to shape income distribution and class structure. The central point is that, whatever the determinants of income distribution for a given agrarian society, the politics of economic adjustment during a foreign exchange crisis will generate different outcomes depending upon the relative power of these classes. In the next section I elaborate on this form of economic crisis, or "trade shock."

International Trade Shocks

A trade shock is an acute change in the relative prices of different goods on international markets, one that exerts pressure on states through its effect on the international terms of trade for a given country. The domestic consequences of these exogenous changes in the national terms of trade vary in the degree to which they generate both trade and fiscal surpluses or deficits, the degree that they alter the income and occupational opportunities of the domestic population, and also in the degree to which they alter the competitiveness of domestic producers vis-à-vis their international competition.

For an agrarian society—a country whose economic production consists almost entirely of agricultural commodities and who depends largely on imports to satisfy domestic demand for manufactured goods—such changes in the terms of trade usually come in the form of fluctuations in international demand for a particular agricultural commodity, a dramatic change in the availability of manufactured goods from the industrialized world on international markets, or both. During the first half of the 20th century agrarian societies experienced three such shocks to their international terms of trade. These trade shocks came in the form of two world wars that simultaneously inflated the price of their commodity exports and disrupted the supply of manufactured goods,[11] punctuated by an international economic depression during the 1930s. This latter shock set the stage for diverging rates of industrialization among agrarian societies by disproportionally undercutting international prices of commodities from the agrarian periphery relative to the price of manufactured goods from the industrialized core. The subsequent trade shocks born of the mobilization of the global economy for war during the 1940s reinforced the adjustment policies previously adopted in response to the critical juncture of the depression, helping to lock these countries in on path-dependent trajectories of development.

Trade shock 1: Global depression and the terms of trade for agricultural commodities

Volatility in the relative prices of exports and imports on the international market, the terms of trade, are an enduring feature of globalization. The more integrated a country's economy is with international markets, and the less diversified the export sector, the more vulnerable they are to these shocks in the terms of trade. If the value of a country's exports falls dramatically below the value of the imported goods demanded by domestic markets, such trade shocks can push the trade balance into deficit and compromise the ability of societies to consume imported goods.[12] For agrarian societies that, by definition, have not developed the industrial capacity to produce manufactured goods, such trade shocks present an economic crisis for those individuals of the middle and upper classes whom have grown accustomed to life with

[11] Coming in the wake of WWII, the Korean War essentially prolonged and accentuated the wartime economy for those agrarian states who were close trading partners of the United States.
[12] International borrowing can help alleviate this gap between domestic demand for imports and the amount of foreign exchange a country receives from exports, however during the 1930s the lack of liquidity on international markets effectively eliminated the possibility of taking on additional sovereign debt.

such goods. These include consumer light manufactures—items such as textiles, toiletries and pharmaceuticals—as well as appliances and machinery. Sharp and sustained declines in the capacity of the middle and upper classes to consume and save, as well as losses in income to those agricultural workers who produce for the export sector, can touch off acute political crises with profound implications for long-run development of state capacity and economic modernization in agrarian societies.

Accordingly, the onset of the international depression represented a rupture in the coherence of the agro-export model of development that prevailed during the initial expansion of global that began in the mid-1800s. For those countries that had undertaken more-extensive reforms towards commercial export agriculture, national income plummeted during the 1930s as the price of agricultural commodities in international markets fell below the cost of production. Such an outcome threatened both the livelihoods of peasant producers and middle class brokers, as well as the savings of wealthy agro-export merchants and landholders. Similarly, the organs of the state and the economic interests of the political class were compromised as the state revenues derived from taxation of international trade—customs duties and tariffs—were decimated. In Latin America this turn of events generated a wave of political crises that culminated in no fewer than fourteen coups across the region as entire societies struggled to formulate a political response to the economic crisis (Wiarda 1998, 38).

En total, although different segments of the societies of agrarian societies were affected differently by the trade shocks of the 1930s, virtually every member of society except the self-sufficient peasant experienced a significant threat to their livelihood during this period. The political crisis that ensued in these countries touched off a vigorous policy debate about how to adjust to the economic crisis. Further below I more fully describe the political dynamics of the strategic interaction between these social sectors and the political class over adjustment policy choices.

Trade shock 2: Global war

In the trade shock described above, the capacity of an agrarian society to import and consume manufactured goods was constrained by a terms of trade crisis that put the national trade balance into deficit and drew down foreign currency reserves. A conceptually distinct form of trade shock from the one that occurred in the 1930s affected agrarian societies during the 1940s as the wartime economy of the Second World War (1939-1945) brought an end to the global depression of the 1930s. During this period the price of primary commodities on the international market boomed while imports remained scarce as demand for inputs for the war effort increased dramatically meanwhile manufacturing capacity was re-tasked to warmaking, and rationing set in across the industrialized world. In many countries the result of this external trade shock for agro-export economies was a balance of payments surplus as commodity exports increased but imports remained scarce and expensive. Besides contributing to the accumulation of capital in the form of large foreign exchange reserves, it also had the effect of insulating domestic producers from international competition. For those agrarian economies that were closely tied to US markets, mobilization for the Korean War (1950-53) generated a similar effect.

The timing and sequence of these trade shocks were crucial for the development trajectories of Latin America's agrarian societies. As I explore in greater empirical detail in Chapter 5, countries like the Dominican Republic that adjusted to the first trade shock during the 1930s[13] through statist investments in import substitution, World War II and the Korean War reinforced these policies by simultaneously sheltering domestic producers from international competition while allowing for the accumulation of foreign exchange reserves that might be used after the war to import additional capital stock and accelerate the process of import substitution industrialization (Moya Pons 1987). For agrarian societies like Haiti whose political class responded to the global depression with additional predation on the already strained surplus value of peasant export cash crop production (Trouillot 1990, 102–103), the international wartime economy of the 1940s and 50s also reinforced the chosen state adjustment policy by generating greater windfalls from the agro-export model (Smith 2009, 118).

Adjustment Problem: State Predation or State-led Investment?

The policy problem confronted by virtually every agro-export economy during the early 1930s, then, was how to cope with the dramatic loss of national income brought about by plummeting terms of trade for agricultural commodities. The prolonged balance of trade crisis brought about by declining terms of trade at the onset of the global depression in 1929 undermined the case for the agricultural commodity export

[13] It should be noted that World War I (1914-1918) had a similar effect on the trade balances of agrarian states, although its sequencing before the global depression of the 1930s had different consequences for the future of the agro-export model than the trade shocks that followed the depression.

liberalization model as a viable model for national development. Confronted with a pending collapse of the prevailing model due to this trade shock and the reluctance of different sectors of society to accept the losses to consumption inflicted by the shock, the political classes in agrarian societies were faced with two fundamental choices: Hobble along with the status quo model, forcing the ruling social coalition to squeeze greater tax revenue from those sectors of society to which the government is not accountable in order to continue servicing the patronage networks of those sectors to which they are accountable, or alleviate pressure on the current account by developing domestic substitutes for those imported goods that the society can no longer afford.

The first alternative, continuing with the agro-export model under the condition of adverse terms of trade, would signify that the ongoing consumption of processed and manufactured goods such as textiles, shampoo, wine, and machines would be a luxury to be afforded only by those who possessed the means to continue importing such goods. In an agrarian economy with no other significant source of foreign exchange currency other than income derived from agro-exports, this group consists of the wealthiest elites who had sufficient savings to draw from in order to weather the economic crisis and pay the relatively higher prices for such goods. For the political elites, the set of civilian and military officeholders that are sometimes drawn from the oligarchy but not necessarily (Winters 2011), their capacity to continue consuming manufactured goods under the condition of a prolonged terms of trade crisis depends upon increasing the income they extract through domestic taxation and/or foreign borrowing. Those segments of the middle classes who formed a part of the ruling political coalition can often count on some measure of this wealth to trickle down via continued patronage from the political elite. Finally, those of the middle and peasant classes who were dependent upon export revenue for their livelihood would be forced to do without, returning if possible to subsistence agriculture.

The second option would require a transformation of the economy as the raw inputs and intermediate stages of product transformation are lined up in order to sustain the rapid development of an import substitution sector. In order to understand the policy implications of such an import substitution strategy, it is important to recognize the investment coordination problems that exist among firms at the developmental stage of a non-industrialized agrarian economy and the *statist imperative* that such coordination problems introduce.[14]

The basket of goods imported and consumed by agrarian societies during the first quarter of the 20th century was a mix that included durable goods like machinery, as well as consumer goods ranging from light manufactures like textiles, cosmetics and pharmaceuticals, to processed goods like cooking oils and personal hygiene products. It also included semi-raw materials such as cement, lubricants and paper products, as well as unprocessed agricultural commodities like rice and wheat for which there existed domestic demand but insufficient domestic production. Consumption of each of these goods required foreign exchange reserves that were in short supply during the trade shock of the 1930s.

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[14] On the statist imperative for late industrialization see especially Kozul-Wright (1995), "The myth of Anglo-Saxon Capitalism: Reconstructing the history of the American State" in Chang, Ha-Joon, and Bob Rowthorn. 1995. *The role of the state in economic change*. Oxford; New York: Clarendon Press; Oxford University Press.

For an agrarian society confronting the need to develop domestic substitutes for these imported goods, the development of a supply chain of forward and backward linkages in order to produce these goods necessitates coordinated investments in raw inputs, manufacturing capital, and infrastructure. Two principal constraints confront societies that would pursue an economic policy of import substitution: First the availability of capital for market actors to invest in the forward and backward linkages required for the production of manufactured goods. Second, the degree of uncertainty faced by market actors that the associated upstream and downstream investments will be made.

Among non-industrialized countries, acute uncertainty that market actors in such economies face concerning the likelihood that complimentary investments in upstream inputs, physical capital, and infrastructure will be made generates a powerful ideological and practical impetus for the state to emerge as a market actor—making available the required investment capital and coordinating the simultaneous upstream and downstream investments necessary to pursue a policy course of import substitution. For agrarian societies, then, the formation of institutions that are "good" for growth during the 20th century was endogenous to the adaptive pressures they faced in response to exogenous international shocks.

This insight runs counter to many theories of economic growth that view the historical formation of political institutions as deterministic for development (Acemoglu, Johnson, and Robinson 2001; Evans 1995; Haggard 2004; Rodrik, Subramanian, and Trebbi 2004). The type of kleptocratic patrimonial regime that emerges on both sides of the island of Hispaniola following independence is often viewed as intrinsically incompatible with economic growth. The co-occurrence of both pervasive political clientelism and state developmentalism in the DR between 1930 and 1961, under the Rafael Trujillo's unquestionably patrimonial authoritarian regime, thus challenge some of the most basic assumptions of the political economy of development literature regarding the consequences of these types of regimes for economic growth in sub-Saharan Africa today (van de Walle 2001). This causal narrative also challenges institutional theories about the East Asian developmental state contending that a professionalized and responsive bureaucracy is a necessary precondition for state-led industrialization (Evans 1995; Kohli 2004). These studies have emphasized the need for strong state institutions that can cooperate with private sector actors without either being captured by them or becoming so powerful as to simply extort revenue from them without providing public goods or industrial coordination functions in exchange. The puzzle, then, is what is the 'right' kind of state intervention and where does it come from? Does the developmental state require a professional bureaucracy to keep policymakers both autonomous from rent-seeking entrepreneurs while at the same time closely embedded with them by institutional (rather than personal) ties, as Evans (1995) suggests, or can state-led development policy be driven by entrepreneurs who rely on personal commitments from the government or are integrated into the state itself, as the work of Haber et al (2003) suggests?

As I explore in greater detail in Chapter 5, the Dominican state under Trujillo played a crucial role in coordinating investments in the forward and backward linkages of domestic production required to transition from an agrarian to an industrializing economy. However, its political institutions exhibited neither the institutional constraints on the state's power to expropriate private property, nor the "good" colonial legacies of bureaucratic capacity, that are believed to matter for implementing state-led economic development. What emerges from this analysis of the process of adjustment to international economic crisis on the island of Hispaniola, then, is a richer understanding of the different modes of accumulation that can exist under patrimonial authoritarian regimes, as well as a reassessment of the possibilities for state-led development in poor institutional contexts.

Endogenous Institutions and the Political Determinants of Economic Growth

Contemporary economics accounts for economic growth using the Solow (1956) exogenous growth model. Growth depends on achieving greater labor productivity—the amount of output a worker produces per unit input. In the Solow model labor productivity can be improved through investments that increase the ratio of capital to labor and through changes in technology that yield increases in productivity per unit of capital. Over time, market mechanisms are expected to push firms to increase the ratio of capital to labor until it converges upon an equilibrium of constant returns to scale, at which point it is only through exogenous changes in technology that societies find the increases in productivity that sustain economic growth. Consequently, this is known as the exogenous growth model. Other models such as Romer (1986) focus on endogenous sources of increased productivity and growth through enlightened public policies, particularly investments in knowledge capital such as research & development and education. Together, these models describe a process by which poorer countries can expand their national incomes by making or inviting foreigners to make the kinds of strategic investments in physical and human capital that result in increased productivity and economic growth.

Why do some societies make the kinds of capital investments required to sustain a measure of industrialization and economic growth while others do not? The exogenous growth model assumes that firms will automatically make capital investments under the condition of increasing returns to scale until they reach a steady-state equilibrium where an additional unit of investment in capital would yield diminishing returns. Though elegant in its parsimony, this model fails to consider conditions in which firm profit depends on coordinated investments in the backward linkages—inputs like reliable supply chains of primary commodity inputs and a educated, healthy labor force—and forward linkages of infrastructure and manufacturing capacity required to transform upstream commodity and labor inputs into downstream manufactured goods.

Agrarian industrialization: The role of the state

In his seminal work attempting to map out the different paths to industrialization taken by "backward" countries in response to England's move from cottage manufacturing to full-blown industrialization, Alexander Gerschenkron (1962) compared the industrialization processes of "late" industrializing countries such as France and Germany to "late-late" industrializers like czarist Russia. Differences in the timing of industrialization vis-à-vis international competitor-states, as well as domestic-level factors such as social structure and natural resource endowments, determined both the amount of pressure faced by the "backward" states to industrialize as well as the opportunities and constraints they encountered in pursuit of that goal. Where the threat of declining relative economic power or military domination by an industrialized country pervaded, latecomers to industrialization manifested ideologies of economic nationalism—in part as a means to organize the resources of society away from short-run consumption and towards long-run investments in "big push" industrialization.

Gerschenkron observes that in France and Germany this allocation of resources was facilitated by the prior emergence of industrial banking during the mid-1800s. Private capital, working in conjunction with the state, established lines of long-term credit that financed construction of the infrastructure and physical capital necessary to sustain an accelerated industrial takeoff of the scope and scale necessary to catch up with England. In Russia, where financial markets with the private capital necessary to fund an industrial push had not developed by the time of their push for industrialization, the state emerged as the industrial entrepreneur-investor actor responsible for coordinating the construction of railways and factories. And whereas French and German industrialization enjoyed significant advantages, not only in terms of the availability of long-term private capital markets but also the increasingly urbanized configuration of their labor markets, the weakness of banks in Russia was matched to a social structure that placed significant constraints on industrialization—namely a reluctant landed oligarchy and a mostly rural labor market characterized by peasant serfdom. Gerschenkron finds that it is was only with the mounting pressures for industrialization posed by military threats along its extensive frontier, and the greater availability of technology imports from the industrialized world, that Russia was able to overcome the obstacles to economic modernization posed by weak capital markets, a conservative oligarchy, and a small manufacturing labor market that was poor in human capital. Ultimately, these challenges delayed the beginning of Russia's industrialization by approximately 20 years relative to the "late-developers," producing a distinctive, state-led process of industrial development.

Though scholars have spent much ink elaborating on the investment coordination problems faced by late-industrializing countries, to the best of my knowledge no one has formally addressed the theoretical dilemmas related to simultaneous upstream and downstream investment coordination problems during the initial phase of industrialization. Murphy, Vishny and Shleifer come closest in their discussions of the way that integration into agro-export markets (1989a) or simultaneous "big push" industrialization across multiple sectors (1989b) create demand spillover effects that permit industrialization to unfold in agrarian economies with the "scope and scale" envisioned by Gerschenkron. However, their emphasis on the problems of economic scale faced by industrializing agrarian economies leaves two questions unanswered. First, how do we explain variation in industrialization among agrarian economies with the same absolute size of domestic markets for manufactured goods? As they correctly note, larger countries can generate domestic markets for such goods under the condition of higher proportional inequality (Murphy, Shleifer, and Vishny 1989a, 538). In Chapter 5 and its statistical appendix I explore how Haiti, due to its larger population, possessed roughly the same absolute size of a potential domestic market for manufactured goods even though the size of their middle and upper class was proportionally one-third of the size of the Dominican and

Central American states. My empirical findings show that, at least at the early stages of import substitution focused on the production of non-durable consumer goods, absolute market size does not appear to have been an important constraining factor for early industrialization in Latin America. The primary constraint facing agrarian societies attempting big push industrialization is not the size of the internal market but the investment coordination problems faced by market actors. If the resolution of such coordination problems requires state intervention, where does the political will for such intervention come from?

In order to improve our understanding of the relationship between coordinated investment and economic growth, Wydick (2008, 34) forwards a preliminary analytical framework for understanding this problem by applying game theory to the scholarship of the economic historians of early American industrialization who explore the important economic interdependencies of the railroad, coal, and steel industries (Fishlow 1965; Fogel 1964; W. Rostow 1960). To achieve the type of dynamic economic growth like the "big push" industrialization (Rosenstein-Rodan 1943) that took place across Western Europe and North America during the 18th and 19th centuries, he notes that economies must generate *complementarities* created by forward and backward linkages, *coordination* across firms needed to produce those linkages, and *confidence* among individual firms that their investments will be matched by those of the other players whose productive activities are necessary for a given firm to realize a profit.

Wydick uses the historical example of American industrialization to create a generalizable three-player investment game. The players are Railroad, Coal, and Steel.

Coal is a necessary input for the production of steel, coal and steel are necessary inputs for the building and operation of railroads, and railroads are necessary to move coal from the mines to the steel mills. If one player fails to invest (defects), then industrialization does not take place. There are two Nash equilibria[15] in this game: one where all three players invest and one where all three players withhold investment, for if only one or two of the three players invest they will lose money due to the absence of the necessary complimentary linkages. This takes on the game form of a stag hunt, where "all players would like to take risky action, but only if they are confident that they won't get burned" (Wydick 2008, 37). The investment strategy of each player is conditional on the perceived probability, or *confidence*, that the other players will invest.

Industrialization, in this framework, represents a cooperative game in which political institutions can act as a "visible hand" to guide the investment behavior of market actors. This allows us to understand why a patrimonial dictator could preside over a period of rapid development and industrialization by marshaling state resources, making certain the probability that investments in complimentary backward and forward linkages would be made.

Faced with the political and economic incentives to deliver basic manufactured goods during the 1930s-50s to an internal market that had grown to a sufficient size during the period of agro-export liberalism in the late 1800s and early 1900s, and capitalizing on the opportunity to profit from such production, Trujillo's government

[15] A Nash equilibrium is one where no player in a game has an incentive to deviate from her strategy given the strategies of the other players.

invested in both the physical and human capital that sustained Dominican economic growth throughout the second half of the 20th century. Why did neighboring Haiti become trapped in a Pareto-inferior but sub-game perfect (i.e. “rational”) equilibrium where well-entrenched Haitian elites failed to invest in productivity-enhancing physical and human capital despite the fact that all sectors of society would have been better off if they had done so?

The decision to adjust to the economic crisis of the 1930s through greater taxation for elite consumption versus state-led investment in import substitution rested upon the consequences of the terms of trade crisis for the material wellbeing of the middle classes. How do the middle classes translate relative class size into political power, and how does that power shape economic outcomes?

Relative class size, human capital, and political power

Political institutions, and the degree of competition that they foster, have been found to exert a non-monotonic effect on the incentives rulers face to invest in industrialization through a “political replacement effect” (Acemoglu and Robinson 2006). Intermediate levels of political competition can act as a disincentive for incumbent rulers to make otherwise Pareto-optimal investments out of the fear that their ability to hold state power and extract rents from such power could be threatened by economic change. It is not the economic interests of the ruling class in maintaining an outdated economic model, per say, that lead them to block industrialization reforms but, rather, their interest in political survival. Under higher levels of political competition, political survival depends on the ability of rulers to innovate in order to increase the income of the citizens, making blocking less likely. Under lower levels of political competition, Acemoglu and Robinson argue, elites also face fewer incentives for blocking such an economic transformation because their hold on power is perceived to be secure and thus they feel certain to capture the future rents that would be produced by growing a modernizing economy. It is under intermediate levels of political competition where rulers, fearing replacement, view industrialization as a threat to their hold on power and the rents they derive from that power, and thus discount future payoffs from economic change.

Acemoglu and Robinson (2006) also expect levels of human capital to behave non-monotonically. On the one hand, higher levels of human capital improve upon the chances for successful industrialization and, because of the improved prospects for additional rents, diminish incentives for elite blocking. On the other hand, they note that raising the level of human capital in the process of promoting industrialization may also work against the survival of incumbent rulers by increasing the political power of different sectors of society. Citing the work of Bourguignon and Verdier (2000), who seek to unpack the correlation between democracy, inequality, and economic growth, Acemoglu and Robinson follow a long tradition of social science scholarship beginning at least with Verba et al. (1978) in arguing that determinants of socioeconomic status such as education translate directly into political power by endowing individuals with the resources to participate in political life.

In the model presented here, measures of human capital and socioeconomic status like education are not taken as endogenous to the preferences of rulers but are exogenously determined by historical factors—namely prior trade integration during

Latin America's liberal reform period (ca. 1870-1920)—and the effect that the resulting income distribution had on the relative size of the middle classes going into the international economic crisis of the 1930s. When confronted with such an external economic threat, the political survival of the ruler in an agrarian society depended upon their ability to provide for the material interests of a winning political coalition. As I demonstrate in greater detail further below, it was precisely these middle classes who lost the most from the economic crisis in material terms. In agrarian societies where political resources like literacy were narrowly distributed, the ruling coalition consisted of an oligarchy that could draw from their savings to weather the economic crisis and a small middle class that could be coopted through networks of state patronage. In societies with a substantially larger middle class, the ability of the ruling class to hold power depended on their ability to provide the middle classes with domestic substitutes for those imported goods that they could no longer afford to purchase from abroad.

Developmentalist patrimonialism?

How do such extract rent from the ISI model without compromising the development project? I assume that patrimonial leaders by definition will seek to find a way to extract rent from the economic reforms that follow a transition to the import substitution model. To better understand the distributional logic underpinning this assumption, it is necessary to unpack the concepts of private and public goods and their consequences for a ruler's political survival.

The divergent economic development trajectories on Hispaniola are primarily the product of the different ways that authoritarian regimes chose to transform, distribute, and consume state resources during the 1930s-50s. When rulers distribute state revenue for private consumption, it can only be expected to have a marginal positive effect on economic growth through small increases in private consumption. If that revenue is extracted through taxes on society, at rates that reduce the profits of market actors below the threshold where they would prefer leisure to productive activity, it has a profoundly negative effect on economic growth. But where rulers invest in public or collective goods that reinforce markets, by developing human capital and increasing the ratio of physical capital to labor, economic growth follows.

The developmentalist investment behavior pursued by Trujillo is puzzling to existing theories of patrimonial regimes, which expect a ruler unconstrained by institutions of political accountability to use their autonomy to prey on the value of market surpluses, channeling a portion of that surplus value towards private consumption by the ruler and their narrow political coalition. The theoretical framework I advance here explores the possible impacts of international economic crises on the distributional preferences of authoritarian rulers. Variation in economic development outcomes on the island of Hispaniola is the cumulative result of iterated strategic interactions between rulers and domestic market actors who make rational choices about economic production under a given set of structural opportunities and constraints, bargaining for the distribution of state resources and responding to international shocks in ways that generate equilibria of economic growth or decay.

To explain why some authoritarian regimes achieve greater economic performance than others, first it is necessary to understand the distributional choices these rulers face. The distribution of state resources in the form of programmatic or public goods such as property rights has been shown to contribute to a self-reinforcing process of economic growth and political development (Bueno de Mesquita et al. 2003; North 1990). Clientelism, the targeted (as opposed to programmatic) distribution of state resources as private goods to individuals and groups in exchange for political patronage, is a form of distributional behavior that is often correlated with both illiberal political regimes and low economic growth (BDM et al. 2003).

Much of the existing scholarship on public goods has mistakenly treated the distributional behavior of rulers as a dichotomous choice between providing clientelistic private goods or egalitarian public goods—concepts that ignore collective goods that are either rivalrous (where consumption by one precludes consumption by another), excludable (where provision for one does not necessitate provision for all), or both, but nevertheless are capable of exerting positive effects on economic growth. In order to understand the logic behind the kind of patrimonial developmentalism we observe in the Dominican Republic during the reign of Trujillo (1930-1961), a conceptual distinction must be made between true public goods and collective goods that, however beneficial for certain markets actors, are nonetheless excludable and thus selectively distributed.

Attempts by market actors to mobilize political coalitions in support of collective, state-provided goods are distributed publicly—that is, in a non-exclusionary manner over a wide segment of society—have been shown to suffer problems of free-riding (Geddes 1994). The incentive to take political risks over public goods payoffs is low because, by definition, you would still receive them regardless of whether or not you participated in the coalition. Alternatively, while this argument may apply to large groups of undifferentiated actors, small coalitions of producers may face selective incentives (Olson 1965) that allow the coalition to press the state for access to collective goods with less free-riding.

The literature on economic development has only begun to examine ways in which the non-programmatic distribution of state resources can still generate positive externalities.[16] Scholarship on clientelism in Africa has attempted to unpack the concept of clientelism by distinguishing traditional conceptions of "elite clientelism" from other types of "mass clientelism" that use public resources to gain the political support of a much larger coalition (van de Walle 2007). This latter type of clientelism, although non-programmatic, is believed to be more conducive to democratic outcomes. Recent scholarship on historical and contemporary applications of clientelism and economic growth in Mexico has shown that the failure to explore the excludability of selectively distributed collective goods like property rights misses important politics about the choices involved in deciding who receives collective goods and who doesn't (Haber, Razo, and Maurer 2003; Magaloni, Diaz-Cayeres, and Estevez 2007).

[16] "We are, in short, a long way from any general theory about the economics and politics of governance systems in which property rights enforcement is selective rather than universal... We therefore build upon the extant literatures on property rights and credible commitments in order to explore how a governance system in which property rights are enforced as a private good can produce positive rates of investment and growth. We also explore the conditions under which such a system would be robust to political instability" (Haber, Razo, and Maurer 2003, 20).

Examining why Mexico was able to sustain economic growth during times of political crisis at the turn of the 20th century, Haber et al. (2003) show how political regimes that are able to credibly commit to recognize and defend property rights *selectively,* to even a small but crucial segment of market actors, can sustain private investment, economic growth, and tax revenues even during times of great political instability. Their central innovations are that governments may choose to enforce property rights selectively and that asset holders do not demand that the government protect everyone's property rights (22). The specification of property rights is inherently a private good, as the government is granting something that is excludable and rivalrous to a constituent. The enforcement of property rights can either be public (non-exclusionary) or private (that is, selectively enforced). The credibility of government commitments to provide property rights selectively and abstain from expropriation in these cases comes from one or more of the following conditions: 1) knowledge that the government is already maximizing returns without confiscation (such as if the asset-holder has a particular technical capacity that the government lacks, e.g. mineral extraction); 2) third party enforcement by an actor such as a foreign state that receives rent from the asset-holder and is capable of constraining the behavior of the state; and 3) Vertical Political Integration (VPI) (Haber, Razo, and Maurer 2003, 37).

This last concept of VPI, which Haber et al. (2003) adapt from microeconomic theories of firm behavior, bears particular relevance to the problem of coordinated investments for industrialization in agrarian societies. Corporations that require coordination from different firms in order to operate their supply chains often merge these firms into a vertically integrated corporation in order to reduce the costs of monitoring contracts between different businesses. This effectively "blurs the line" between firms and the overall supply chain. Similarly, Haber et al. argue, asset holders can blur the line between the economic class and the political class; this can be achieved formally through the incorporation of business elites into government structures, or informally through spoken agreements between authoritarian leaders and asset-holders. For asset holders, VPI provides the ability to shape the policies that govern their economic activities, the ability to monitor the government, and the ability to signal the government when they are not happy. Through VPI the government, on the other hand, gains "the confidence of a select group of asset holders that their property rights are secure. These asset holders will now be more likely to deploy more of their wealth in productive investment, thereby generating tax revenues for the government" (31).

These insights provide the basis for understanding why patrimonial leaders ruling outside the constraints of political competition and institutionalized accountability may engage in forms of clientelism that reinforce market operations and enhance economic growth. Traditional patrimonialism, as we encounter in Haiti, features elites that capture the state as a means to acquire and distribute a society's resources privately through clientelistic networks. This predatory behavior represents "low-road" patrimonialism. Alternatively, elites like Trujillo can capture the state as a means of vertically integrating the political and economic decisions required to coordinate investment in collective goods like infrastructure and human capital. Doing so increases the confidence of market actors that the forward and backward supply chain linkages required to sustain investments in industrialization will be maintained. This represents "high-road"[17] or *developmentalist patrimonialism*, and is distinct from more familiar patterns of elite clientelism that undermine markets by discouraging private investment.

Dependent Variables: Adjustment choices and development outcomes

Having explored the macro- and meso-level political dynamics underpinning adjustment to international trade shocks, I now provide a framework for understanding the micro-foundations of actor preferences in the context of agrarian economies. For individual members of society, the consequences of the international depression of the 1930s, and thus their individual preferences over policy responses, depended on where they were situated in the national economy. For peasants who derive their living primarily from food they grow for themselves, residing in houses that they constructed and furnished largely out of locally available raw materials, the loss to subsistence-based consumption caused by a disruption in agro-export markets is minimal.[18]

Similarly, the burgeoning middle classes in these agrarian societies typically derive their livelihood from providing goods and services in direct support of the export sector, or to provide for the market demand generated by those among the

[17] I cannot emphasize enough how the terminology of "high-road" patrimonialism I use here, and general references to the constructive contributions of the Trujillo dictatorship throughout this work, are strictly confined to the economic domain. It is certainly not lost on the author that, during the 31 years of Trujillo's rule, tens of thousands of people were murdered and many, many more suffered under the oppression of a cruel and often merciless dictator.

[18] Conversely, for peasants who had converted to smallholder cash cropping or plantation wage-labor in order to maintain their livelihood, the loss of income from declining agro-export prices posed a more direct threat to their livelihood. This insight draws from the exceptional treatment of agrarian politics during the great depression provided by Paige (1997) in *Coffee and Power,* especially his discussion of the impact of the transition to peasant wage labor in El Salvador during the liberal reform period on the degree of political instability during the great depression.

domestic population who profited from the agro-export sector. By the early decades of the 20th century middle class livelihood in agrarian societies had come to encompass not only access to improved food and lodgings, but also a modest capacity to consume an assortment of manufactured goods that had to be imported from the industrialized world. During the 1930s the shrinking domestic demand for their goods and services due to the decline in international prices for agro-export commodities, and the increasing relative price of imports, resulted in a dramatic decline in the livelihood, or consumptive capacity, of the middle classes.

For the wealthiest elites, the oligarchy, the loss of income derived from the extraction of surplus value of domestically produced agricultural goods bound for export markets meant that in order to maintain some measure of their prior level of consumption—particularly of manufactured goods—they were required to dip into their savings and/or liquidate some of their accumulated assets.

Finally, the worsening terms of trade for agrarian economies during the international economic depression of the 1930s led not only to trade deficits but also fiscal shortfalls. For the government and the political elite that depended on it for their livelihood, the decline in international trade corresponded with a loss of the primary source of tax revenue—customs tariffs and duties. This posed a threat not only to the material livelihood of the political elite, but also the government's ability to sustain the networks of clientelism and patronage underpinning the legitimacy of the regime vis-à-vis their political coalition.

Model

The analytic narrative that emerges here is comprised of an economic reform game set in an agrarian society where three classes of actor with distinct material interests and associated preferences, the peasant, the middle-class, and the oligarchy, are competing over an economic policy (state-led import substitution or intensified predation of status quo) to be implemented by a fourth actor-class—the political elite. The preferences of these actors are differentiated based on their capacity to consume and save above the basic level of subsistence. Following Murphy et al. (1989a), I conceptualize the lower *peasant class* as the set of individuals who command only enough resources to provide for their basic subsistence (food and shelter). The *middle classes* consist of the set of individuals who make enough money to provide for their subsistence and still have disposable income left over during normal economic times for the purchase and consumption of manufactured goods. Extrapolating from the conceptual treatment of oligarchy provided by Winters (2011), I posit that a third, upper-class, *oligarchy*, can be operationalized as individuals who make enough money to provide for their subsistence and their consumption of manufactured goods, while still maintaining a very high rate of savings during normal economic times.[19] Finally, the *political elite* consists of the set of civilian and military office-holders who rely upon state power and the revenue the state extracts from society in order to provide income for their private consumption. Like the middle classes, these actors do not

[19] I assume that the oligarchy at all times are constrained in their consumption of manufactured goods only by the effect of diminishing marginal utility from additional units of consumption.

have adequate savings to provide for their consumption during hard economic times and rely on the constant flow of revenue from state resources.[20]

This reform game plays out in agrarian societies that (again, by definition) have very little domestic manufacturing capacity at the onset of the game. It takes place under the condition of a foreign exchange crisis brought about by a sharp reduction in the terms of trade for agricultural commodities. The international economic crisis is an exogenous constant, or scope condition, that impacts all societies in this game. The only exogenous variable is the level of prior trade integration in each agrarian economy and the distribution of income that such a given level of trade provides for.

In one case (e.g. Haiti), per capita income from agricultural exports is low before the economic crisis, and the income is distributed in a highly unequal manner that yields a social structure where only a very narrow group of oligarchs and political elites possess sufficient surplus income to consume manufactured goods and influence political outcomes. This narrow group of elites rules over a broad class of peasants whose consumption is comprised primarily of subsistence with only marginal effort directed towards the production of agro-export cash crops. In another case (e.g. the DR), class structure consists of a modest but not insubstantial middle class, a narrow group of elites, and a peasant class that comprises a narrower majority of the population than in the first case. In these agrarian societies, both the oligarchy and the middle classes have sufficient income to consume manufactured goods during normal

[20] As Winters 2011 argues, the oligarchy, though sometimes also members of the governing political elite, are a distinct, economic class, who possess great political power during normal times but often exert it indirectly through proxies selected from among the political class rather than holding public office themselves.

economic times—prior to the onset of economic crisis. The peasant class is only able to consume near the subsistence level.

The central insight of this model is that during a sharp and prolonged contraction in the international terms of trade for agricultural commodities the losses to consumption in agrarian states are distributed unevenly, both across classes and across countries with different levels of prior international trade integration, generating profound political effects. During such a crisis the consumption of manufactured goods falls to zero for the middle classes due to the loss of income from exports, meanwhile the oligarchy maintain consumption simply by lowering their savings rate or even allowing it to go negative for the duration of the crisis.

Predictions

Where the peasantry derives its livelihood from smallholder agriculture rather than plantation wages, this class is able to maintain consumption levels during a protracted trade crisis because they are able to adjust their mix of cash cropping and subsistence cultivation. Thus, in agrarian societies dominated by a smallholder peasantry and a small oligarchy, an exogenous economic crisis would not be expected to generate especially strong political pressure for a radical economic adjustment away from the agro-export model.

Conversely, the loss of national income brought about by a protracted terms of trade crisis would be expected to undermine the ability of urbanized middle classes to provide for their own material wellbeing and maintain consumption at the levels they had come to expect during normal economic times. In particular, the ability of this class to import and consume basic manufactured consumer goods becomes compromised. Thus, in agrarian societies where the distribution of income supports a relatively larger middle class, I expect a protracted economic crisis to translate into political pressure for radical economic adjustment away from export dependency and towards a strategy of import substitution.

Finally, the policy choice faced by the political elite at the time of the crisis is between the status quo agro-export model and the reform model of ISI. Where the ruling coalition consists primarily of members of the economic oligarchy, rulers are able to service their coalition and thus achieve political survival by increasing the rate of extraction of the peasant surplus. Where the ruling coalition is comprised primarily of the middle classes, conversely, political survival depends on the incumbent's ability to provide domestic substitutes for those goods that the country can no longer afford to import.

Conclusion

The theory presented here has considered the impact of a protracted terms of trade crisis on the material interests of different classes within an agrarian society, and the likely political consequences of such a crisis depending on the relative size and political power of those classes. It demonstrates why political arenas comprised of proportionally larger and more powerful middle classes would be expected to generate greater political pressure for the regime to adjust to the crisis by abandoning the agro-export model in favor of a state-led import substitution industrialization model. Underpinning the logic of this theory are a series of insights related to the constraints agrarian societies face when attempting to execute import substitution—namely the investment coordination problems intrinsic to bootstrap industrialization. I explain why rulers, even those that preside over patrimonial authoritarian regimes, face incentives to allocate state resources towards growth-friendly investments in infrastructure, physical and human capital.

In the coming three chapters I present the empirical evidence of Haiti and the Dominican Republic from which this theory is derived. As the record will demonstrate over subsequent chapters, the consequences of the adjustment choices made by the ruling class during the international economic crisis of the 1930s had a profound impact on long-run development trajectories. At the moment when the agro-export model was at its weakest, rulers of some agro-export economies decided to stay the course, maintaining the capacity of the political class to consume imported goods by transferring the cost of the economic crisis onto the peasantry by increasing customs taxes on the export crops they produced. Meanwhile, other governments responded to the crisis by investing state resources in the formation of new modes of accumulation that combined ongoing agro-exportation with the domestic production of import substitutes. I illustrate how the decision to continue with the agro-export model or pursue economic reforms through ISI had a dramatic effect on the level of investment in infrastructure, physical and human capital by 1950. These differences in the determinants of economic productivity and growth compounded over the second half of the twentieth century, producing the variation in material wellbeing that we observe across Hispaniola today

CHAPTER 3

Critical Antecedents: International trade integration and class structure (1850-1929)

Latin America underwent a period of economic liberalization between roughly 1870 and 1920 that is commonly referred to as the liberal reform period. These reforms were prompted by a rapid expansion of international trade over the second half of the nineteenth century. During this time semi-feudal patterns of land tenure and economic exchange began to give way to commercial agriculture, causing a dramatic shift in the distribution of economic and political power within Latin American societies. The influx of wealth from commodity exports provided greater opportunities for social mobility, creating demand for new occupations that provided the material basis for the expansion of the middle classes. Greater exposure to international trade during the liberal reform period and the resulting expansion of the middle classes, in turn, had important consequences for the way that Haiti and the Dominican Republic adjusted to international trade shocks during the 1930s and 1940s. These adjustment choices shaped the patterns of extraction and investment by the state institutions on either side of the island, determining the levels of productivity and economic growth over the second half of the twentieth century. As such, the relationship between trade integration and class structure, and the sources of variation underlying these two variables, represent those antecedent conditions that were critical for explaining the diverging trajectories institutional development and economic growth on Hispaniola.

Integration into Global Markets

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

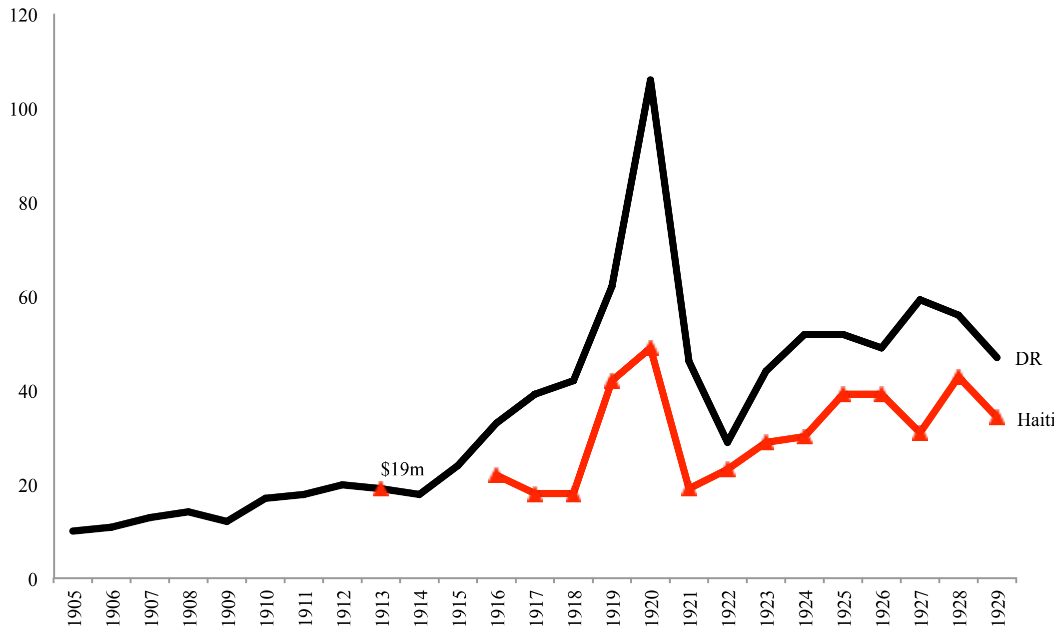
This initial phase of globalization was further enabled by a period of relative international stability that extended from the conclusion of the Napoleonic wars in 1815 to the commencement of World War I in 1914. Commonly referred to as the Hundred Years Peace, or Pax Britannica, this period saw Great Britain emerge as an international hegemon. Economic elites in gradually began to favor new, liberal trade policies over existing mercantilist protectionism because it allowed domestic producers to profit from the tremendous amounts of comparative advantage accruing from early industrialization in Britain. These policies included the expansion of the British Navy in order open and defend shipping lanes, as well as the establishment of a gold standard system of international currency exchange that reduced the transaction costs associated with trade between nations (Frieden 2006).

As industrialization spread from England to Western Europe and its more privileged former colonies over the course of the nineteenth century, urbanization in the industrial core drove up demand for agricultural imports—including wheat and beef from temperate zones as well as tropical commodities like sugar, coffee, and bananas. With the cultivation and exportation of these products becoming more lucrative, the economies of Latin America and the Caribbean began reshaping patterns of agricultural production and state governance in support of the development of commercial agro-export sectors. The political consequences of liberal economic reforms varied from country to country based on the extent of the reforms, the speed at which they were implemented, and the impact they had on smallholder farmers (Mahoney 2001b, 13). In most cases, it was during this period between 1870 and 1920, rather than the waves of independence under Simon Bolivar in the 1820s, that the traditional oligarchic orders held over from the colonial period were displaced by new economic elites tied to the agro-export sector.

The Dominican Republic was no exception to this trend of agro-export expansion sweeping Latin America. The absolute value of Dominican and Haitian trade volumes was identical prior to the onset of World War I, around $19 million USD in current (1913) prices (see Figure 3.1 below). On a per capital basis, however, the export sector of the Dominican economy surpassed Haiti's during the final decade of the 1800s, attaining a level of commercialization equal to that of the average Central American state (Figure 3.2). In Haiti, by contrast, the relative (per capita) level of integration with international markets during the early part of the 20th century was a fraction of that exhibited by the DR ($10.44 in exports + imports per capita in Haiti versus $24.36 in the DR by 1913).

[FIGURE 3.1 HERE]

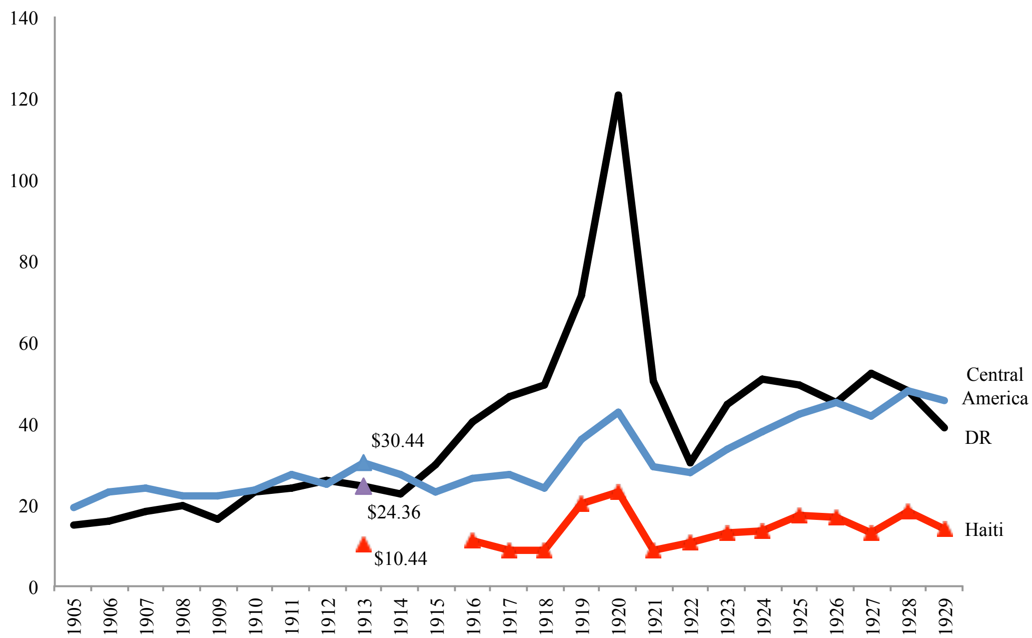
Figure: Exports + Imports in Haiti and the Dominican Republic, 1905-1929 (million current US$)



Source: Montevideo - Oxford Latin American Economic History Database (MOxLAD 2011).

[FIGURE 3.2 ABOUT HERE]

Figure: Per capita Exports + Imports in Haiti and the Dominican Republic, 1905-1929
(current US$)



Source: Montevideo - Oxford Latin American Economic History Database (MOxLAD 2011).

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

For Dominicans, the expansion of global markets generated opportunities for increased income, both directly through arbitrage[21] as well as through the demand for provision of complimentary services that emerged alongside the export trade. These opportunities provided the economic basis for the expansion of the middle classes. For a variety of reasons, both international and domestic, Haiti did not undertake the liberal reforms that would have been required in order to more fully integrate its economy into international markets to the same degree as the Dominican Republic. In the following sections I identify several factors that account for this variation in international trade integration across the island of Hispaniola.

Greater integration into international markets in the Dominican Republic

At the time of its national independence in 1822 the Dominican Republic was largely disconnected from the international economy (Turits 2003, Chapter 1). A small, semi-feudal system based primarily on pastoral ranching and logging was the economic legacy of Spanish colonialism. Peasants were largely engaged in hunting and gathering and marginal subsistence agriculture, operating under a pre-enclosure land system that, lacking an effective system of land titling, was not conducive to the formation of a commercial agriculture sector.

Integration into international markets began during the 1840s, stimulated by the arrival of foreign tobacco merchants in the north of the country. German merchants propagated an elaborate and decentralized system for extracting and transporting tobacco from smallholder peasants in the Cibao valley through a network of native merchants who acted as intermediaries, to the coastal city of Puerto Plata and on to the German ports of Hamburg and Bremen (Baud 1987). Baud offers a concise description of the 19th century tobacco economy of the DR, pivoting on the relationship between peasant tobacco producer, local shopkeeper, and the foreign merchant:

[21] Most basically, arbitrage describes the activity of deriving profit by exploiting the difference in price between two markets—in this case the difference in the price for agricultural commodities between domestic and international markets.

> [The peasant] sows the tobacco and offers to sell it to a shopkeeper, if the latter will give him what he and his family need. The shopkeeper does not have the means to do so because the revolutions have devoured his savings. But he recognizes good business and runs to the foreign merchant, whom he asks for an advance. The merchant, who already knows that the peasant has sown the tobacco and that it will only take four months for the tobacco to be dried and packed, gives the money to the shopkeeper with interest. The shopkeeper passes it on with more interest to the peasant, who is now able to look after himself and his family. (137)

The new way of generating income in the DR through intensive agricultural cultivation during the second half of the 19th century touched off a political conflict during the 1860s and 70s between the pre-capitalist feudal *caciques* of the south that came to be known as the *Partido Rojo* and liberal merchants of the northern Cibao that came to be known as the *Partido Azul*. The southern economy and social structure was a holdover from the colonial period, characterized by a peasantry that relied mainly on subsistence agriculture and a narrow class of landed gentry who derived their means from ranching and the logging of Mahogany. By the late 1870s the primary economic basis of southern elites, logging, was in crisis due to resource depletion By this time the northern economy was based largely on the cultivation of export crops, and in 1879 the *Rojos* were finally eclipsed by this rising *Azules* coalition of merchant-bourgeoisie (Moya Pons 1992, 403). This group acquired economic and political resources through their involvement in the export of coffee, cacao, tobacco, mahogany, and, increasingly, their involvement in import arbitrage (Cassá 2004a; Moya Pons 1990).

Concentrated in urban areas, the *Azules* held power between 1879 and 1899, during which time they actively sought to use the Dominican state to transform the territory into a platform for export-dependent capitalism. The Dominican state began implementing a variety of anti-vagrancy and enclosure laws intended to extend state control into rural areas for the purpose of encouraging peasant labor to begin generating a surplus. However the lack of state capacity made these laws largely ineffectual. Rather "attempts at commercialization remained relatively toothless throughout the late 1800s and early 1900s until the arrival of Trujillo [in 1930]" (Turits 2003, 52-3). Ruled during this period by the dictatorship of Ulises "Lilis" Heureaux (1883-1899), the *Azules* actively sought foreign investment in agricultural production and borrowed comparatively large sums of money from various European creditors for the financing of railways and telegraph wires to support national development through the expansion of the agro-export sector.

Changing prices on the international market during this period led to dramatic restructuring of the chains of production and trade. Sharp declines in terms of trade for tobacco and sugar during the international economic shocks of the 1870s and 1880s decimated the German export business in the north and forced out the less-efficient smallholder sugar producers of the south. In the north, the indigenous capitalists that had served as intermediaries between smallholder tobacco farmers and the now-defunct German export houses in Puerto Plata began encouraging the decentralized network of peasants in the Cibao to switch their cash cropping from tobacco to cacao. By the 1880s cacao fetched much higher prices than tobacco, the international market for the latter having been saturated with the entry of Brazilian and Indian tobacco during the 1870s. With the exit of the German merchants during the same decade, this left the full chain of production and exportation of cacao to Dominican entrepreneurs. "Production was overseen by peasant families or Dominican capitalists who had accumulated their money in the tobacco trade. Dominican enterprises also played a major role in the cocoa trade, which gave the Cibao commercial bourgeoisie the opportunity to consolidate and increase its strength. The De Moya, Grullón, Guzmán, and García family names became well known during this period and still are" (Baud 1987, 139).

At the same time the tobacco market was in decline in the north, a separate agro-export economy was developing in the south of the country. Until the 1870s, ranching and small-scale subsistence agriculture, rather than liberal agro-exports, defined the economy of the south and east. Cuban immigrants fleeing the Ten Year War (1868-78) established the first large-scale Dominican sugar plantations based on their *centrales* model. Over time these plantations contributed dramatically to the growth of the southern port city of San Pedro de Macorís and, later, Santo Domingo and La Romana. The elimination of smallholder sugar production due to the sharp decline in export prices in 1883 was quickly followed by the elimination of many nascent Dominican sugar capitalists who did not have sufficient reserves to whether the crisis. The pressures to economize sugar production following the sugar crisis led the remaining foreign plantation owners to dramatically expand the scale of production, substituting relatively scarce and comparatively expensive Dominican peasant labor with cheaper immigrants for the labor-intensive nature of cane-cutting.[22]

[22] The population density of the Dominican Republic during the liberal reform period was much lower than that of Haiti. In 1900 there were approximately 31 persons per square mile in the DR, compared to approximately 123 persons per square mile in Haiti. The Dominican population does not overtake the Haitian population in absolute terms until the late 1990s. With nearly twice the surface area of Haiti, the DR has never approached it in terms of population density.

This began in 1884 with the arrival of so-called "*cocolos*" from the English Antilles and, following the US military intervention in 1916, Haitian migrant labor.

By the end of the 19th century there were two distinct Dominican economies in exchange with world markets. The northern Cibao was characterized by a system of smallholder peasant agriculture specializing in cacao and coffee export crops in the rural areas and Dominican import/export bourgeoisie in the urban areas; the southeast, in turn, was dominated by foreign-owned sugar enclaves exploiting cheaper immigrant labor.

In both the north and the south the revenues generated from agro-exports created an increasingly powerful import bourgeoisie in the port cities. International economic crisis in the late 1890s touched off a period of internal conflict among the *Azules* that led to the assassination of Heureaux in 1899. This marked the beginning of a period of political instability that culminated in state collapse. This instability compromised the ability of the DR to service its debts, triggering foreign intervention by the United States (Atkins and Wilson 1998). This period will be treated in greater detail in Chapter 4.

Lesser integration into international markets in Haiti

If the development profile of the Dominican Republic broadly conforms to Latin America's general pattern of liberal economic reform during the late 1800s and early 1900s, the failure to intensify agro-export production in Haiti during this period represents a puzzling regional outlier. Haiti never implemented liberal reforms in response to expanding markets for tropical commodities in the industrializing world.

At the same time that neighboring DR, Cuba, and Puerto Rico were transforming their modes of accumulation from semi-feudal systems based on subsistence agriculture on rented or communal land to an agro-export model featuring greater privatization and commercialization, the means of accumulation for the Haitian peasant remained one of subsistence agriculture complemented by marginal coffee cash-cropping on untitled squatter land. This class, which at the time constituted 95% of Haitian society by one estimate (Castor 1988), provided the basic means of accumulation for a narrow oligarchy of foreign export merchants, as well as those Haitian mulattos whose livelihood depended on the customs tax revenues and resulting state patronage that Haiti's modest export sector allowed for.

As late as 1931, as the reform period was coming to an end and the rest of the region was pivoting away from agro-export dependency, progressive Haitian thinker and politician Jean Price Mars was still advocating basic liberal reforms as a stepping-stone to lift Haiti out of poverty. In response to the economic crisis of 1929, Price-Mars' view on how to resolve the employment question rested on the diversification of primary agricultural production to include other export crops besides coffee. By improving the balance of payments through increasing commodity exports, he thought that Haiti could finance "an appropriate agricultural education to the proletariat in order that they might become more apt and more efficient as producers and that they might evolve into consumers by means of the elevation of their standard of living" (Shannon 1996, 113). Why didn't Haiti undergo liberal reforms and integrate itself into global markets during the late nineteenth and early twentieth centuries to the same degree as neighboring countries?

Before the onset of its revolution, Haiti was arguably the most integrated economy in the world. Producing nearly half of Europe's coffee and sugar, by some accounts it was the wealthiest colony in the world (Buck-Morss 2000, 833). Yet within the first half-century following independence sugar production had all but collapsed as the flames of the French revolution spread to Saint Domingue—its liberation discourse provoking an uprising by Haitian slaves against their French colonial masters in 1791 that ultimately forced the French Republic's legislature to reluctantly pass the first general decree of emancipation in Haiti, and indeed in the Americas, in 1793 (Gonzalez 2012).

The promise of liberation under the French emancipation decree was short-lived, however. The slave system was quickly replaced by other forms of coercive labor enforced by Haiti's increasingly powerful and privileged *affranchis*—a class comprised of those Haitians who were predominantly mulatto offpsring of mixed African and French descent. Replacing the construct of the slave was the *Cultivateur,* a peasant who was nominally free but bound to a particular plantation and without rights to move around (30-31). Even this dismal measure of emancipation was reversed by the decree of Napoleonic France, triggering a final thrust for Haitian independence that was successfully concluded in 1804.

Haiti's revolution did not end with the conclusion of hostilities against France. Coffee production, though having become Haiti's most important export commodity following the collapse of sugar—providing more than 80% of all customs export revenue in 1908 (Gaillard-Pourchet 1990, 118)—quickly fell to a fraction of what it was before Haitian independence (Houzel 1935, 52). Political and economic forces continued to reshape the Haitian landscape for decades after independence as different groups pursued their material wellbeing, none of which were conducive to the formation of a vibrant agro-export economy (Gonzalez 2012). Why didn't Haiti's agrarian economy respond to the trade opportunities afforded by the rapidly globalizing world economy of the late 1800s by re-establishing itself as a platform for agro-exports?

Domestically, there are two historical reasons rooted in the decolonization experience that explain why Haitian elites were unable to turn to the system of agro-export liberalism as a viable means of accumulation. First, the structure of production of Haiti's predominant export crop—sugar—was incompatible with the ideas underpinning Haitian independence. Whereas in the DR *latifundia* estates and plantations had taken root with the diffusion of sugar cultivation in the Caribbean in the 1870s, in Haiti large-scale plantations were gradually eliminated during the early years of independence, leaving behind a productive structure, *marronage,* based on smallholder agriculture (Lundahl and Nalin 1992a, 1992b).

Scholars have attributed enduring attribute of the Haitian peasant to the ideological salience of the slave rebellion, which emphasized liberation from coercive forms of labor relations (Dupuy 1989). At the time of the revolution, Haitian society was divided starkly between a narrow group of mulatto elite who had acquired some measure of wealth and privilege under the French and the mass of black peasants, the majority of whom were slaves up until the revolution. The mulatto elite, as well as a slightly larger segment of blacks who had distinguished themselves through military service during the revolution, attempted to restart the plantation system as a means of accumulating wealth (Castor 1988; Gonzalez 2012). At the time of independence nearly all Haitian elites favored the continuation of the planation economy; their attempts to restore the earlier mode of accumulation inherited from the French being made under the guise of generating export revenues necessary to arm the fledgling Republic against the possibility of further military incursions by the French.

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

As a consequence, the volume of Haitian sugar exports plummeted from 2.5 million pounds in 1820 to six thousand pounds in 1842, leaving only the cultivation of crops that did not require plantation-scale production such as coffee, cacao, cotton, and timber (Nicholls 1996, 69). The result was a Haitian economy comprised largely of untitled (that is, unreformed) smallholder agriculture conducted by peasants who grew enough food to subsist, perhaps selling a small surplus, augmented with a meager cash crop (typically of coffee) at a nearby market.

The second domestic dimension to Haiti's relatively low level of integration into world markets during the 19th century pertains to its historical aversion to foreign investments like the kinds that made Dominican sugar production viable in the southeast. Since independence there has existed a powerful opposition to foreign land ownership, one that served to restrict meaningful opportunities for attracting international capital. Understood as an expression of "racial equality and human dignity" (Nicholls 1996, 103), foreign direct investment remained prohibited by Haitian law until the US military occupation overturned it in 1918 (53).[23] Fear of future penetration by European powers was coupled with a nationalistic ideology of self-determination that stemmed from Haiti's proud decolonization process. This generated a domestic political culture that was strongly averse to foreign ownership. Thus, the same entry of Cuban sugar plantation capital and technical capacity that the Dominican Republic experienced during the 1870s was not possible in Haiti.

The net result of the domestic factors of the elimination of coffee and sugar plantations and low penetration by foreign investors partially explain why Haitian exports fall off during the 19th century. The reflections of a foreign merchant in the 1820s lament an agrarian economy that is not oriented towards participation in international markets:

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[23] Despite such an overturning, it is notable that virtually every attempt by the US occupation to enact liberal land reform and pave the way for foreign investment was resisted not only by the peasants, who were suspicious of the white occupation and angered by earlier attempts by the occupation to construct national roads through a system of forced labor (the *Corvée*), but also by Haitian elites who were successful in tying up land ownership questions in the still-independent courts (Schmidt 1971).

> Foreign visitors to Haiti observed the dilapidated state of the large plantations, and the prevalence of smallholdings on which peasants grew enough to support their families, selling the surplus at the local market. "Hayti abounds with these small proprietors", wrote Franklin, "their patches of land, with their huts upon them, are generally situate [sic] in the mountains, in the recesses, or on the most elevated parts, or spots, as the poet described, 'the most inaccessible by shepards [sic] trod'. They are therefore lost for the purposes of agriculture. Much of the coffee and of the other crops exported at this time was also grown by these small farmers, rather than on large estates, and the coffee was gathered from trees planted many years earlier which were growing almost wild. Franklin lamented the lack of interest among the peasants in growing crops for export, and also noted that they did not appear to be particularly keen on consuming imported goods. It was, in fact, according to this writer, Boyer's plan "to keep his people ignorant of artificial wants", a policy which, if successful, spelt doom for foreign speculators and Franklin himself. (Nicholls 1996, 69)

Yet while the unavailability of plantation labor following the revolution precluded Haitian elites from maintaining the level of sugar production that existed under the French, coffee can be cultivated profitably at either plantation or smallholder scale. Why didn't Haiti's smallholder farmers respond to global demand with intensified coffee production as effectively as the *minifundista* peasant producers in the Cibao valley of the Dominican Republic?

The ban on foreign ownership of Haitian land was a hindrance, but not an insurmountable obstacle, to the entry of foreign merchants. The cultivation of coffee (and to a lesser extent cacao and cotton) during the 19th century remained both an integral part of the Haitian economy and a draw for the same class of foreign (increasingly German by mid-century) merchants that gained access to Dominican tobacco production via Puerto Plata (Girault 1981, 159). Though foreign merchants were prohibited by every Haitian constitution since independence from acquiring real estate or conducting business anywhere but in those ports designated as open for foreign trade, European merchants frequently circumvented these law by marrying into local Haitian (typically mulatto) families (Girault 1981, 160). Often young and single, intermarriage between these expatriate merchants and mulattos allowed foreigners to own property under the name of their spouse while simultaneously reinforcing the economic privilege of the mulatto class.

Given that foreign merchants were successful in gaining access to the Haitian agro-export sector during the 19th century, bringing global demand to Haitian ports, the low intensity of coffee cultivation in Haiti in the century following independence was due to the inability of peasants to defend their surplus from a predatory state. Without access to labor by which to resume plantation agriculture, Haitian elites were forced to resort to a non-capitalist model of accumulation that depended on the capture of the state and the tax revenues it collected. Dominican liberal reformers, the Azules, sought to use the state both as a vehicle for patrimonialism as well as an institution for coordinating the development of the DR as a profitable agro-export platform. Conversely, the Haitian oligarchy, which that had ruled directly or indirectly since independence, taxed coffee production at a level that made it economically trivial as a cash crop for peasants. To understand why the political economies of Haiti and the Dominican Republic evolved differently in respect to the taxation of agro-exports, we must look at the international context in which Haiti was situated during the 19th century.

Along the international dimension, two factors conspired to reinforce the predatory dynamic of state-society relations that emerged following the revolution: trade embargos on Haiti during the first decades following independence, and the size of the indemnity Haiti was forced to pay France for diplomatic recognition. Shortly after independence Haiti found itself under embargo from its two natural trading partners—the United States and France. Only five hundred miles from Hispaniola, the US was Haiti's most important trading partner for the first two years of its independence. This lasted only until domestic concerns related to slave relations in the American south, as well as pressure from France—Haiti's traditional export market—led the US government to impose a trade embargo on Haiti in 1806 (Nichols 37).[24] Appeasing its former colonizer, then, became the central foreign policy objective of the Haitian state during the first decades of independence.

It was not until the Haitian government under Boyer agreed in 1825 to provide France with privileged customs rates and pay France an indemnity of 150 million francs[25] for the seizing of the 'property' of French citizens during the revolution that Haiti achieved a measure of international recognition.[26] The Haitian state serviced this debt by raising export duties and forcing the army to extract tribute from Haitian farmers—tribute that served to line the pockets of many levels of state officials, what Castor (1988) called "the parasitic sectors," and service an international debt that yielded no material benefit to those being taxed. According to Nicholls, the pursuit of French recognition in the early years of Haitian independence had three consequences: First, the government was made unpopular by trying to raise the money for the indemnity through taxes—a task delegated to the predominantly black army in the

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

[25] By comparison, total Haitian annual foreign exchange revenue from exports at the time of negotiations (1823) has been estimated to be approximately 30 million francs. "The initial agreement between France and the young republic called on Haiti to pay the whole 150 million francs in five annual payments of 30 million gold francs. That proved impossible for Haiti, which was forced under the pact to take out a loan from a French bank to pay the first 30 million francs. In 1838, France agreed to reduce the debt to 60 million francs to be paid over a period of 30 years. In 1883, Haiti made the final payment" (De Córdoba 2004).

countryside and the predominantly mulatto customs officers in the ports. Second, the imposition of the indemnity brought foreign financial involvement to Haiti as Boyer was thus forced to look to international lending from European banks—beginning with a sum of 24 million francs—to act as a down payment on the indemnity. Third, the lowering of customs duties on French commerce to half of the rate of other countries further reduced sources of state revenue generation, exacerbating the decline in the net value of exports and imports due to the collapse of the sugar plantations (Nicholls 1996, 65). By dramatically increasing the Haitian state's need for tax revenue and depriving it of the financial resources that might have been otherwise invested elsewhere, the trade concessions and the French indemnity only further undermined the social contract connecting Haiti's peasant producer and the state.

This burden of tax revenue, born almost exclusively by Haiti's small coffee producers, was of a predatory nature that lacked any form of reciprocal benefit such as state provision of schools or health centers in rural areas (Girault 1981). Taxation on the surplus value of coffee reached a rate that compromised the incentives of the Haitian peasant to intensify cultivation and undermined the formation of Haiti's internal consumer market (1981, 187–202). As North (1981) would expect, extraction by the Haitian state since independence approached the limit where producers are indifferent between investing time and resources into greater economic production or simply engaging in subsistence agriculture and leisure. The low intensity of coffee cultivation in Haiti was a consequence of the inability of peasants to defend their surplus from the predatory taxation of the state—both indirectly at the customs houses

[26] The US did not recognize Haitian statehood until 1862.

of the ports and by the Haitian army in the countryside. The burden on the value of coffee imposed by the state, minus the profits extracted by the foreign exporters and domestic intermediaries, yielded a residual profit for the Haitian peasant producer so low that Haitian coffee production stagnated (Girault 1981, 202). The political economy that emerged from the 19th century was one where the Haitian state, and the mulatto elites that comprised the ruling coalition, relied overwhelmingly on revenue from coffee exports to service the debts held by international creditors as well as the consumptive interests of the ruling class. This was not a political economy conducive to the development of a productive commodity export sector.

There are alternative explanations for why Haiti might not have been able to develop a more-intensive agro-export sector following independence. It is plausible that the political culture emerging from Haiti's slave revolt made commercial agriculture untenable due to the overt rejection of the sugar plantation model. Gonzalez (2012) downplays the importance of international factors like the U.S. embargo or the French indemnity. Rather, the roots of Haitian underdevelopment were laid in the smallholder subsistence agriculture model adopted by Haitian peasants (212-3). He argues that it was the aversion of Haitian peasants to "slave-like" coercive labor relations—namely the plantation system and the repeated but futile attempts of foreign occupiers and Haitian elites to attempt to re-impose such plantations—that kept Haitian development at a stalemate.

The comparative evidence on the Dominican Republic presented above reduces confidence in the sugar-centric hypothesis. It should be noted that the economic basis for the emergence of liberal economic reforms in the DR was the expansion of smallholder agriculture across the untitled lands of the northern Cibao. While Haiti's unique political culture can account for the economy's failure to restore sugar cultivation to anything near pre-revolution levels, it cannot fully account for its inability to generate additional revenue through investments in intensified coffee cultivation. Rather, pressing debt and indemnity payments imposed by a hostile international environment, combined with those factors related to the elimination of large-scale domestic agricultural production that Gonzalez emphasizes, locked Haitian rulers in a state of permanent financial crisis and reinforced the predatory logic of the regime.

Alternatively, others have questioned the geographic comparability of these two cases. In his preliminary examination of development variation on the island of Hispaniola, Diamond (Diamond 2010) argues against treating the island as a geographical constant, emphasizing differences in precipitation, deforestation, terrain, and population density on the western and eastern parts of the island. Because the trade winds blow from east to west, the Dominican Republic receives a greater proportion of the annual precipitation today than does Haiti. The mountain ranges that traverse the island feature more valleys suitable for cultivation on the Dominican side, especially the fertile and economically important Cibao valley. Finally, Diamond notes that the greater population density of Haiti, whose surface area is approximately half the size of the DR, introduces greater pressure on the environment and contributes to the deforestation that has reduced both arable land and the availability of subsistence fuel.

A closer examination of the determinants of economic growth on the island raises important questions for Diamond's thesis and suggests that, in geographic terms, Haiti and the DR are sufficiently comparable. Jaramillo and Sancak (2009) find historical evidence that the majority of Haitian deforestation took place after 1960, and thus can be considered endogenous to other structural factors. They also report evidence of average annual precipitation rates during the 1930s as being nearly equal on the eastern and western sides of the island. This suggests that the uneven precipitation we observe today may be at least partly endogenous to the deforestation that took place during the second half of the twentieth century. Such an outcome would be consistent with Diamond's own findings in his analysis of Easter Island in the same 2010 study, where he finds that a dramatic reduction in forest acreage reduced subsequent precipitation rates. Reinforcing the claim that these are comparable tropical countries, Jaramillo and Sancak observe that malaria rates on either side of Hispaniola were identical at the time of colonization (Acemoglu, Johnson, and Robinson 2001). Regarding labor endowments, they also note that population density has been found to be positively correlated with economic growth between 1960 and 2005—especially in the top-performing east-Asian economies (Gallup, Sachs, and Mellinger 1999). Concerning the amount of arable land on either side of the island, Jaramillo and Sancak note that Haiti's ability to supply the majority of Europe's sugar and coffee during the 18th century argues against claims that Haiti's mountainous terrain was an obstacle to agricultural development. The evidence suggests that it was political events, namely the Haitian revolution and the political economy that emerges from that historical juncture, not geographic constraints, that explain why Haiti fails to re-establish itself as a major agro-export country.

Finally, political instability represents another competing hypothesis for why the Haitian economy did not develop as vibrant an agro-export sector as did the DR. The empirical evidence is not consistent with this explanation, either. First, on a comparative basis the mulatto regimes of the 19th century exhibited greater political stability than existed in the DR, where initial independence was compromised by Haitian occupation (1822-1844), as well as a brief return of the Spanish crown between 1861-65 in an effort by the traditionalist *Rojo* faction to gain an upper hand in their political conflict with the *Azules* liberal reformers. By comparison, Nicholls notes that “apart from the years 1842-7 [Haiti] enjoyed political stability under three heads of state; Boyer (1818-43), Soulouque (1847-59) and Geffrard (1859-67). The 1843 revolution which overthrew Boyer was itself a gentlemanly affair between rival factions of the mulatto elite" (Nicholls 1996, 69–70). As the next chapter discusses, Haiti did not experience chronic political instability until the early years of the twentieth century when both it and the Dominican Republic were swept under by competing warlords and predatory foreign lenders.

In sum, the decline of sugar production due to the lack of available plantation labor after independence in 1804 eliminated one of Haiti’s most lucrative export crops. The confluence of domestic and international factors that followed contributed to the relatively low intensity cultivation of the other leading export crop, coffee, producing an export sector that was rapidly being eclipsed by the Dominican Republic at the end of the 19th century (Table 3.1).

[TABLE 3.1 ABOUT HERE]

Table: Value of Exports 1890-1898 (in thousands of current gold dollars)

Year	Haiti	Dom. Rep.
1890	3,306	1,948
1891	3,120	1,463
1892	3,164	1,822
1893	3,301	2,829
1894	3,007	2,692
1895	3,310	-
1896	2,500	2,199
1897	2,993	4,661
1898	3,212	5,790
Average export value, 1890-1898	3,101	2,925
Average export value per capita, 1890-1898	$ 2.44	$ 5.74

Sources: For trade: Gaillard Pourchet (1990), Gomez (1979). For population: Lubin (1951), Lozano (1985).

Note: Export value per capita is calculated in gold dollars per person. For Haiti, the population estimates for per capita trade are from 1900 (1,270,000 persons). For the Dominican Republic, they are calculated by taking the average of population estimates from 1887 and 1908 (510,106 persons).

While the average value of exports on either side of the island was identical during the final decade of the 19th century, on a per capita basis the Dominican agro-export sector was nearly twice as large as Haiti's.

The final section examines the consequences of the liberal reform period for occupational and income demographics in Haiti and the Dominican Republic, illustrating the effect that greater trade integration on the Dominican side had on social structure—namely the expansion of the middle classes.

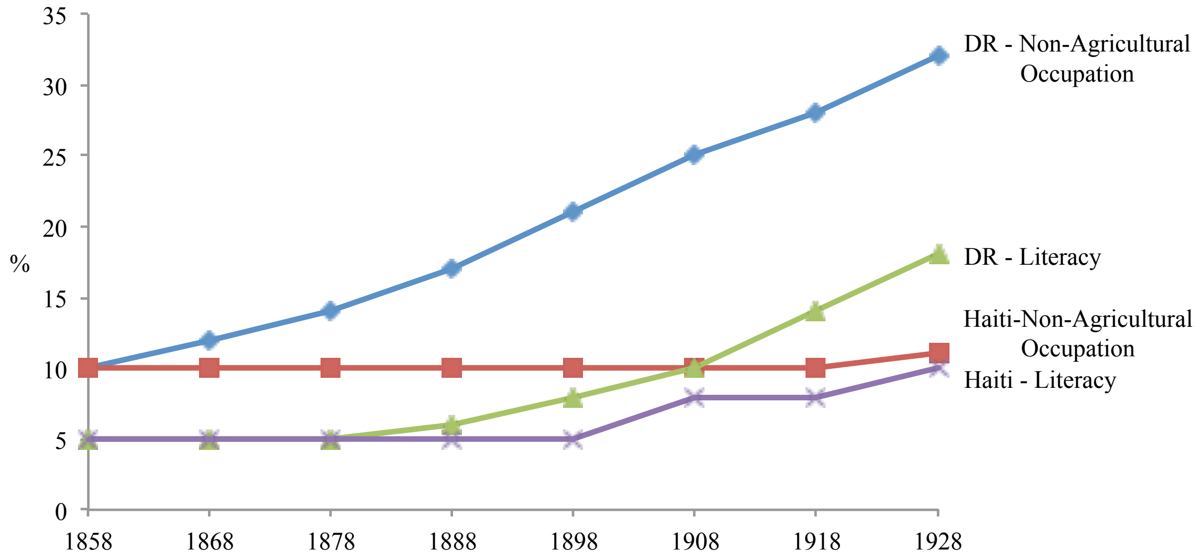
The Effect of Trade on Class Structure in the Dominican Republic

For agrarian societies like the Dominican Republic that became more tightly integrated into world markets during the liberal reform period, class structure was transformed from one featuring a narrow, feudalistic oligarchy ruling over a largely subsistence peasantry to another structure featuring an emerging group of middle classes who earned their livelihood by engaging in those economic activities that complimented the primary export sector and the income that it produced (Baer 1972, 96–97). Meanwhile, in agrarian states like Haiti where the export sector remained relatively small, social structure remained sharply divided between the peasant masses and a narrow, highly extractive, and patrimonial oligarchy.

While income distribution data for Haiti and the Dominican Republic are non-existent for this period, two other measures can be used to approximate the relative size of the middle classes on either side of the island. Figure 3.3 below shows that in 1858, just prior to the onset of the liberal reform period, the social structures of Haiti and the Dominican Republic were comparable by two measures: the percentage of the population employed in non-agricultural occupations, and the percentage of the adult population who were literate.

[FIGURE 3.3 ABOUT HERE]

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



Source: Vanhanen (1997)

Following Boix (2003), I draw upon data from Vanhanen (1997) in order to measure the size of the middle class income distribution indirectly. I argue that these measures of occupational diversification and literacy serve as proxies that I expect to correlate strongly with the (unobserved) size of the middle classes in these two countries.[27] Over the course of the liberal reform period we can observe the effect of higher and

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

lower intensity agro-export cultivation on the occupational diversification and education of Dominicans and Haitians.

While the political economy of the Dominican Republic, along with that of much of Latin America, was being transformed during the late 1800s, stagnating agro-export production in Haiti provided more limited opportunities for the expansion of the middle classes. Thus, while the Dominican Republic developed a third, middle class sector, Haiti was left with a sharply defined two-class social structure comprised of low intensity peasant agriculture for ninety percent of the citizens and state patrimonialism by the other ten percent.

What was the mechanism connecting intensive agro-export production with the kinds of social transformations we observe in the Dominican Republic during the liberal reform period? In respect to the theoretical framework I advance in Chapter 2, variation in levels of trade integration would be expected to have important consequences for the transformation of occupational opportunities and country's overall income demographics. The influx of national income produced by the export sector, and the demand for complementary services to support that sector and the greater levels of consumption it generated, provided entrepreneurial opportunities that formed the material basis for the emergence of a larger middle class.

Contrasting the emerging tobacco export economy of the northern Cibao with that of the pre-liberal feudal system of subsistence agriculture, logging, and ranching in the Dominican south that existed prior to the arrival of the Cuban sugar plantations in the 1870s, Moya Pons (1992) nicely illustrates the impact international trade integration had for generating the kinds of economic opportunities that led to the transformation of Dominican society. I quote him at length here (translated by author):

> These very different systems of productions—tobacco and wood—that developed due to diverse ecological and economic conditions, created two societies that were very unequal in their distinct modes of thinking. … [I]n the south the absence of an agricultural system contrasted with that of the northern provinces wherein agriculture was the principal economic activity of the inhabitants. The south lived off of a gatherer-economy that did not stimulate the development of job creation among the population of this region as the wood was not cut more than seasonally and [laborers] passed the rest of the time idly without anything to do. Neither did the low productivity of the land provide much enthusiasm for dedicating themselves to agriculture.
>
> The Cibao, on the other hand, with an agriculture and an industry established in the 18th century, kept all of its population occupied in the cyclical production of tobacco, putting into motion all of the energy of the region. The tobacco was both a job and an income-multiplying industry and, as such, was democratizing in its social effects. Not just the peasant growers worked in the production of tobacco, but also the women who picked and prepared it, the men that wrapped and packed it, the owners of the pack animals that transported it to the villages and later to the export ports. In the workshops there were men who worked in fermentation and packing until it was on the ships that exported it. This entire process put into motion an enormous mass of farmers and their families, pack animals, peasants, rope-makers, container manufacturers, packers, cigar rollers, tobacconists, merchants, negotiators, moneylenders, and brokers for the commercialization of the harvest. It also gave way to a dynamic economic cycle that put in circulation a large amount of cash that stimulated the importation and sale of merchandise to satisfy the demand of a numerous population that earned money regularly and consumed every class of goods. (Moya Pons 1992, 405–406)

For the Dominican Republic, the result of gearing a large portion of its agricultural production towards servicing global markets was an increase both in the size of the national income as well as in the equality of income distribution. The reductions in income inequality that we observe are due to the different occupations made available to Dominicans as a result of the expansion of the export trade. The decentralized tobacco export network operated by the Germans in the Northern Cibao during the mid-1800s provided extensive opportunities for Dominican intermediaries to profit from the production, sale, and transportation of the export crop to the foreign merchant at the port city. Tobacco produced by the smallholders of the Cibao valley was transported to the market city of Santiago, where it was purchased and prepared for international shipment via the port city of Puerto Plata to the north.

The proportion of export revenues captured by Dominican intermediaries only increased during the late 1800s when the collapse of the tobacco market drove the Germans out and created space for a select group of Dominican merchants to step forward as import/export merchants in the port cities. This growing class of Dominican entrepreneurs instrumentally brokered a transition towards the cultivation of more profitable export crops like cacao and coffee when tobacco prices plummeted in the 1870s. The transition to cacao during the late 1800s altered the commercial networks of the northern DR, enhancing the importance of La Vega and the nearby port of Sánchez in Samaná Bay as important centers of commercial activity (Baud 1987). At the time of the first national census in 1920 the market hubs of the Cibao valley, Santiago and La Vega, were the largest cities in the country at 72,150 and 58,466 persons, respectively (Gobierno Provisional de la República Dominicana 1920).

This process of integration into world markets accelerated as smallholder agricultural production in the north was supplemented with the arrival of foreign sugar plantation agriculture in the south and east of the country during the 1870s and 1880s. This eventuality dramatically increased the importance of Santo Domingo and San Pedro de Macorís as additional commercial hubs for the country. A privately produced national commercial directory at the turn of the century nicely illustrates how the occupational landscape of the Dominican Republic was significantly transformed during the liberal reform period (Deschamps 1907). In the capital city of Santo Domingo, the Dominican Republic's busiest port city with a 1920 population of 45,007, politics and commerce sustained a community of 340 merchants and service providers broken down Table 3.3 below.

[TABLE 3.2 ABOUT HERE]

Table: Santo Domingo, DR: Occupational Diversity ca. 1900

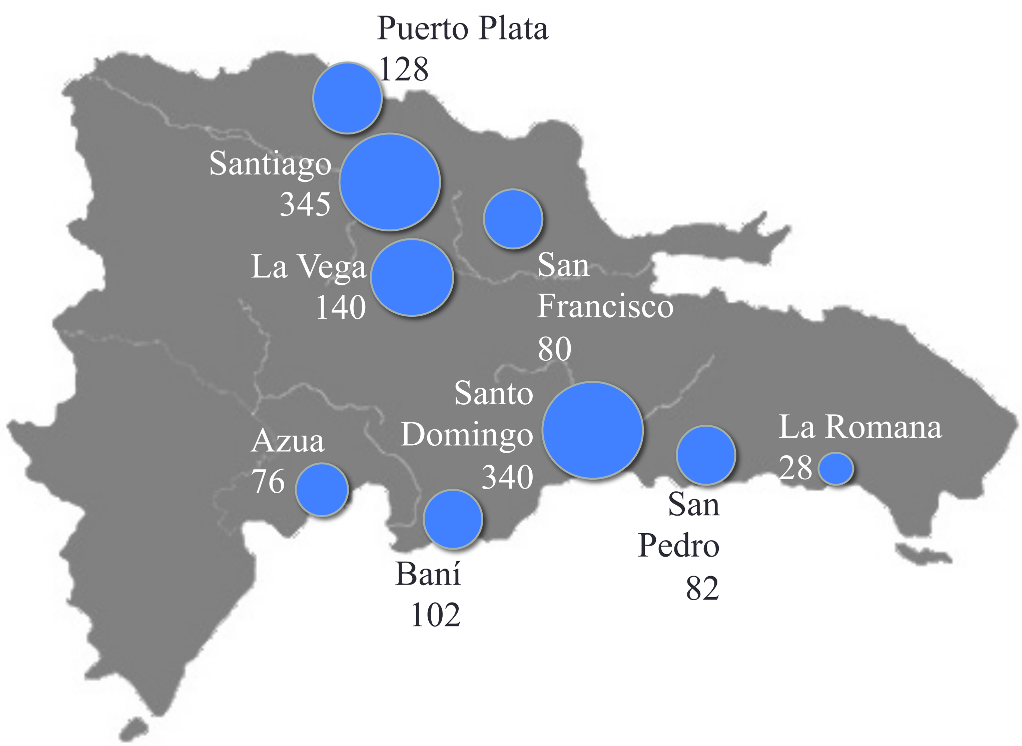
Occupation	No. of firms
Professionals	**115**
Law firms	47
Notaries Public	5
Surveyors	11
Dentists	6
Druggists	18
Engineers	8
Doctors	20
Services	**67**
Insurance companies	3
Banks	5
Shipbuilders	17
Maritime agencies	2
Gambling houses	6
Misc foreign agents	2
Carpenters/masons	8
Photographers and painters	4
Maritime shipping houses	7
Hotels	2
Restaurants	4
Metalworks (blacksmiths, brassworkers, jewelers)	7
Goods Manufacturing and Distribution	**24**
Distilleries (alcoholic beverages)	4
Lumber	3
Funeral agencies	2
Commercial agencies	3
Hardware dealers	4
Food factories (cookies, pasta, etc…)	3
Consumer goods factories (textiles, candles, soap, matches)	5
Consumer goods trades	**92**
Barbershops	13
Tailors and seamstresses	11
Pharmacies	11
Bookstores	4
Furriers	10
Bakeries	8
Harness shops	3
Hat makers	2
Tobacco stores	11
Shoemakers	19

Source: Deschamps (1907)

Similar figures for the number of merchant and service firms in the Dominican Republic's other leading trade cities at the time include Santiago (345 firms), La Vega (140), Puerto Plata (128), Baní (102), and San Pedro de Macorís (82). (See Figure 3.4 below).

[FIGURE 3.4 ABOUT HERE]

Figure: Distribution of non-agricultural firms in the Dominican Republic, 1907



Source: Deschamps 1907

Note that, with the exception of the capital city, the vast majority of non-agricultural firms are located in the northern Cibao region. In contrast, the enclave structure of the foreign-owned sugar plantations near San Pedro and La Romana failed to generate the same level of demand spillover as the smallholder agro-export model of the north. As

Chapter 5 discusses, it is not a coincidence that the northern Cibao was the incubator for the middle class revolt in 1930 that ultimately swept the developmentalist dictator Rafael Leonidas Trujillo (1930-1961) to power.

It was thus that the social structure of the Dominican Republic began its transformation during the liberal reform period, moving from a pre-capitalist society dominated by caudillo families tracing back to the colonial period to a social structure characterized by a mix of liberal capitalists and traditional pre-capitalist elites vying for control of the state. The victory of the liberal *Azules* over the traditional *Rojos* led to the further opening of the country to foreign investment and even the beginnings of investment in a national infrastructure.

Nevertheless, the Dominican state of the liberal reform period should not be mistaken for a cohesive, developmentalist institution. Despite the achievements of the Dominican Republic in completing a small railroad network linking the Cibao valley with the port city of Puerto Plata, Dominican historians downplay the development achievements of *Azules* liberal reformers like the long-serving dictator Heureaux (1883-1899). Critical of the weak ability of the bourgeoisie to accumulate capital, Cassá (1982b) argues that these early investments were more a consequence of their mode of accumulation—what he refers to as "simple mercantile production"—than a coherent national development strategy (57). Investments were made in consolidating positions to benefit from trade, he argues, rather than investing directly in intensified production. It was not until the occupation by US military forces (1916-1924) that true modernization of the export system—including the development of national transportation and communications infrastructure, as well as land reform—began.

Yet however primitive the mode of accumulation of the Dominican economy may have been at the onset of the US military intervention, the comparatively greater level of integration into international markets that it managed to achieve by the end of the 19th century, compared not only to Haiti but other Latin American countries, had important consequences for the formation of the middle classes. By 1920, when the first national census of the Dominican Republic was conducted at the behest of the U.S. military government, it was estimated that nearly one-third of the working adult population was employed in a non-agricultural occupation (Gobierno Provisional de la República Dominicana 1920, 137). In the same study it is also notable, although perhaps not surprising, that unemployment rates were lowest in those provinces that contained a major international trade port—namely Santo Domingo, San Pedro de Macorís, and Puerto Plata. The demand spillover effects generated by the expansion of foreign commerce created opportunities for new, urban occupations. The changes in class structure that accompanied these jobs would prove crucial in the years to come.

Conclusion

If the Dominican Republic is a story of economic and social transformation over the second half of the nineteenth century, Haiti's is a story of continuity in terms of both economic and social structure. By the time of the liberal reform period the only surviving remnants of Haiti's vast colonial export economy were those crops that could be profitably cultivated at small scales. Unable to re-impose the French colonial model of plantation agriculture on the black peasants following the revolution, the mulatto elite quickly retreated to the port cities where they extracted wealth from them through the indirect taxation of cash crops, primarily coffee, that the peasants cultivated in order to supplement their subsistence livelihoods. The predatory nature of this broken fiscal contract between tax collector and taxpayer, coupled with an unreformed system of land tenure that left farmers uncertain of future returns, provided powerful disincentives for Haitian farmers to invest in more-intensive production. This unfortunate equilibrium of state predation and underinvestment remains basically unchanged through the present-day.

The lingering question is whether or not the Dominican Republic's success in moving from a pastoral economy to one with a growing agro-export sector, converging with and surpassing Haiti's in the final decade of the nineteenth century, directly account for its remarkable economic divergence from Haiti during the twentieth century. Does international trade liberalization translate into robust state institutions with the incentives and capacity to execute a coordinating a strategy of state-led development?

As the next chapter demonstrates, neither the Dominican Republic's embrace of international trade and foreign investment during the liberal reform period nor Haiti's failure to do so produced state institutions with the capacity or incentives to implement a policy of import substitution industrialization in response to the collapse of the global economy during the 1930s. Quite the opposite, foreign lending and domestic competition over the spoils of state power led both countries to the brink of state failure by 1915. In both cases, this failure triggered foreign intervention by U.S. military forces on a mission of statebuilding and debt collection. As Chapter 5 demonstrates, it was the relative size and political power of the middle classes with the during the critical juncture of the 1930s, and the distributional consequences of those differences, that produced a developmentalist state on the Dominican side of the island but not the Haitian.

CHAPTER 4:

Building Leviathans: Debt dependency, state failure, and foreign intervention in Haiti and the Dominican Republic (1900-1929)

How comparable were Haiti and the Dominican Republic prior to the onset of the critical juncture in 1929? As the previous chapter demonstrated, the first wave of globalization that extended from the second half of the nineteenth century through the end of the 1920s was a watershed for the transformation of class structure in agrarian societies. Changes in technology ushered in by the industrial revolution reduced the costs of international commerce at the same time that they increased its benefits for potential trading partners—principally through greater product differentiation. This period witnessed heightened demand for primary commodities from the global periphery as inputs for the industrializing, and increasingly urbanizing societies of Europe and North America. Those agrarian societies that were able to reform their economic institutions in order to meet this demand experienced an influx of wealth and new demand for goods and services within their domestic economies. Along with new demand came new occupations, from "professional" vocations such as medicine, law, and finance, to "blue-collar" work in construction, artisan manufacturing, and merchandising. Along with these non-agricultural occupations came increased demand for literate, educated labor.

Yet, as the previous chapter demonstrated, while the middle classes in both Haiti and the Dominican Republic were expanding, they were not expanding at the same rate. Domestic and international-level factors produced differences in the size and productivity of their respective agro-export sectors. Thus, Dominican society entered the 1920s with a more vibrant commercial economy that supported a larger middle class compared to their neighbors to the west.

Given that the Dominican Republic managed to develop a larger agro-export sector during the late 1800s, it is conceivable that this early economic advantage, compounded over time, was responsible for the differences in prosperity we observe today. Perhaps the development trajectories of these two agrarian societies were already decided by the turn of the twentieth century, and socio-political factors related to the size of the middle classes were simply epiphenomenal or second-order causal forces.

A closer examination of the process by which these two societies developed suggests otherwise. No one standing on the shores of Haiti or the Dominican Republic in the early 1900s could have predicted the dramatic divergence that would take place on the island of Hispaniola over the century to come. Despite important differences in trade integration and class structure, at the dawn of the twentieth century these were two decidedly agrarian societies both governed by weak, predatory states that taxed the import-export sector without providing goods like basic sanitation, schools, or hospitals in return. With the exception of a few attempts on either side of the island to construct railroad networks to connect the agricultural hinterlands with the port cities, the failure of these states to provide basic transportation and communications infrastructure allowed entire regions of Haiti and the DR to remain isolated from their capitals both politically and economically. Having become addicted to predatory sovereign lending by international capital markets during the late 1800s, by the early

1900s these weak and extractive political regimes collapsed as internecine warfare erupted between regional strongmen over the spoils of power—state treasuries comprised almost entirely of customs revenues and foreign loans. Between 1910 and 1915 this competition deteriorated into vicious cycles of political instability characterized by a rapid succession of often-violent political turnovers. This cronic instability, coupled with fear of further European encroachment into the Western Hemisphere, led the United States to install military governments on either side of the island to secure repayment of foreign debts and conduct statebuilding operations.

Before examining the political and economic consequences of the 1930s global depression for Haiti and the Dominican Republic in the chapter that follows, I identify the salient features of these agrarian societies in the run up to that critical juncture. The empirical picture that emerges is of two weak, extractive regimes reduced to failing states in the 1910s by warring *caudillos*—regional strongmen vying for control over government revenues. Political instability helped draw these countries into a fierce geopolitical standoff between the competing imperial ambitions of Germany and the United States in the run up to World War I (1914-1918). For the Western powers the stakes included debt repayment and access to tropical commodities. More pressingly, however, they entailed power over an island of great strategic import for the approaches to the Panama Canal. The tactics employed in the standoff between these competing powers were financial, consisting of foreign lending and the confiscation of Haitian and Dominican customs revenue as collateral for the sovereign debts owed by these agrarian societies.

Eventually, both Haiti and the Dominican Republic found themselves under the rule of military dictatorships operated by the U.S. Marine Corps. Their early twentieth century development became a proving ground for evolving U.S. foreign policy towards the hemisphere, including Roosevelt's Corollary to the Monroe Doctrine and Taft's Dollar Diplomacy. Finally, these countries ended up as early examples Wilson's liberal interventionism as U.S. forces were sent in to end the *caudillo* wars and build strong states that would be capable of resisting European incursions. In both cases the foreign military occupations beget by Wilson failed to install constitutional democracies. However they succeeded in leaving behind strong states with centralized political authority that would become the basis for repressive authoritarian regimes for decades to come. Their other accomplishment was to push these agrarian economies further into the fold of U.S. markets through policies that deepened export monoculture and nurtured a dependency on trade that would lead to economic disaster during the economic crisis to come.

The principal difference between Haiti and the Dominican Republic as they emerged from their respective military occupations and entered the critical juncture of the 1930s was the relative size and power of their middle classes within the national political arena. As the following chapter demonstrates, whether agrarian societies adjusted to the international economic crisis of the 1930s through developmentalist policies of state-led import substitution or predatory policies of intensified tax extraction depended on the distributional preferences of the powerful. Where the ruling coalition was comprised of leaders drawn from the middle classes, the state emerged as a more-powerful economic actor willing to coordinate investment in a strategy of import substitution industrialization. Where the ruling coalition was comprised of leaders drawn from the traditional oligarchy, the economy remained dependent on the agro-export sector and the state retained its historical role as a parasitic institution.

State Failure (1900-1915)

For the Dominican Republic, political instability following independence has historic roots in the violent contest between an emerging agro-export coalition of the northern Cibao region (the *Partido Liberal Nacionalista*, or blue party) and a conservative coalition of *latifundista* landholders from the south and east (the *Partido Tradicionalista,* or red party). Carryovers from the colonial period tied to a feudalistic, pastoral economy of ranching and logging, leaders of this latter party invited the Spanish crown to return to the DR in 1861 in part to bolster its pre-capitalist political economy against the competing logic of commercial agriculture that was emerging in the north. The Dominican Republic's third and last war for independence ended in 1865 but spilled over into a civil war between the blues, who had fought under the banner of opposition to Spanish re-colonization, and the reds. This war culminated in a victory for the liberals in 1879, producing twenty years of relative stability mostly under the dictatorship of Ulysses Heureaux (1882-1899).[28] Rapidly deteriorating economic conditions during the later part of the 1890s, however, driven primarily by a collapse in international prices for Dominican agricultural commodities, undermined support for the dictatorship. Opposition began to coalesce around a group of

[28] Heureaux ruled indirectly through proxies between 1884 and 1887.

Dominican *caudillos* who considered themselves to be of a better stock, so-called *gente de la primera* such as Horacio Vasquez and Juan Isidro Jimenes. Declining economic prospects and elite aversion to Heureaux's humble socioeconomic roots as *gente de la segunda* led to the dictator's assassination in 1899 (Hoetink 1986, 298).

The collapse of the Heureaux regime touched off a 16-year period of considerable political instability. Between 1900 and 1915 the Dominican presidency changed hands 11 times, six of those handoffs occurring between 1910 and 1915. Many of these transitions became violent as a variety of regional *caudillos* and their regional coalitions—most prominent among them the *Horacistas* tied to Vasquez and the *Jimenistas* allied with Jimenes—jockeyed for control of the state. Neither of these *caudillos* could be differentiated on ideological grounds; both were tied to the merchant bourgeoisie and the liberal, agro-export dependent model of capital accumulation that underpinned this class (Cassá 2004a, 199–200). What differentiated them were the political coalitions they answered to. As one contemporary observer to the period, an American economist, put it in 1907, "'Dominican revolution might be briefly defined as the attempt of a bandit guerilla to seize a custom house'" (Lundahl and Vedovato 1989, 47).

For Haiti, the early twentieth century also marked the end of a period of relative political stability. In the 42 years between 1870 and 1911 Haiti was governed by nine heads of state, yielding an average tenure of four and a half years per government (Nicholls 1986, 312). As in the Dominican Republic, political competition in Haiti during the second half of the nineteenth century was structured around two parties: the Liberal Party and the National Party. The Liberals were predominantly mulatto and nominally tied to the domestic merchant bourgeoisie. The Nationals were predominantly black, a coalition of large landholders. In practice, however, both of these parties contained prominent examples of the other and are best understood as rival factions within the same agro-export oligarchy (Nicholls 1996, 9–10). Haitian Liberals such as Edmond Paul, Hérard Roy, and Joseph Justin denounced the predatory customs taxes that the state inflicted on peasant coffee producers, however when in power they did little to change this state of affairs (Trouillot 1990, 63–4). Similarly, the Nationals under President Lysius Salomon (1879-1888), a southern landholder, pursued such liberal reforms as the lowering of the coffee tax, the promotion of public education, and the distribution of land to those peasants who agreed to use it for the cultivation agro-export crops (Trouillot 1990, 99). Although the Liberals as a political party were virtually eliminated by the late 1880s (Castor and Garafola 1974, 257), the alliance between ruling-class urban bourgeoisie, landholding *caudillo* warlords, and the merchant oligarchy persisted, stabilizing Haitian politics from the 1870s through the first decade of the twentieth century (Trouillot 1990, 69–71).

During the 1910s, however, the alliance underpinning Haiti's political stability collapsed. As Trouillot summarizes, "after a few undistinguished regimes—Simon Sam (1896-1902), Alexis (1902-8), and Simon (1908-11), Haiti went through six presidents from August 1911 to July 1915. Four of these were killed in office, including Vilbrun Guillaume Sam, whose body was cut in pieces on the street by an elite-led mob on July 28, 1915" (1990, 99–100). As was occurring on the Dominican side of the island, the vicious cycle of political instability that gripped Haiti was driven by intensified competition among regional *caudillos* for the spoils of state power. Gradually these spoils had grown increasingly scarce. By 1915, mounting debt obligations owed to foreign creditors absorbed 80 percent of annual government expenditures (Schmidt 1971, 43). When the regime of President Michele Oreste (1913-1914) attempted to raise taxes on the foreign merchants[29] in order to purchase the political allegiance, or at least acquiescence, of the *caudillos*, the merchants responded by providing the *caudillos* with the financing to stage further insurrections (Plummer 1988, Chapter 6). What ensued in 1914 was a violent succession of revolts led by Oreste Zamor and General Davilmar Théodore. Zamor and Théodore each held state power briefly before being undone by the same financial constraints that had permitted them to topple the previous government. This vicious cycle only came to an end in July of 1915 when the unceremonious death of Guillaume Sam, the third *caudillo* from the north to hold state power in less than 12 months, triggered US military intervention.

The political instability that swept across Hispaniola in the run-up to U.S. military occupation was not the product of ideological conflict. Rather, it was a conflict over the spoils of state power. As much as these agrarian societies were dependent on the exportation of primary commodities for their ability to import and consume manufactured goods, their governments depended on rents from the agro-

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[29] As scholarship has established, discussions related to the nationality of economic actors in Haiti are problematic (Plummer 1984, 1988). The complications arise from historically restrictive Haitian laws concerning foreign ownership that prohibited foreign nationals from engaging in commerce beyond a certain distance from commercial ports. Oftentimes, foreign merchants—commonly referred to by Haitians as the *Bord de Mer* (Trouillot 1990)— circumvented these laws by marrying into Haitian families and establishing varying forms of dual nationality that permitted them to do business in Haiti without sacrificing the connection to their respective metropole.

export sector for their political survival. These spoils of power came not only from the parasitic extraction of the surplus value of agricultural products through customs taxes; the export sectors and customs revenues of Haiti and the Dominican Republic also provided their states with collateral by which to borrow funds on international capital markets. Predatory lending enabled these predatory states to acquire vast sums of sovereign debt over the nineteenth and early twentieth centuries, sums that would cost them their sovereignty and soak up significant portions of government revenue for decades to come.

Sovereign Debt and Foreign Intervention

On both sides of Hispaniola, domestic factions vying for control of government coffers increasingly found themselves pitted against European and American financial interests in pursuit of the same ends. Over the course of the liberal reform period, the Dominican and Haitian states acquired disproportionately large sums of sovereign debt relative to the size of their economies. The originators of these loans were comprised of European—increasingly German—financial interests (Atkins and Wilson 1998; Roorda 1998; Schmidt 1971). Ostensibly used to finance liberal development projects such as the construction of railroads to connect agricultural hinterlands with the ports, these foreign loans supplied rival *caudillo* factions with the means to finance, alternatingly, their insurrectionary bids for state power and their political survival once in power (Schmidt 1971, 35). Collapsing regime stability in Haiti and the Dominican Republic, partly fueled by the financial entanglements these regimes acquired with European and U.S. creditors, in turn contributed to their subjugation to foreign intervention and occupation.

Competition between world powers for influence in the political affairs of foreign countries in the lead up to WWI was increasingly being played out through their respective financial sectors. For international capital markets there was a clear willingness to profit from political instability, and the effects that such instability had on the diminished time horizons of sovereign borrowers. This manifested itself principally by loans to foreign governments made under poor terms and burdened with high fees. However, predatory international lending and the sovereign debts that accumulated also translated into an instrument in the unfolding game of balance of power politics that was being played out. Disputes over the repayment of foreign debt provided a pretext for drawing the island-states of Hispaniola into this competition over spheres of influence. This was especially true for Germany and the United States, two rising powers actively engaged in carving out new spheres of influence for their imperial ambitions among those corners of the globe not already dominated by one European power or another.

In the Dominican Republic, U.S. financial and economic interests intensified in 1892 following the entrance of a conglomerate of American investors called the San Domingo Improvement Company, which acquired sovereign debt and the rights to administer Dominican customhouses from the recently-bankrupted Dutch firm, Westendorp. When the political turmoil that ensued following the collapse of the Heureaux regime in 1899 resulted in an interruption in debt repayments to European creditors, the remaining European creditor states to the Dominican government—

France, Germany, Italy, and the Netherlands—took to stationing warships off of the coast of the capital in order to press the demand for repayment on behalf of their domestic financial institutions and island expatriates (Hoetink 1986, 299; Roorda 1998, 13). These European incursions into what the United States perceived to be its sphere of influence culminated in the first application of Roosevelt's so-called Corollary to the Monroe Doctrine: an executive order leading to the seizure of Dominican customs houses by U.S. forces in 1905. The United States government intervened directly in order to secure the financial interests of its nationals, as well as its geopolitical position as regional hegemon. Establishing a customs receivership to be operated by the U.S. War Department, the Roosevelt administration ensured that a significant portion of collected customs revenues (55 percent) would be allocated towards repayment of debts to U.S. and European creditors (Atkins and Wilson 1998, 43). This was a precursor to the 1907 treaty between the Dominican government and the U.S. Congress, also brokered by Roosevelt, which institutionalized the receivership under Dominican law and ensured that it would continue to operate until the total balance of foreign debts had been repaid. In order to further establish U.S. hegemony over Dominican affairs, the treaty provided for the consolidation of the remaining Dominican debt held by European states, amounting to $20 million, by issuing bonds in U.S. markets. These bonds were to be held by American financial institutions—namely the National City Bank of New York (Roorda 1998, 14).

In Haiti, the experiment with sovereign debt began earlier than it did in the DR. The first instance of state borrowing from domestic and foreign merchants began in 1808, just four years after Haitian independence (Trouillot 1990, 68). Ostensibly these loans were purposed finance Haiti's defense against further threats of military incursion by the French, as well as internal threats from the northern and southern factions that emerged within the early Republic. In 1825 foreign debt had become a structural feature of the Haitian political economy when the French government imposed a crushing indemnity of 150 million francs on the Haitian state as the price for diplomatic recognition and restoration of bilateral trade.[30] Consequently, the Boyer government took out the first of many loans from French creditors in order to service that sovereign debt (Castor and Garafola 1974, 262; Trouillot 1990, 68–9). The arrival of German trade merchants in the mid-1800s steadily continued through the early 1900s, providing additional quasi-domestic sources of credit for the Haitian state. Foreign financing from Germany and the U.S. began in 1876 as the Haitian state set about developing national railroad infrastructure (Schmidt 1971, 36–8). These liberal policies continued under President Salomon, who deepened the involvement of French capital in the Republic in 1880 with the creation of Banque Nationale de la République d'Haiti (BNRH), a central bank operated by the French (Nicholls 1986, 311–2). Despite enduring French involvement in the Haitian economy and the emergence of the U.S. as an imperial force, by the turn of the twentieth century German interests in Haiti eclipsed those of both France and the United States. After 1908 German nationals were regularly financing the insurrections of various Haitian *Caudillos* and government incumbents, meanwhile calling upon Berlin to intervene in

[30] As Gonzalez (2012, 212) notes, the Haitian indemnity may be the first occurrence of a former colony assuming a large sovereign debt.

defense of their propertied interests during the political instability that ensued (Nicholls 1996, 143; Schmidt 1971, 35).

French and German influence in Haiti did not go unanswered by the United States. In response to a 1910 Franco-German bid to obtain a controlling share of the BNRH, the U.S. State Department in cooperation with the National City Bank of New York went on a diplomatic offensive to secure the controlling share, successfully transferring administration of the bank from French to U.S. personnel (Schmidt 1971, 38–9). Despite this and other maneuvers by the Taft administration to expand U.S. influence through its so-called dollar diplomacy, however, at the onset of WWI the German expatriates controlled an estimated 80 percent of the Haitian economy and continued to exact usurious terms for internal loans made to competing factions in the *caudillo* wars of the 1910s (Nicholls 1996, 143). In response to this vicious cycle of insolvency, foreign interference, and political instability, the administration of U.S. President Woodrow Wilson (1913-1921) made repeated demands to take control of Haitian finances by establishing a Dominican-style customs receivership in exchange for financial assistance (Plummer 1988, 200). Yet despite the desperate need of Haitian rulers for the finance that would allow them to consolidate their rule, none of the several Haitian governments of this period would agree to surrender sovereign control over state revenues. Once it was clear to the Wilson administration that Haiti would not concede to its demands for financial control, in 1915 it seized upon the political instability of the *caudillo* wars as a pretext for U.S. intervention so as to impose the customs receivership by force.

It was the strategic and geopolitical interests of the United States, rather than its commercial interests, that drew it deeper into the financial and political fray unfolding on Hispaniola. To be certain the burgeoning commercial interests of the United States in the Caribbean basin were an explicit motivation of American interventionism in the Caribbean basin, as seen in both internal U.S. government deliberations as well as its negotiations with other states. This motivation grew under the "Dollar Diplomacy" policies of President William Howard Taft (1909-1913), who actively encouraged U.S. businesses to make investments and loans in the basin and made available the threat of military intervention so as to enforce the terms of those business contracts should it become necessary.

However, it was the strategic location of Hispaniola, more than any vested commercial interests, that underlaid U.S. policy towards the island (Atkins and Wilson 1998; Calder 1984; Hall 2000, 40–1; Schmidt 1971). Prior to the onset of the military occupations of Haiti in July of 1915 and the Dominican Republic in May of 1916, U.S. and European investments on Hispaniola were negligible as compared to their investments in other Latin American countries (Calder 1984, 23; Schmidt 1971, 41). Examining Haiti in regards to the regional context, Schmidt (1971) notes that

> Much of the rivalry between American, German, and French interests was based on political considerations and expectations of future economic development, rather than on prospects of spectacular short-term profits. Haiti was a poor country, and was insignificant in terms of the overall Latin-American investment market. During the decade preceding 1914 there had been a boom in foreign investments in Latin America, which, unlike previous booms in 1820 and 1860, had included French, German, and United States capital as well as British. The total nominal value of foreign investments in Latin America in 1914 was about \$8.5 billion, or about one-fifth of worldwide long-term foreign investments. The Latin-American total of \$8.5 billion was broken down as follows: Britain \$3.7 billion; United States \$1.7 billion; France \$1.2 billion; Germany \$.9 billion; and others \$1.0 billion.' Foreign investments in Haiti in 1915 consisted mainly of the

> \$21.5 million owed to French bondholders as a result of the 1875, 1896, and 1910 loans. German and British direct investments were of little consequence. United States investments in Haiti in 1913 amounted to about \$4 million as against \$800 million in Mexico and \$220 million in Cuba. The \$4 million invested in Haiti constituted only 0.32 percent of total United States investments in Latin America. (41)

The insignificance of Haitian debt to American and European creditors holds for Dominican debt as well. The \$20 million that had been consolidated by U.S. banks through Dominican customs receivership treaty of 1907 was even smaller than Haiti's arrears of \$25 million.

To a greater extent, it was the desire to secure the shipping lanes connecting the western and eastern portions of the United States through Central America that motivated U.S. policymakers to intercede in Hispaniola. The stated policy of opposition to further European incursions into the Western Hemisphere first declared by President James Monroe in 1823 took on renewed importance in the region following the decision by President Theodore Roosevelt (1901-1909) to construct the Panama Canal. Beginning in the mid-1800s U.S. imperial interests in the Caribbean basin heightened as shipping between the Atlantic seaboard and the Pacific became reliant on Central America's overland trade routes (Atkins and Wilson 1998). Situated between Cuba and Puerto Rico along these shipping lanes, Haiti and the Dominican Republic found themselves at the center of a shifting geopolitical contest between the North Atlantic powers. As early as 1848, U.S. naval planners explored establishing a U.S. naval base in either the Dominican Republic's Samaná Bay or Haiti's Môle-Saint-Nicolas before finally settling on a location in Guantanamo Bay, Cuba (Roorda 1998, 11; Schmidt 1971, 30–31). The difficulties associated with managing America's bicoastal project were brought into stark relief during the 1898 Spanish-American War when military operations were delayed by the distances involved with redeploying U.S. naval assets between the Pacific and Atlantic theaters (Schmidt 1971, 4). Combined with the obvious commercial advantages of the proposed canal and France's desire to abandon their earlier attempt to construct one, a growing number of U.S. policymakers became convinced that it was in the national interest to take over the French project. In 1903 President Roosevelt conspired for and facilitated the secession of Panama from Colombia, and by 1904 the French canal project had been acquired and resumed by the Americans. It was finally completed in 1914. Before and since, America's strategic interests concerning trans-Caribbean shipping played a decisive role in shaping its posture towards the island of Hispaniola.

Prior to the outbreak of WWI, the threat of a rising Germany manifested itself as fear that the Germans were exploiting the deteriorating political stability on the island in order to establish naval facilities or coaling stations in the same locations that had earlier attracted the attention of U.S. naval planners. President Wilson ultimately concluded that instability was bad for U.S. security and that insecurity in the Caribbean basin stemmed from the absence of constitutional democracy. As he remarked during his first year in office, "I am going to teach the South American republics to elect good men." Concern that political instability in Haiti and the Dominican Republic might interrupt the collection of customs revenues provided the pretext for Wilson's military expeditions on Hispaniola.[31]

[31] American military occupations of Haiti and the Dominican Republic were accompanied by Wilson's interventions in Mexico (1914), Cuba (1917), and Panama (1918), as well as his continuation of the Nicaraguan occupation (1909-1933).

U.S. Military Occupation

When separate U.S. Marine brigades landed in Haiti in July of 1915 and the Dominican Republic the following May to begin extended military occupations, they encountered agrarian societies featuring predatory state institutions that were collapsing under the weight of insurrectionary regional warlords, prohibitive sovereign debt burdens, and the destabilizing consequences of great power rivalry in the region. The objectives of the occupational governments the Marines installed were to restore the solvency of the central governments and their autonomy from domestic insurrection and to put their economies on a sounder footing as platforms for agricultural commodity production and exportation. The Wilson administration argued that American security would be served through these statebuilding efforts, which it hoped would provide the necessary preconditions for the emergence of stable democratic institutions. Yet despite more than eight years of occupation in the Dominican Republic (1916-1924) and nearly twenty in Haiti (1915-1934),[32] these statebuilding experiments were spectacular failures as incubators of democracy. In both cases authoritarianism persisted in patrimonial and neopatrimonial forms throughout most of the twentieth century (Haggard 1985; Hartlyn 1994).

Yet while theirs was not a legacy of democratization, these parallel foreign occupations succeeded in several areas. First and foremost, they established the autonomy of the central governments, providing them with an enduring monopoly on violence by disarming or defeating regional caudillos and by training and equipping

[32] Although in practice the U.S. military government in Haiti was dismantled in 1930 in response to widespread protest.

professional constabularies. In the Dominican Republic, attempts by the occupation to disarm the regional strongmen touched off a guerilla war, as violent resistance to US occupation by three caudillo warlords in the remote eastern portion of DR began just one year after US intervention. Initial resistance was quickly put down, seeing the surrender and execution of the leadership. And for most of 1918 guerilla activity in the eastern region was virtually eliminated. The insurgency resumed in 1919 and lasted through the end of the occupation, however by the time of U.S. withdrawal in 1924 the *Guardia Nacional* had become sufficiently effective as a fighting force that no *caudillo* band was henceforth able to successfully challenge the state's monopoly on violence. When two prominent *caudillos* (Desiderio Arias and Cipriano Bencosme) tried to mount such a challenge in the early years of the Trujillo dictatorship they were swiftly eliminated (Calder 1984, 239).

In Haiti, a violent revolt against the occupation began almost immediately after the arrival of American forces; it was waged by the same class of regional strongmen and mercenary *cacos* that had provoked the U.S. occupation in the first place. The Marines were initially successful in disarming rebels through bribery. However, mounting opposition to the occupation's repressive and racist policies including the use of a forced labor law, Corvée, that dated back to the French colonial system, reignited a sustained nationalist insurrection in a remote, mountainous part of the island (Schmidt 1971, Chapter 5). Lasting from 1918 to 1919, the insurgency was ultimately put down by the occupying Marines after at least 2,250 Haitians and their guerilla leader were killed. As in the Dominican case, by the end of the occupation the Americans had successfully consolidated the *Gendarmerie d'Haiti* constabulary forces. The creation of a national army responsive to the central government changed the balance of power between the state and civil society, foreclosing the possibility of armed rebellion and eliminating the only means by which the society had historically checked the power of their central government (Trouillot 1990, 16–17).

In addition to the political stability imposed by U.S. forces, macroeconomic stability was achieved in both cases when the occupations seized control of state finances. They also institutionalized U.S. customs receiverships, prioritizing the regular servicing of the sovereign debt over all other government responsibilities. The receiverships were left in place until the foreign debts of both Haiti and the Dominican Republic had been fully retired in 1947.

The economic policies adopted by the military occupations also increased the dependence of these agrarian societies on international markets for agricultural commodity exports and manufactured goods imports. During the First World War, scarcities of manufactured goods imports provided structural conditions conducive to the emergence of domestic industry across Latin America (Bulmer-Thomas 1995, 73). Yet the military governments on Hispaniola promoted export monoculture at the expense of the island's embryonic manufacturing sectors and European trade balances, using the customs receiverships as a pretense to manipulate tariff rates on both sides of the island. This systematic effort by the foreign occupations on Hispaniola to integrate the island into U.S. markets for primary commodity imports and manufactured goods exports resulted in the deindustrialization of whatever nascent manufacturing had emerged by the early 20th century. By 1925 the percentage of the population employed in factories comprised only three-tenths of one percent in the Dominican Republic and two-tenths in Haiti (Economic Commission for Latin America 1966, 17).

Prior to the outbreak of WWI, Dominican imports were comprised of 62 percent U.S. origin, 20 percent German origin, and 9 percent of U.K. origin (Dominican Customs Receivership 1914, 22). Following three years of military occupation and trade dislocation during WWI, the U.S. share of Dominican imports had leapt to 82 percent, with its protectorate Puerto Rico comprising an additional 13 percent (Dominican Customs Receivership 1919). As the Dominican national historian Frank Moya Pons documents, the tariff law of 1919 adopted by the U.S. occupation of the DR through Executive Order No. 332 decimated its nascent artisan manufacturing sector—cottage industries that included lumber, light beverages, rum distilleries, and confectionaries—by exposing the domestic market to duty free imports of higher-quality manufactured goods from the United States (1987, 10–14). Moya Pons (1987, 16) translates a passage from the memoirs of Dominican politician Luis Felipe Mejía:

> There existed, up to the American intervention, shoe shops, saddleries, tanneries and tailor shops, as well as furniture, hats and shirts. The intervention placed special zeal in making us consuming [sic] goods produced by the American industry. The import duties on shoes, apparel, furniture, hats, shirts, soap, hides, cigarettes and matches were reduced in the customs tariff decreed by the Executive Order No. 332, of September 25, 1919. As if this measure were not enough, the Executive Order No. 247, of October 31, 1919, abolished all internal revenue taxes on imported merchandise. However, our sugar continued to pay the same high customs tariff in the United States. We had the disadvantages inherent to a colonial economy without enjoying, in compensation, the protection it procures. In a few years, the shoe shops and tanneries disappeared; the number of tailor shops was greatly reduced, the manufacture of native furniture also diminished, only the match factory being saved… . (Mejia 1944, 288)

What little manufacturing that had managed to emerge during the liberal reform period and especially WWI was extinguished by the occupation's economic policies promoting American trade interests.

Dominican trade dependency was not limited to manufactured goods. Despite having developed a commercial agriculture sector during the liberal reform period, its reliance on foreign markets for basic foodstuffs was increasing as well. Between 1917 and 1924 the proportion of Dominican imports comprised of imported food and beverages increased from 14.4 to 26.9 percent of all imports (Dominican Customs Receivership 1919, 1927). Attempts by the U.S. to alter the national trade composition did not end with the withdrawal of American forces from the Dominican Republic. As part of U.S. terms of withdrawal, the Dominican-American Convention of 1924 provided for the continuation of the 1907 customs receivership through the end of the 1940s and prohibiting the modification of the customs tariffs of 1919 without securing U.S. Government approval (Moya Pons 1987, 17).[33]

In Haiti as well, the American occupation set about a wholesale restructuring of the tariff structures, increasing the penetration of U.S. goods while minimizing the competitiveness of European imports and domestic manufacturing. The military occupation abrogated the 1907 trade agreement between Haiti and France—the principal consumer of Haiti's most lucrative export crop, coffee. This agreement had provided special tariffs for French imports to Haiti in exchange for most-favored-

[33] While this agreement prevented the Dominican government under Trujillo from changing the 1919 tariffs on capital stock in order to promote import substitution industrialization in the mid-1930s (Moya Pons 1987, 25), it did allow the Dominican government to manipulate various internal taxes, which it did throughout the late 1920s and 1930s through Law 190, a consumption tax targeting imported manufactures (Moya Pons 1987, 18).

nation status in French markets (Schmidt 1971, Chapter 9). Repeated demands by American receivership officials to update the Haitian customs law of 1905, which was principally derived from a cumbersome 1872 law, finally produced the tariff reforms of 1926. These reforms further increased taxes on predominantly French imports like wine and perfume while reducing them for products imported from the U.S. (Plummer 1988). The American occupation pursued this policy at the expense of French trade imbalances with Haiti, despite the fact that the U.S. trade balance with Haiti was already favorable. In fiscal year 1916-1917, U.S. goods comprised 87 percent of total Haitian imports, meanwhile it only made up 54 percent of Haiti's export market (Haitian Customs Receivership 1919). Once WWI had drawn to a close and the French market for Haitian coffee was restored, the trade imbalance between the U.S. and Haiti grew even larger still.

What was the net result of these American-imposed commercial policies during the occupation? By 1928, just prior to the economic dislocations that were to ensue following the international financial crisis of 1929, the French market made up 55 percent of Haiti's exports but only 8 percent of its import purchases (Haitian Customs Receivership 1929, 9). Inversely, 70 percent of Haitian imports originated from the United States in that year while only comprising 8 percent of its export market—a balance of trade that decidedly favored the United States. During this period the tariffs on primary materials required for artisan manufacturing were also taxed at higher rates than finished goods, further undermining domestic industry by raising the costs of their input factors (Plummer 1988, 235–6).

As a compliment to the coercive nature of U.S. trade reforms across the island, the occupations also undertook massive programs of public works, constructing roads, schools, hospital clinics, and basic sanitation infrastructure that furthered the interests of the United States to develop the island as an agro-export platform for U.S. markets.

Finally, the exploitative, repressive, and oftentimes overtly racist character of the U.S. occupations succeeded in unifying political elite in both Haiti and the Dominican Republic under banners of nationalist anti-imperialism.

Yet while both the statebuilding missions and the characteristics of the target states were similar in many ways, important differences in the agrarian societies that awaited the U.S. Marines in the summers of 1915 and 1916 would ultimately define the legacies of their occupations. For the Dominican Republic, the liberal reforms that had begun prior to the occupation—namely the penetration of foreign sugar plantations into the eastern part of the country during the late 19th century—provided a more permissive environment for the occupation's neocolonial project of promoting export monoculture than Haiti's historical opposition to foreign ownership.

However, attempts by the occupational government to secure property rights for American investors faced a land titling system in the DR as informal and resistant to reform as the one they encountered in Haiti. From the Dominican Republic's eighteenth century pastoral roots evolved a proto-enclosure institution whereby *terrenos comuneros* (communal land) was divided into shares called *pesos de la tierra* (land pesos). For a nominal fee speculators were permitted to claim shares of communal land, however such shares were easily forged and their possession provided no clear means of resolving disputes over specific plots. Low population density left much of this land unused, allowing the system to endure throughout the liberal reform period of the late 1800s by absorbing those peasants in need of land for hunting and gathering or subsistence agriculture.

Almost immediately the occupational government set about delivering land reforms that would produce more definitive means of establishing ownership in the DR. Nominally designed to promote commercial agriculture across the country, in practice the new system of land titling overwhelmingly favored large sugar plantation interests of the east over peasant smallholders (Turits 2003, 66–77). Executive Order no. 363 of 1919 prohibited future accumulation of land through survey, while accepting past instances of such means of accumulation. This law was partly intended to reduce frivolous land speculation, including the historical practice of peso that had been institutionalized by the Dominican Law for the Partition of Communal Land of 1911. However in practice the law primarily favored sugar companies, many of whom had already completed such surveys by 1919. Executive Order no. 511 of 1920 reversed the prior bias of the original 1911 law, moving towards land titling that favored possession over speculation. Adopting the Torrens system imported from the British Commonwealth, the reforms imposed by the military governemnt created a whole new state institutional apparatus called the *Tribunal Superior de Tierras* (Superior Land Court). This court provided a centralized system of local, regional and national land judges to arbitrate land title issues–ostensibly with a bias towards possession over the previous system of *peso* title claims (71). As Turits (2003) observes, while on the surface these new land use laws ostensibly favored Dominican squatter peasants by recognizing possession over dubious peso titles, the ways in which the Tribunal interpreted possession failed to accommodate the ways that peasants used land. By favoring symbolic forms of enclosure over other forms of possession, "the 1920 legislation could not provide in itself the social equity it promised, because most peasants still practiced shifting agriculture. And while peasants rarely had held the same plot long enough to claim property via prescription as outlined in 511, the sugar companies generally could claim such 'squatters' rights" (Turits 2003, 75).

This favorable legal environment for the land claims of sugar plantations prompted a major expansion of foreign investment. Thus, "when in 1925 the occupation drew to an end in the Dominican Republic, a quarter of the total area of the country belonged to the sugar companies. Of the twenty-two major *centrales*, twelve were American with three-quarters of the total investment and very extensive land-holdings. Lumber companies controlled an area even greater than that held by the sugar industry" (Castor and Garafola 1974, 266).

Outside of the plantations, however, land titling had barely taken place. As late as 1929, Turits notes, only one-sixth of the country had been formally surveyed, with an even smaller proportion had been issued legal titles. "The process of determining property rights had hardly begun outside the sugar zones" (Turits 2003, 78).

Although the broader system of land tenure in the DR remained highly informal, the nature of the land reforms during the occupation—namely the continued encroachment and displacement of peasant smallholders by the plantations—created a central axis of conflict within Dominican society. It divided the Dominican agro-export oligarchy, many of whom associated themselves with and continued to profit from the occupation, from the burgeoning middle classes—especially those in the northern Cibao who saw their economic livelihoods threatened by the expanding sugar enclaves.

One such member of the oligarchy, the prominent *caudillo* and early apologist of the occupation President Horacio Vasquez (1924-30), took office after having successfully negotiated with the U.S. government the terms of American withdrawal (Calder 1984, 29).[34] The political coalition of *Horacistas* underpinning the Vasquez government drew predominantly from a dominant class fundamentally committed to the *dependista* agro-export model of national development that took root during the liberal reform period and was expanded during the military occupation (Cassá 2004a, 199).

On the opposite side of the conflict was an emerging coalition of Dominican nationalists—middle class professionals from the northern Cibao valley who viewed export monoculture generally, and expanding foreign ownership of the principal export sector in particular, as anathema to their economic interests. These ideas were born of their direct experience during the U.S. occupation, especially the earlier crash of 1921, as well as contemporary knowledge of the disastrous consequences of price volatility for the sugar-dependent Cuban economy (Turits 2003, 78). Foremost among these was a reformer named Rafael César Tolentino. Tolentino spoke out persuasively in opposition to the enclave-style liberalization unfolding in the east, advocating instead for expanding the smallholder model of commercial agriculture that had developed in the Cibao.

> Tolentino was also a member of Santiago's small middle class and an important nationalist leader, who had been persecuted during the U.S. military dictatorship for his opposition to the occupation. He was also a notable journalist in the late 1920s and the owner and director of Santiago's daily newspaper, *La Información*. Playing on the traditional phrase of local revolutionaries, "we have to take to el monte [the mountains]," a 1927 editorial in Tolentino's paper declared: "We have to take to el monte with plows and machetes as our weapons. Our state of poverty is the product of our mistaken orientation, of not seeing the salvation of our Country in the only place it can be found: in the countryside." The leaders of the early Trujillo state would heed Tolentino's call to turn to the countryside for the salvation of the nation. And they would envisage a nation of sedentary, surplus-producing farmers, rather than of foreign agribusiness and landless peasants, or of pig hunters and rebels. What is most remarkable is that this vision would shape not only the rhetoric but also the actual public policies and course of the early Trujillo regime, and indeed the making of the modern Dominican Republic. (Turits 2003, 79)

As the quote describes, Tolentino became an influential Secretary of Agriculture during the early years of the Trujillo regime. A dark-skinned mulatto who was cut off from power by elites that rejected him because of his humble roots, he was part of a growing coalition of Dominican professionals who resented both foreign intrusions into the Dominican economy as well as the complicity of a discriminatory Dominican bourgeoisie. Other advocates of reform rising from this class of *gente de la segunda* included Rafael Abreu Licairac, Joaquín Balaguer, Rafael Vidal, Rafael Espaillat, and Rafael Estrella Ureña (Turits 2003, Chapter 2). As the following chapter explores, many of these reformers would participate in the coup against Vasquez, ultimately becoming prominent leaders within Trujillo's ruling coalition.

While the economic liberalization measures pursued by the Dominican occupation succeeded in forging some measure of structural change, the economic structure of Haiti remained largely unchanged despite a much longer occupation.

[34] The negotiations that resulted in the transfer of power took place over 1922, resulting in the Hughes-Peynado Plan (Atkins and Wilson 1998, 57).

Foreign direct investment in the Dominican economy reached $69 million by 1929, whereas in Haiti that figure had only risen to $14 million (Castor and Garafola 1974, 269). Given that the Haitian population was roughly twice the size of the Dominican one, the per capita differences in investment between these two societies were even more stark.

The absence of comparable levels of foreign investment was not due to a lack of interest among the U.S. occupation in Haiti for promoting American commercial interests on the western side of the island. The military occupation made substantial changes to the Haitian legal landscape in an attempt to reintroduce foreign plantation agriculture. Between 1915 and 1930 the occupation government adopted no less than 33 pieces of legislation in their attempt to circumvent barriers to foreign—especially U.S.—investment. Foremost of all was a new constitution in 1918, drafted almost entirely by then 36 year-old Assistant Secretary of the Navy Franklin Delano Roosevelt, that, "according to the American presidential candidate, Warren Harding, was jammed down the throats of the Haitian people 'at the point of bayonets borne by U.S. Marines'" (Nicholls 1996, 147). Among other features, this document excluded Article V of the Haitian constitution concerning the prohibition of foreign ownership—arguably the most enduring feature of Haitian political culture since independence (Castor and Garafola 1974, 266).

Yet, despite the granting of more than 100,00 hectares of land to American investors in the fertile valleys of northern and northwestern Haiti, by the end of the occupation there were only two foreign-owned plantations in operation (Castor and Garafola 1974). Investor uncertainty regarding foreign property rights when faced with the prospect of an eventual withdrawal of American forces, coupled with the certainty of high transaction costs owing to poor infrastructure, ultimately conspired to turn away most foreign investment. Thus, Haitian agriculture remained dominated by a smallholder peasantry engaged in a mix of subsistence farming and cash cropping, organized under the same system of informal but locally understood landholdings that emerged during Haiti's early years of independence (Gonzalez 2012). As Plummer (1984) notes, "Haiti made its main contribution to the Caribbean plantation economy in these years by exporting labor to the sugar estates of Cuba and the Dominican Republic" (135-6). Despite it's efforts to integrate the Haitian economy more deeply into U.S. markets through tariff rate manipulation and constitutional reforms directed towards expanding foreign investment, the military occupation failed to move the country substantially closer to becoming an agro-export platform for U.S. commodity markets.

Despite the difficulties encountered by the Americans as they attempted to expand plantation agriculture and introduce foreign investment to Haiti, the occupation nevertheless succeeded in reinforcing the economy's dependence on its agro-export sector in general and coffee exports in particular. At the onset of the military occupation coffee exports comprised 67 percent of total export value; by the end of the occupation they comprised 78 percent of all exports.

Nor were the political structures of Haiti transformed by the U.S. statebuilding expedition. While they succeeded in defeating the regional caudillos and consolidating power in Haiti's central government, the historical patterns of predation that constituted the relationship between nation and state were merely reinforced by the military occupation. The provisional government continued to favor the redistribution of peasant surplus towards the repayment of foreign debts rather than the meaningful provision of goods and services in the rural areas (Schmidt 1971, 221). Export duties increased from 19 percent to 28 percent during the occupation so that, even during the terms of trade crisis of the early 1930s, customs duties continued to make up more than 80 percent of government revenues (Trouillot 1990, 102–3). This policy represented the continuation of a norm that had been institutionalized in Haiti at least as early as President Boyer's acceptance of the French indemnity as the price of diplomatic recognition in 1825.

What infrastructure was left behind by the occupation's public works program quickly fell into disrepair and decay. For example, the roads that were built to connect the capital with the provinces were largely unpaved, requiring continual maintenance that was not forthcoming following the U.S. withdrawal (Schmidt 1971, 233–4). In the final analysis, among President Wilson's goals for political liberalization, neither democratization nor the de-politicization of the armed forces was successfully institutionalized. While central government power was consolidated and the ranks of foreign merchants were thinned out with the expulsion of many German expatriates, the underlying political economy of Haiti was not changed but rather reinforced by the military occupation.

While the American occupation failed to alter the economic and political structures of Haiti, its policies did alter the social structure in ways that would prove decisive in the years following the occupation. For the first time the economic basis for the emergence of a new generation of black middle class leaders was provided, one that would eventually grow to contest the political power of the mulatto oligarchy. Perhaps ironically, the indiscriminate racism by which the military occupation dealt with blacks and mulattos not only unified factions of both phenotypes against the occupation; it also opened up new occupations and educational opportunities to blacks. State jobs and schools in the urban areas previously restricted to mulatto elite created new pathways to the middle class for non-elites. "In a letter to a State Department official, U.S. Consul Winthrop Scott described a 'class of young Haitians who have served with Americans, since the occupation began, as interpreters, supervisors, clerks, etc.' This group, the core of a nascent middle class, came to depend on the American presence" (Plummer 1984, 233).

Smaller and less politically powerful than the Dominican middle class coalition that would bring down Vasquez and form the backbone of the Trujillo regime in 1930, American sociologists of Haiti writing in the 1940s mistakenly argued that this class was non-existent or merely embryonic (Nicholls 1996, 190). However nascent they might have been, the generation of middle classes that emerged during the occupation would come of age as leaders in the 1940s and 50s, reshaping the distribution of power in Haitian society in decisive ways.

> The government of Sténio Vincent (1930-41) found it useful to cultivate this class, and the fall of his successor Elie Lescot in 1946 can partly be attributed to his studied neglect of the black middle class, who were almost all excluded from office and cut off from state patronage during the period of his presidency. … [T]he victory of Dumarsais Estimé in the elections of 1946 is to be understood as a partial victory for this black middle class, which also provided much of the support for Francois Duvalier in 1956 -7. (Nicholls 1996, 10)

Historically, the mulatto elite had justified their position as the ruling class based on a shortage of black Haitians with the education and refinement necessary to govern. As the Haitian political arena began to be comprised of a greater proportion of educated and experienced blacks—individuals like Estimé who served as a cabinet officer in Vincent's administration during the 1930s—this justification became less tenable, and mulatto discrimination less bearable. A loose middle-class coalition of moderate *noiristes,* radical Marxists and worker organizations, progressives from the professional class, and the military united behind Estimé and successfully took down the mulatto regime of Lescot in January 1946 (Smith 2009).

The Estimé regime fell four years later in the face of political stalemate with a unified mulatto opposition, as well as divisions within his ruling coalition. Nevertheless, the electoral coup of 1946 represented a historic victory for Haitian blacks, who for the first time managed to assemble a political coalition derived from their own, rather than presiding on behalf of the traditional oligarchy of mulatto elites and foreign merchants as had historically been the case.

Conclusion

This chapter explored the consequences of the agro-export model's failure to produce strong, autonomous states in Haiti and the Dominican Republic by the end of the liberal reform period. Unable to defend themselves against capture by rent-seeking *caudillo* warlords, the states governing these agrarian societies became swept up in a balance of power conflict over sovereign debt and spheres of influence in the early 1900s, a conflict that culminated in foreign military occupation by U.S. military forces.

Intended by U.S. President Wilson to restore stability to the island by installing constitutional democracies, the military occupations were unwilling or unable to alter the underlying patrimonial authoritarian dynamics of these agrarian societies. Nevertheless, the occupations made a direct impact on the development of these states by restoring political and economic stability, successfully centralizing political authority, and leaving behind national armies that eliminated the capacity of regional strongmen to mount successful challenges to the autonomy of the state. They were also successful in deepening the economic profile of trade dependency and agro-export monoculture on both sides of the island.

Finally, the U.S. military occupations indirectly strengthened the middle classes within both societies. The multi-generational head start afforded the Dominican middle classes by greater levels of trade integration during the antecedent period would later allow them to assemble a political coalition capable of seizing state power soon after the onset of global economic crisis in 1929. In the Haitian case, the middle classes were still embryonic as the society entered the critical juncture of the 1930s. It would be nearly three decades after the onset of that crisis before a member of their class, Francois Duvalier, seized and consolidated state power.

CHAPTER 5

Critical Juncture: Trade shocks and the politics of economic adjustment (1929-1961)

England's eighteenth century industrial revolution beget a consumer revolution that brought items like scented soap, refined cooking oils, and cotton undergarments—goods previously accessible to only the wealthiest Englishmen—within reach of the working classes (Müller 1995). "Tea, a luxury beverage of the upper classes when the century began, was the daily drink of road workers by midcentury. … What had once been regarded as 'luxuries' came to be seen as mere 'decencies.' Then 'decencies' became 'necessities' and the very definition of "necessities" changed" (33). A century later the first wave of globalization had begun to deliver a share of these industrial fruits to the agrarian world, providing commodity-exporting countries with the foreign exchange currency required to import an expanding array of manufactured goods. In exchange for the exportation of primary commodities demanded by the industrialized core, middle and upper class consumers of the agrarian periphery were now able to purchase new medicines, hygiene products, foods, spices, beverages, and textiles, as well as a rapidly expanding array of machines capable of alleviating the strains of quotidian life.

Import scarcities caused by economic volatility and war during the first half of the twentieth century disrupted the ability of agrarian societies to consume manufactured goods, however. The consumption losses and threats to material security generated by these periods of scarcity undermined the coherence of the liberal agro-export model, creating political and economic incentives for the periphery to develop domestically produced substitutes for those manufactured goods that they could no longer afford to import. In no region was this inward-looking means of adjusting to the exogenous shocks of the 1930s and 1940s more prevalent than Latin America, where early decolonization provided societies with a measure of autonomy over how they adapted to economic shocks. Variation in the degree to which Latin American countries industrialized during this period, however, suggests that these economies faced various constraints on their ability to exploit structural conditions that were otherwise favorable to strategies of import substitution.

The ability of countries to carry out a strategy of import substitution depends in part on whether the internal market for such goods—a function of population size and the distribution of income across that population—allows markets to realize economies of scale. Some have argued that Latin America's smaller countries may not have possessed sufficiently large markets to justify investment in a domestic manufacturing sector (Hirschman 1968; Murphy, Shleifer, and Vishny 1989a). Murphy, Shleifer, and Vishny (1989a) argue that inward-oriented industrialization requires a ratio of population size to income distribution that provides for sufficiently large middle and upper classes—the sectors of society that posess sufficient disposable income to purchase and consume manufactured goods.

Indeed, the size of the internal markets of Latin American countries just prior to the economic crisis of 1929 broadly corresponds with the level of industrialization they achieved by 1960. Larger countries were generally more successful in developing manufacturing sectors than smaller countries (Table 5.1).

[TABLE 5.1 ABOUT HERE]

Table: Internal Market Size in 1928 and Industrialization in Latin America by 1960

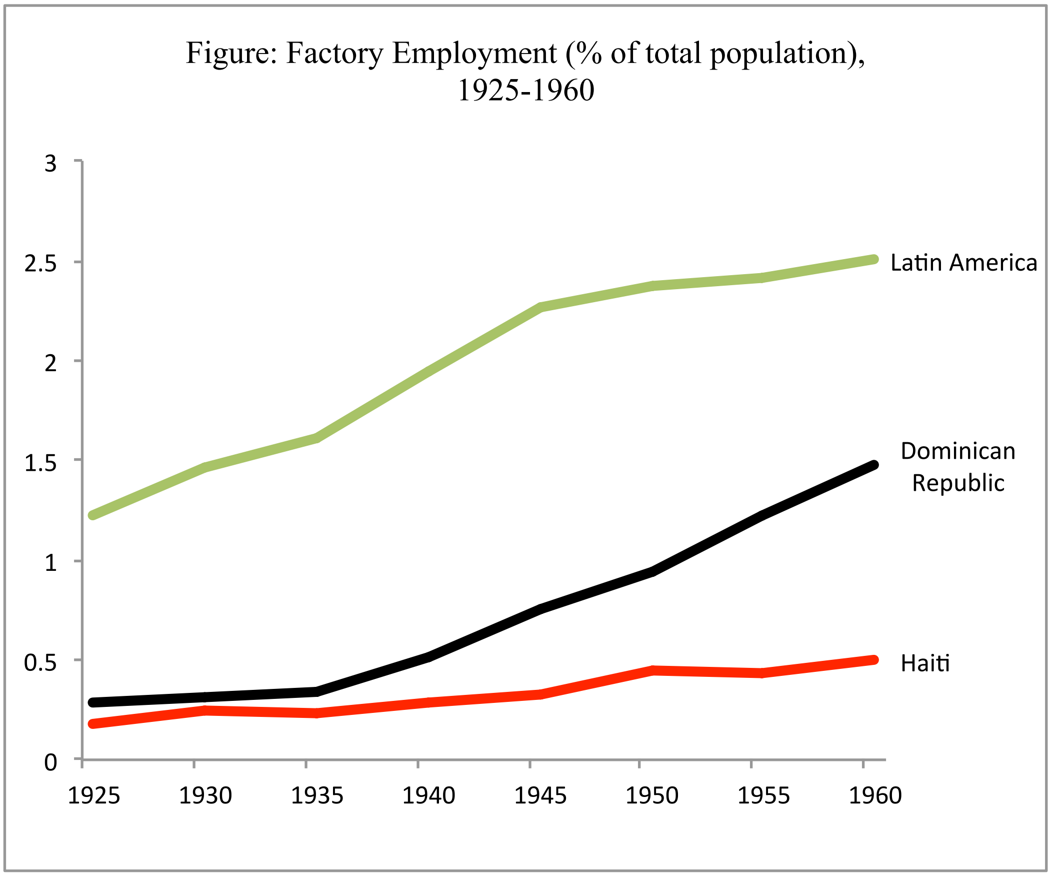
	Manufacturing, 1960 (% of GDP)	Population, 1928 (thousands)	Size of Internal Market, 1928 (thousands)
Argentina	26.7	11,440	7,779
Brazil	26.3	32,230	11,281
Chile	24.8	4,250	2,678
Uruguay	24.3	1,670	1,169
Cuba	19.7	3,510	2,176
Mexico	19.3	16,010	5,283
Peru	17.1	5,480	1,206
Colombia	16.4	7,140	2,999
Ecuador	15.7	1,840	497
Honduras	15.3	910	273
Paraguay	15.1	840	420
Dominican Republic	14.6	1,170	211
Venezuela	14.0	3,040	760
El Salvador	13.9	1,390	278
Nicaragua	13.0	670	168
Costa Rica	12.5	480	283
Guatemala	11.9	1,660	216
Panama	11.7	460	179
Bolivia	11.5	2,340	398
Haiti	8.9	2,360	236

Sources: For manufacturing in 1960 and population, MOxLAD (Astorga, Bergés, and Fitzgerald 2003). *Note:* I estimate the size of the internal market in 1928 by using the number of literate persons as a proxy for income distribution. I obtain this figure by multiplying population size by the fraction of the population that was literate according to data from Vanhanen (1997).

There are, however, several caveats to the general correlation between market size and industrialization. First, the relative size of the manufacturing sectors in Chile and Uruguay in 1960 were comparable to those of Brazil and Argentina, and greater than that of Mexico, despite these countries' substantially smaller internal markets. Indeed, at the onset of the global depression in 1929 Uruguay (an early Latin American industrializer) had approximately the same size population as Guatemala. Second, there is virtually no correlation between internal market size and industrialization among lower-tier manufacturers in Latin America. Several smaller countries were able to achieve manufacturing sectors amounting to 15 percent of GDP by 1960 despite having internal markets of fewer than 500,000 people, whereas countries with otherwise comparable markets were not.

The empirical records of Haiti and the Dominican Republic reveal that economic factors related to the size of the internal market for manufactured goods were not a significant constraint on the adoption of a strategy of import substitution on Hispaniola—at least at the initial or "easy" stages of substituting consumer goods imports. As Table 5.1 illustrates, Haiti and the DR both have internal markets of just over 200,000 persons. Yet the DR was able to achieve considerably greater economic diversification than Haiti during this period of import scarcity brought about by global depression and world war (Figure 5.1).

[FIGURE 5.1 ABOUT HERE]



Sources: Factory employment data from Economic Commission on Latin America (1966, 17). Population data from MOxLAD (Astorga, Bergés, and Fitzgerald 2003).
Note: I use figures for total population instead of economically active population because these data were not available for all of the country-years between 1925 and 1960.

Beginning in the mid-1930s the Dominican economy produced sustained growth in its manufacturing sector, averaging an 11.2 percent annual increase in manufacturing employment over this period, meanwhile the Haitian economy remained decidedly agrarian. Why did one agro-export economy respond to structural conditions of import scarcity during the 1930s and 1940s by developing a domestic industrial sector while another, similar economy did not?

In this chapter I document that what varied on either side of the island was not the *absolute* size of the internal market and the prospects for industrialization and economic diversification that economies of scale permit. What varied was the political will of the ruling coalition to invest state resources in the infrastructure, physical and human capital that early industrialization requires.

In order to develop a more complex and differentiated economy under conditions of import scarcity, simultaneous investment must be made in the forward and backward linkages required to produce or extract primary commodities and transform them into finished goods. On Hispaniola, the initial stages of industrialization required the emergence of developmentalist state institutions to ensure that these requisite, complementary investments were made simultaneously. Where does the political will for state developmentalism come from, and why did it emerge in the Dominican Republic but not in Haiti? I find that the willingness of rulers to invest in import substitution during the critical juncture of the 1930s and 40s was due to variation in the *relative* size and political power of the middle classes in these two agrarian societies.

In Chapter 2 I presented a theory of economic relations in agrarian societies that demonstrates why the middle classes are the biggest losers from a disruption in the ability to import manufactured goods and maintain their livelihood based on ties to the agro-export sector. In Chapter 3 I explored the nineteenth century historical antecedents related to trade integration during the liberal reform period that determined class structure across Hispaniola as the island's two agrarian societies emerged from the liberal reform period. Chapter 4 established the comparability of these agrarian societies prior to the global depression of the 1930s, arguing that nothing about their economic and political development at the turn of the twentieth century would have led us to predict the dramatic divergence that would occur on

Hispaniola. Both Haiti and the Dominican Republic entered the 20th century with poor agrarian economies. These societies were governed by weak states that had fallen prey to capture by rent-seeking regional *caudillos* as well as predatory lending by foreign powers. In the run-up to World War I, these foreign powers were engaged in a competition over spheres of influence on the approach to the Panama Canal. Facing imminent collapse in 1915, both countries found themselves under foreign military occupation by the United States forces tasked with consolidating central government authority, restoring fiscal solvency, and investing in those public works that would allow these countries to be more fully integrated into U.S. markets.

In this chapter I explore how differences in the relative size and political power of middle class coalitions shape the economic adjustment choices made by their respective governments during a critical juncture brought about by protracted economic crisis. The outcome of competing distributional preferences within national political arena, in turn, determine the economic purpose of the state institutions that emerged from this critical juncture.

Trade Shocks: Global Depression, War, and Import Scarcity (1929-1950)

Between WWI and the 1929 crash, the international system of trade and payments consisted of an economic triangle connecting the world's leading creditor state—the United States—with the debtor states of Western Europe and the non-industrialized world (Eichengreen 1992, 222–5). U.S. current account surpluses with European countries—consisting of war debts and reparations payments as well as trade surpluses—financed its current account deficits with primary commodity exporting countries of the global periphery. Western European countries, in turn, financed their trade deficits and war debts by borrowing from the U.S. and running trade surpluses comprised primarily of manufactured goods exports with the periphery. During the 1920s both industrialized Europe and commodity-exporting regions like Latin America depended heavily on lending from the United States in order to finance their current account deficits and sustain domestic consumption (Eichengreen 1992, 224). Under the system of fixed exchange rates that prevailed at the time, the ability of debtor countries to maintain their currency pegs to gold while running balance of payments deficits depended on the provision of international liquidity by the United States, which used its current account surplus to issue credit.

Most explanations for the onset of the global depression in 1929 emphasize the disastrous consequences of a sharp reduction in international liquidity when the leading creditor state began to engage in monetary retrenchment. In August 1928 the U.S. central bank made the crucial decision to shrink the money supply, raising interest rates in order to stem the availability of speculative credit in domestic financial markets (Eichengreen 1992, 222). This was primarily in response to an investment bubble that had caused the Dow Jones Industrial Average to double in the span of just over a year, expanding from 191 points in early 1928 to 381 points by the fall of 1929 (Frieden 2006, 174). Consistent with economic orthodoxy of the day, this policy of monetary retrenchment was intended to deflate the bubble and defend the dollar's parity with gold. However, the tightening of credit had the unintended consequence of severely constricting global consumption and curbing economic growth. Prohibitive interest rates caused the volume of U.S. foreign lending to drop by

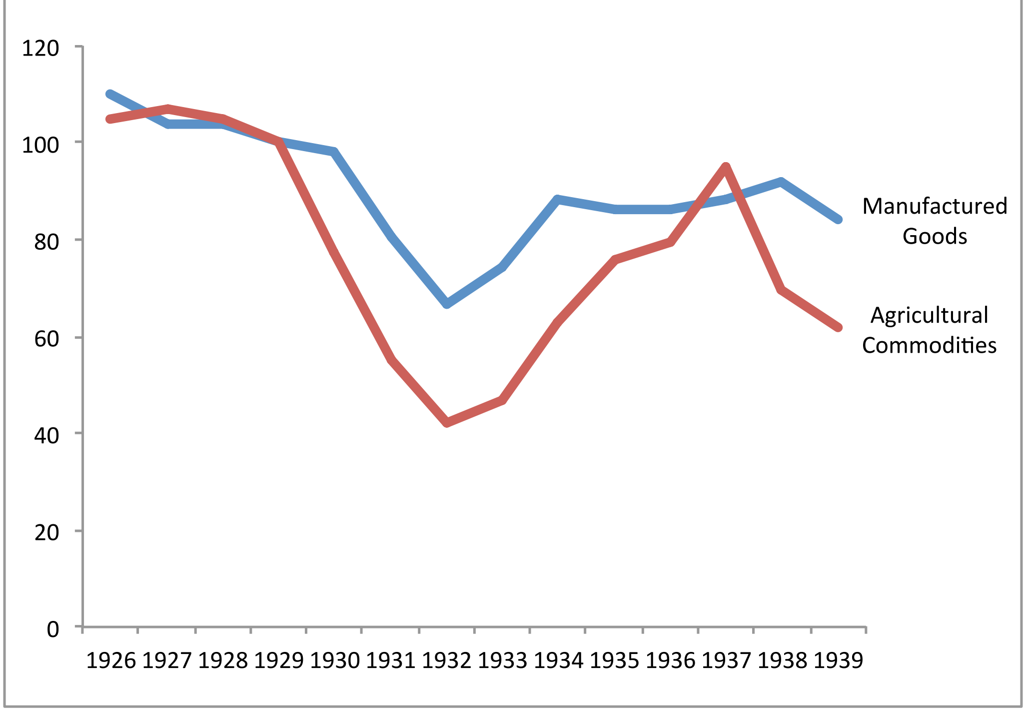
30% in 1928; by 1929 net U.S. financial flows to Europe reversed and U.S. gold reserves began to accumulate rapidly (Eichengreen 1992, 226). Without foreign lending to prop up international demand, consumption fell sharply across global markets.

Deteriorating terms of trade and import scarcity

The economic losses brought about by financial crisis and the economic depression that ensued were not distributed evenly across states. Growth rates and domestic consumption declined further in the agrarian periphery than it did in the industrialized core during the 1930s, owing primarily to the deteriorating terms of trade for agricultural commodities vis-à-vis manufactured goods (Figure 5.2).

[FIGURE 5.2 ABOUT HERE]

Figure: Price Index for Traded Goods,1926-1939 (1929=100)



Source: Ocampo and Parra (2003), taken from MOxLAD (Astorga, Bergés, and Fitzgerald 2003)
Note: U.S. dollar index of prices of internationally traded manufactured goods and primary agricultural commodities. Prices re-indexed to 1929 base by author.

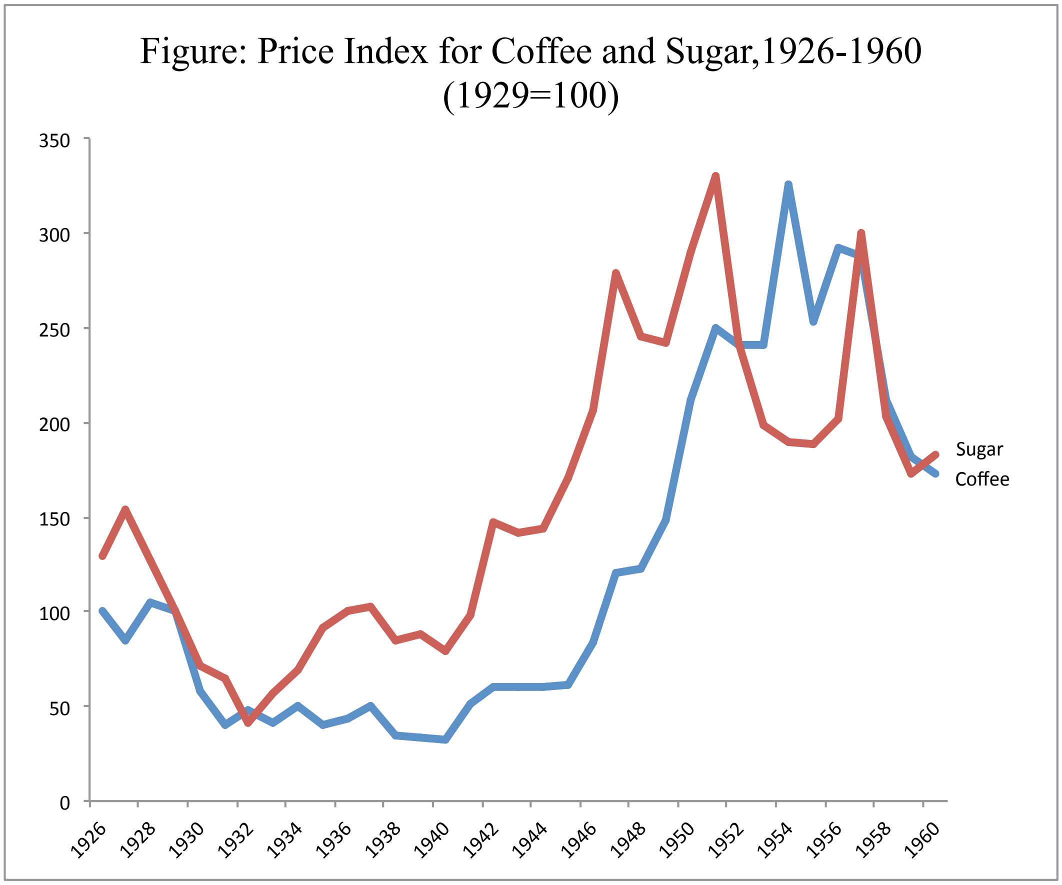
Between 1929 and 1932 the relative price for manufactured goods on international markets dropped approximately 24 percent, whereas the index price for agricultural commodities dropped over 57 percent. Not surprisingly, declining terms of trade caused the immediate contraction of agricultural export economies. Among the five largest Latin American economies—Argentina, Brazil, Chile, Colombia, and Mexico—national income shrank by an average of fourteen points during the early 1930s (Thorp 1992, 184).

However by no means did this crisis bring about the end of the agro-export sector. In Latin America, commodity export quantums actually *increased* as producers flooded international markets in an attempt to replace the income lost to declining prices by increasing volumes. Against the usual narrative of diminshed exports and thus providing the impetus for import-substitution, Thorp (1992) finds that export sectors in the larger Latin American economies recovered rather quickly from the contractions of the early 1930s. By 1933-1934 their economies were growing again, and by 1937 the size of their real GDPs had each returned to pre-crisis levels (184). This was achieved through a combination of ongoing commodity exports and surging in industrial output. In the temperate climates of the Southern Cone,[35] where commodities like wheat and cattle were produced, the purchasing power of exports were restored by the mid-to-late 1930s (Thorp 1998, 114–5). The purchasing power of those commodities produced in the more tropical reaches of Latin America, including Central America and the Caribbean, remained a fraction of their 1928 values throughout the 1930s.

In the Dominican Republic, declining trade value was primarily due to the collapse in world prices for its principal export commodity, sugar, which declined by just over 50 percent between 1929 and 1932 (Astorga, Bergés, and Fitzgerald 2003). Similarly, the price of coffee—Haiti's signature export crop—dropped by nearly 48 percent. (Figure 5.3 below).

[FIGURE 5.3 ABOUT HERE]

[35] The Southern Cone is the region encompassing Argentina, Chile, and Uruguay.



Source: Ocampo and Parra (2003), taken from MOxLAD (Astorga, Bergés, and Fitzgerald 2003)
Note: U.S. dollar index of prices of internationally traded manufactured goods and primary agricultural commodities. Prices re-indexed to 1929 base by author.

The price of sugar did not fully recover its 1929 level until 1941, and coffee did not recover until 5 years after that.

With national incomes plummeting and foreign exchange reserves rapidly depleting, the global depression created a rupture in the legitimacy of the liberal economic reforms undertaken in the latter half of the nineteenth century, "undermining acceptance of traditional ideas about the international division of labor between advanced and backward countries" (Hirschman 1968, 4). Exacerbating this crisis for the non-industrialized world, the balance of payments shortfalls caused by this disruption in trade could not be offset by international borrowing due to the financial dimension of the crisis—namely the shortage of foreign capital owing to U.S. monetary retrenchment. For Haiti and the Dominican Republic the net value of imports and exports were cut in half between 1926 and 1935 (Figure 5.4).

[FIGURE 5.4 ABOUT HERE]

Figure: Trade Value (Exports + Imports in current US$), 1926-1935

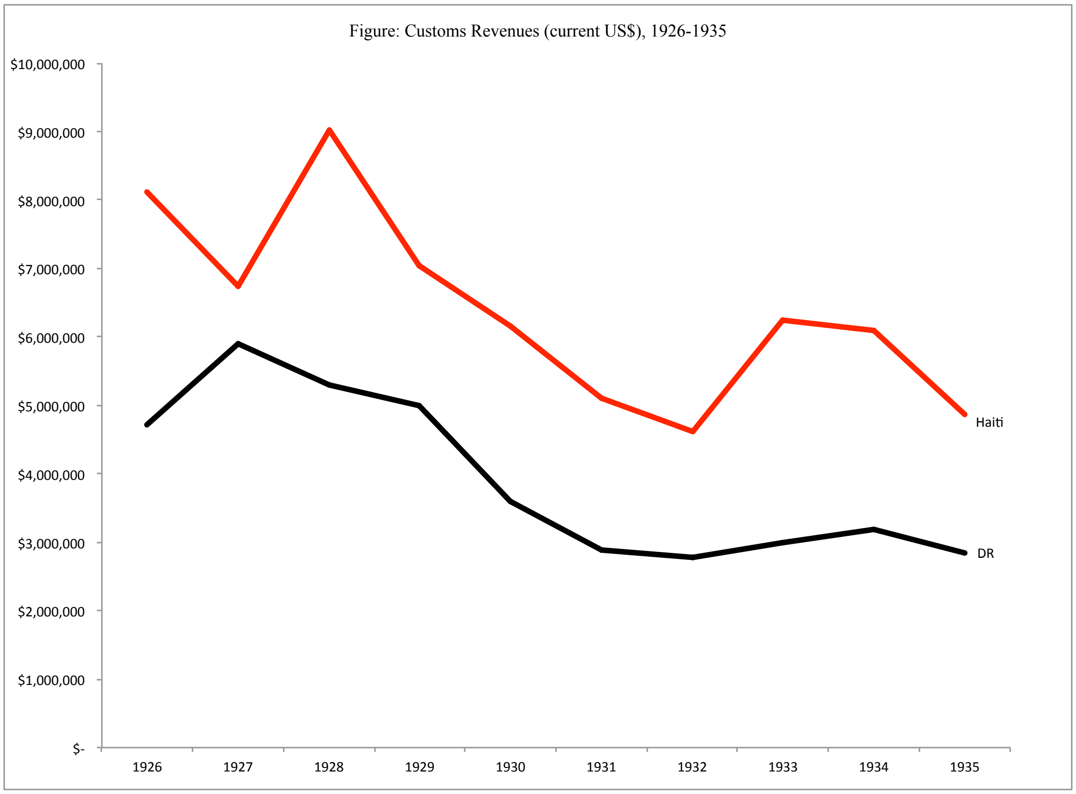
Source: Annual Reports of the Haitian and Dominican Customs Receiverships (various years).

Exports declined by 59 percent in the Dominican Republic and 61 percent in Haiti over this time period. For both countries, foreign exchange losses attributed primarily to the export crisis forced a curtailment in the consumption of foreign and manufactured goods by reducing the net value of imports by 69 and 61 percent, respectively (Annual Reports of the Haitian and Dominican Customs Receiverships, various years).

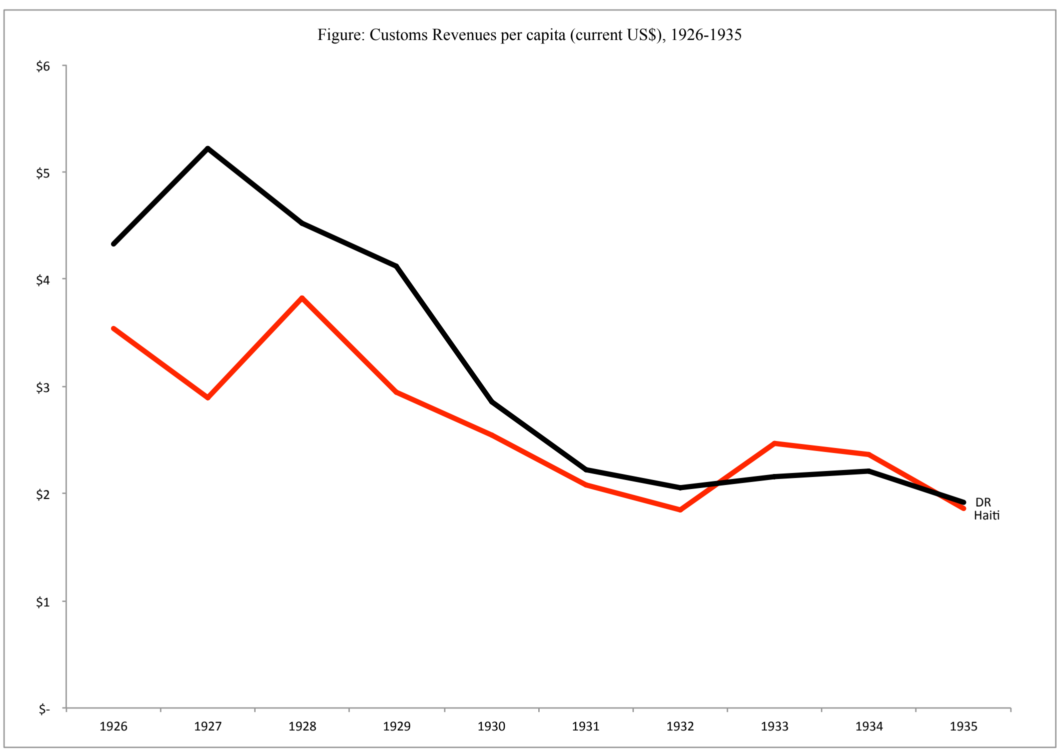
Government finance

The collapse of the international trade regime during the 1930s not only affected national incomes and patterns of consumption in these two agrarian societies; it also decimated their principal source of public finance. Despite the efforts of the U.S. military occupations on either side of the island to generate alternative sources of revenue through the collection of internal taxes, approximately 80-90 percent of all government receipts still depended on duties and tariffs on exports and imports collected by the U.S. customs receiverships (Annual Reports of the Haitian and Dominican Customs Receiverships, various years). As the value of exports and imports declined, customs revenues on an absolute (Figure 5.5) and per capita basis (Figure 5.6) eroded quickly as well.

[FIGURE 5.5 ABOUT HERE]



[FIGURE 5.6 ABOUT HERE]



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

Besides providing the principal source of revenue for government expenditures, customs duties and tariffs collected by the U.S. receiverships enabled these agrarian societies to service the sovereign debts held by New York banks and their bondholders. At the onset of the global depression in 1929 the Dominican government was responsible for servicing $20 million (current US dollars) in consolidated sovereign debt held by Lee, Higginson & Co., New York, amounting to $1.2 million in annual debt payments. Beginning in 1930, just as customs revenues were falling precipitously, the DR was required to begin servicing another $20 million in bonded debt that had previously been issued by the same institution. This effectively doubled the amount of annual payments required to service the debt and triggering the need for a renegotiated payment schedule under what was called "The Emergency Law" of 1931 (Dominican Customs Receivership 1932, 9–10).[36] For Haiti, servicing it's approximately $25 million debt burden amounted to about $2.4 million per year. Between 1926 and 1935 the servicing of their national debts consumed, on average, over one-third of government customs revenues (amounting to about $1 per capita in both countries).

As the international financial crisis deepened and turned into a global depression, declining terms of trade had the consequent effects of eroding the national income, undercutting public finances, and compromising the ability of agrarian

[36] Under the Emergency Law, the Dominican government ceased making payments on the principal of its debts (the sinking fund), servicing only the year's interest accrual. (Dominican Customs Receivership 1932; Schmidt 1971, 41). When Brazil eliminated its unilateral coffee valorization program in 1937, the Haitian government was granted similar financial concessions as those pertaining to the Emergency Law in the Dominican Republic beginning in 1938 (Haitian Customs Receivership 1939, 102–3, 1940, 64–5).

societies to consume imported (especially manufactured) goods. Considering the Dominican case, historian Moya Pons (1987) observes,

> The profound shrinking of the internal market during the first years of the world depression was comparable only to the collapse of the world market for traditional Dominican exports. Sugar, cocoa, coffee and tobacco prices dropped to unknown levels and so did the Dominican Republic's capacity to import. The country was then suddenly deprived of resources with which to pay for the importation of manufactured goods that Dominicans had become accustomed to consume during the preceding twenty years. A calamitous scarcity of all types of consumer goods took place. (19-20)

As the figures above demonstrated, these trade shocks were of comparable magnitude in Haiti. Nevertheless, differences in how economic losses were distributed across economic classes, and the consequences of those differences for long-run political development could not have been greater. This was in part the result of the second trade shock to hit the island—world war.

By the end of the decade the economic losses of the early 1930s had largely been erased, however the structural feature of import scarcity remained. In the trade shock described above, the capacity of an agrarian state to import and consume manufactured goods was constrained by a terms of trade crisis that put the national trade balance into deficit and drew down foreign currency reserves. A conceptually distinct form of trade shock from the one that occurred in the 1930s struck agrarian societies during the 1940s as mobilization for the Second World War (1939-1945) brought an end to their economic depressions.

During this period the price of commodities on the international market boomed as demand for inputs to sustain the war effort increased, meanwhile manufacturing imports remained scarce due to wartime rationing in the industrialized world. The result of this for agro-export economies was an externally imposed trade surplus, as income from commodity exports increased but imports remained scarce and expensive. Besides contributing to the accumulation of capital in the form of large foreign exchange reserves, this trade shock also had the effect of insulating domestic producers from international competition. For agrarian economies more closely tied to US markets, mobilization for the Korean War (1950-53) had a similar effect.

Where countries had adjusted to the import scarcities of the 1930s through the move to import substitution, as in the Dominican case, externally imposed import scarcity, combined with booming commodity prices, reinforced the policies of the Trujillo regime by protecting domestic producers and providing the economy with the foreign exchange reserves needed to import capital stock and pursue industrialization. Where economies remained dependent on the agro-export model throughout the global depression of the 1930s, as was the case in Haiti, commodity revenues poured in from international markets—particularly after WWII had concluded and European consumer markets reopened. In the next section I explore the political and economic consequences of these trade shocks for institutional adaptation and development on the island of Hispaniola.

Political Crisis, Economic Adjustment, and Institutional Development

Just as the economic hardships born of U.S. monetary retrenchment and declining global demand were not distributed evenly across states, with agro-export economies witnessing a sharp decline in their terms of trade, the losses inflicted by economic crisis were also distributed unevenly *within* agrarian societies. Virtually all sectors of the agro-export economy were tied directly or indirectly to international trade.

However the global depression imposed varying costs across agrarian societies, which were comprised of rural peasants, urban middle classes, and economic elites.

Hard times and the distributional conflicts that ensued generated significant political upheaval throughout the region, resulting in fourteen revolts across Latin America and the Caribbean between 1930 and 1934 (Wiarda 1998, 38). In many South American countries the political crisis fed into a regional wave of economic populism political inclusion (R. B. Collier and Collier 1991; Rueschemeyer, Stephens, and Stephens 1992). For the tropical agro-export economies of Central America, where the greatest losses of export purchasing power were concentrated (Thorp 1998, 114–5),[37] the nature and extent of the liberal reforms during the antecedent period determined the resiliency of incumbent political regimes during the 1930s and 1940s (Mahoney 2001a).

In El Salvador, for example, radical liberal reformers in the early 1880s forced peasants to abandon communal lands and traditional subsistence farming practices in favor of expanding commercial coffee plantations (Paige 1997, 107). Having turned to wage labor on the plantations for their livelihoods, the collapse of international commodity prices during the early 1930s left these land-poor peasants with neither wages nor land for subsistence agriculture with which they might have maintained their livelihoods. Thus, the radical nature of liberal reforms in El Salvador created the conditions for a peasant revolution in 1932.

[37] Chile was the exception. There, the purchasing power of exports (PPE) fell the steepest of any Latin American country. By 1933, its PPE was 18 percent of its 1928 baseline (Thorp 1998, 114).

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

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

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

Economic crisis quickly translated into political crisis for the incumbent governments of both Haiti and the Dominican Republic. Even prior to the crisis, popular perceptions that these governments were puppets to American imperialism helped create unified nationalist opposition movements on both sides of the island. Public unrest stemming from economic collapse was fueled by the efforts of incumbents to extend their terms of office through extra-constitutional means. This is where the similarities ended, however.

Neither the class composition of the Haitian and Dominican nationalist coalitions that took power in 1930, nor the adjustment policies they pursued, were comparable. In the Dominican Republic, initial moves towards austerity and import substitution during the global depression positioned the state to help the national economy industrialize during the period of ongoing import scarcity caused by war in the 1940s. In Haiti, conversely, the public sector remained bloated. Declining government revenues were offset by even greater tax burdens on the agro-export sector. Thus, while surging commodity prices and ongoing import scarcity during the 1940s helped both economies recover and repay the remainder of their sovereign debt, this exogenous change in the global economy merely reinforced the policies of import substitution industrialization and agro-export dependency pursued by the Dominican and Haitian governments, respectively, during the 1930s.

Political Crisis and Economic Adjustment in the Dominican Republic

In the DR, as in much of the region, the partial collapse of the agro-export model helped usher in a new era featuring the political ascendance of the middle classes. Though varied in terms of their role within the governments that emerged, Latin America's middle classes brought to the political arena material interests distinct from those of the peasantry and the oligarchy, as well as greater power to pursue those interests.

The global depression had a disastrous effect on the Dominican economy, the fiscal health of the state, and political support for the incumbent government of President Horacio Vasquez (1924-30). The political coalition of *Horacistas* underpinning the Vasquez government drew predominantly from the so-called *gente de la primera* (first-class citizens), representing a class fundamentally committed to the *dependista* agro-export model of national development that was inherited from the liberal reform period (199). Taking office with the blessings of the US government through negotiations that led to new elections and the end of the military occupation in 1924, the Vasquez government was viewed as an *entreguista* appeaser of Yankee imperialism—compliant with ongoing restrictions on Dominican financial sovereignty and accepting of the increasing dominance of U.S. investors over the Dominican sugar industry (Cassá 2004b, 200).

The economic crisis of 1929 undermined the coherence of the export-dependent model, cutting sharply into national income and eroding the revenue base of the Dominican government. Predictably, political dissent for the incumbent government began to foment throughout the course of the year as the crisis deepened.

Opposition emerged from traditional conservatives, the Jimenistas and Frederico Velasquez, as well as new opposition figures drawn from the middle classes. Popular opposition by petit-bourgeois merchants, intellectuals, and members of the professional class was built upon growing resistance to the expanding U.S. sugar holdings in the east (discussed in Chapter 4). Moreover, resentment among the middle classes of the social discrimination doled out by the traditional aristocracy fueled this opposition. Despite the increasing social mobility in the Dominican Republic afforded by the expansion of commercial agriculture during the late 1800s and early 1900s, social stratification actually increased during this period (Hoetink 1986). Wealth failed to translate into social influence and political power for upper-middle class Dominican professionals, "who because of skills, education, descent and physical traits, as well as income, were distinguished from 'the people', but were now no longer able to penetrate the national elite" as they once had up until the liberal reforms of President Heureaux (1884-1899) (295). They were routinely excluded from elite social clubs like the *Club Union*, relegated to a subordinate class—*los de la segunda*.

Dominican political crisis

Resistance to expanding U.S. sugar plantations in the east, deteriorating economic conditions across the country, and discrimination by an oligarchy who were themselves divided into various factions, culminated in a middle class revolt led by a young lawyer from the northern *Cibao* region by the name of Rafael Estrella Ureña in

February 1930 (Atkins and Wilson 1998; Cassá 1982a).[38] Having reached out to the head of the Dominican army, General Rafael Leonidas Trujillo Molina, and won his allegiance, Estrella Ureña's forces were permitted to "capture" an army weapons cache in the city of Santiago de los Caballeros and march south towards the capital of Santo Domingo (Atkins and Wilson 1998).

Trujillo's principal role in the coup was initially a passive one, not deploying the Dominican army to resist the exceedingly meager force under Estrella Ureña's command. (Turits 2003, 80–81). When U.S. foreign minister Charles Curtis received word from Trujillo of the uprising and the supposed defeat of government forces by Estrella Ureña's contingent in the north of the capital,[39] he immediately rushed to the outskirts of the city in his diplomatic car where he reported discovering not a single trace of confrontation; Trujillo had ordered his forces to stand down (Roorda 1998, 37).

Diplomatic cables between Curtis and the State Department conveyed the economic nature of the political crisis as well as the displeasure of the diplomatic service with the extra-constitutional maneuverings of the opposition: "The measure of popular support which the Revolution received was due to the economic depression, but at bottom the revolution was caused by the unprincipled ambitions of General Trujillo and Estrella Urena" (Roorda 1998, 17). Emphasizing the economic context of

[38] It is not a coincidence that Estrella Ureña's movement emerged out of the northern Cibao region. As demonstrated in previous chapters, this was precisely the region where trade integration and the consequent expansion of the middle class took place during the liberal reform period.
[39] Trujillo reported to Curtis "'that the government troops had been outflanked and partly surrounded by the much more numerous revolutionary forces,' who he said would soon take the capital" (Roorda 1998, 37).

the revolt, U.S. General Receiver W.E. Pulliam summarized the turn of events as follows:

> A revolutionary movement headed by Lic. Rafael Estrella Ureña, arising in Santiago on February 23, 1930, gained momentum, marched on to the capital, where it was successful in forcing the resignation of President Horacio Vasquez and causing a complete turnover of the government. Fortunately there was no bloodshed or property damage. Subsequent events proved that Santo Domingo was the first of several Latin American countries wherein a revolutionary change of government was effected during the year. *Without doubt the depressed economic condition, from which no section escaped, operated in behalf of those seeking the change* [emphasis added]. (Dominican Customs Receivership 1931, 9)

General Trujillo was of decidedly humble roots himself, having risen through the ranks from socioeconomic obscurity as a soldier in the Dominican constabulary forces during the U.S. military occupation. From a military career that began inauspiciously as a guard at a U.S.-owned sugar mill (Hall 2000, 17), he quickly built a reputation of competence and loyalty during his service in the armed forces. He was appointed by President Vasquez to head the National Guard following the withdrawal of American troops. Despite accumulating tremendous wealth and power through this position during the latter half of the 1920s, Trujillo, like many who came from his class background, remained excluded from elite social clubs like the *Club de Unión*.[40]

Upon the successful takeover of the government by Estrella Ureña's forces, a negotiated bargain calling for new elections between Estrella Ureña and the defeated incumbent, Vasquez, installed the leader of the revolt as interim president. This agreement barred both Vasquez and Trujillo from contesting elections scheduled for May of that year (Roorda 1998, 41). Less than a month later, on March 17, 1930,

[40] The salience of this insult is best revealed by the fact that, upon taking power, one of Trujillo's first mandates was the closure of a number of these clubs including *Club Unión* (Hoetink 2000, 216–17).

however, Trujillo unilaterally announced his candidacy for president and immediately set about putting the repressive power of his military forces into play to achieve those ends (Roorda 1998, 44). Trujillo quickly subsumed the opposition movement of Estrella Ureña, as well as other smaller political forces, using popular discontent with the economic downturn as a pretext for his military coup (Cassá 2004b).

Responding to pleas from all political actors, including Estrella Ureña, the U.S. legation under Curtis remained firmly opposed to the candidacy of the military strongman, recommending to Washington a decisive show of force to deter Trujillo from taking power. The State Department's appetite for further intervention was constrained, however, by President Hoover's emerging doctrine of non-intervention in the Western Hemisphere (Roorda 1998, 44). Undeterred by the idle threats of the U.S. minister, Trujillo's tactics of persuasion, coercion and outright violence led to a boycott by opposition candidate Velasquez and the resignation of the national electoral commission (Roorda 1998, 47). Subsequently, Trujillo easily won the May 1930 elections, receiving "more votes than there were registered voters," and immediately set about consolidating power by arresting and intimidating opposition figures (Roorda 1998, 48).

This newfound influence for the middle classes came largely at the expense of the power and privilege of the Dominican oligarchy. When it suited his purposes Trujillo made calculated accommodations for the families of leading merchant houses, whose economic interests had been undermined by the import crises of the 1930s and 40s, providing them with state patronage or lucrative tax incentives for import substitution activities (Moya Pons 1987, 74). On balance, however, it was the middle classes who benefited most from Trujillo's rule. As Hoetink (2000) argues,

> [I]t seems fair to say that *los de segunda* profited more from an increase in income and prestige, made possible by the growth of the economy and the bureaucracy and by what were perceived as the president's favors; many of them were his staunchest supporters for many years, and the intermediate social position of this supportive group was undoubtedly of strategic political significance. (216-7)

Despite the coercive means by which Trujillo stole the election of 1930, he nevertheless sought and maintained the support of the middle class coalition that brought him to power.

This ruling coalition included movement leader Estrella Ureña, who stayed on as Trujillo's vice-president, as well as the cadre of reformist thinkers like Espaillat and Tolentino (introduced in Chapter 4) who undergirded the revolt.

> Espaillat and other members of the new generation of reformist thinkers, the inheritors of an intellectual movement that had been gradually gaining momentum since the early 1880s when "progress" first alighted on the Dominican Republic, would become key figures in the early Trujillo state. Under the dictatorship, their visions for agrarian reforms and of an alternative modernity would be paired with a state apparatus that promised the means necessary to realize them. (Turits 2003, 79)

Throughout Trujillo's rule, the dictator would systematically and self-consciously favor and provide immense political and material advantage to individuals from backgrounds similar to his own: "'respectable' people from small towns or rural regions, people with some education, whose families might have a leading role to play in their local scene–in the professions, in business, in farming–but who were considered *de segunda* by the "old" bourgoisie [sic]" (Hoetink 2000, 216).

Economic adjustment in the Dominican Republic

The government that emerged in 1930 out of the political bargain between Trujillo and Estrella Ureña was comprised of middle class reformists like Rafael César Tolentino, individuals who shared an alternative, nationalist vision of modernization—one that provided a less-volatile, more distributive model for national development than that of the enclave sugar monoculture championed by U.S. investors and the Dominican oligarchy. The origins of the nationalist-populist ideology adopted by this governing coalition was in part an anti-imperialist backlash against the earlier US military occupation (1916-1924), ongoing infringement of Dominican economic sovereignty via the customs receivership, and the devastating consequences of dependency on the existing agro-export model for the material interests of the middle classes (Cassá 2004).

Tolentino, a journalist from Santiago and a leading proponent of the coup against Vasquez, became Secretary of Agriculture under Trujillo and was an architect of the economic adjustments of the 1930s (Turits 2003, 88). The deepening economic crisis provided these reformers with the opportunity to reshape the development trajectory of the country, away from the liberal *dependista* model and towards national self-sufficiency. These representatives of rising middle classes, "imbued with a profound sense of opportunism, saw a brilliant career beneath the wings of the new Cesar that had begun to protect them" (Turits 2003, 81). By one estimate, Trujillo incorporated 149 middle class intellectuals into the regime—one third as high-level policymakers and the majority as mid-level bureaucrats (Cespedes 1989, 27; Turits 2003, 81). The middle sectors, foremost of all the intellectual class, accepted the repressive nature of Trujillo's rise and rule as the cost of national modernization and the economic and political mobility it promised.

Foremost, this modernization project entailed state-led coordination of domestic production of those goods that the Dominican Republic could no longer afford to import. Initial efforts to develop import substitutes were not focused on manufactured goods like textiles and machinery, however. The strategy adopted by the regime to adjust to the terms of trade crisis of the 1930s was to free up foreign exchange for the continued importation of manufactured goods from the industrialized world by bringing the subsistence peasantry into the fold of commercial agriculture. Pursuing the strategy that Bulmer-Thomas (2003, 202) describes as import substitution agriculture (ISA), the DR moved away from agro-export monoculture and its associated dependency on international trade for national food security. The ministry of agriculture promoted the development of domestic substitutes for commodities like rice and beans, as well as processed goods like butter, cheese, soap, and beer, that had previously been imported but whose production challenges were relatively modest compared to the manufacture of more complex goods.

This process began with a set of rural reforms designed to upgrade the growing capacity of Dominican peasants through land titling, followed up with investments in infrastructure and public services. As Chapter 4 discussed, the system of property rights and land tenure that the DR inherited from the 19th century was as poorly institutionalized there as it was in Haiti. "By 1929 only an estimated sixth of the country's area had been surveyed, and less still had completed the process of title adjudication. The process of determining property rights had hardly begun outside the sugar zones" (Turits 2003, 78).

Reforms began during Trujillo's first years in office with national speaking tours in the hinterlands, many of which had no historical record of having ever seen a head of state. During these tours the dictator promoted sedentary commercial agriculture as a national duty. By 1933 this rhetoric began translating into practice and, eventually, policy. During this year Tolentino, as Trujillo's agricultural minister, began advocating squatters rights on untilled private land. The following year, Trujillo dispatched an emissary to the southwest, Major Rafael Carretero, tasked with investigating the land tenure situation in the southwest, began an ad-hoc campaign to distribute thousands of hectares of land to an equal number of residents in that part of the country. Wherever necessary he resolved disputes by invalidating the property claims of *latifundistas* who had not tilled the land in decades, if ever, redistributing those lands to local farmers (Turits 2003, 90–1). Allies in the ideological movement to expand smallholder agriculture in the Republic, Carretero and Tolentino successfully petitioned Trujillo in 1934 to begin a nationwide policy of land reform that built upon Carretero's campaign.

The measures entailed in this land distribution policy, what Turits (2003) argues was "one of the Trujillo state's most important" (91), entailed the creation of a centralized national system of *juntas protectoras de la agricultura* (agricultural support boards) capable of issuing binding legal contracts that would allow for the expanded cultivation of unused public, private, and communal lands by peasants—many of whom were accustomed to roaming subsistence agriculture. Turits' central thesis is that, caught between uncertain land tenure rights under the previous regime and the threat of expulsion or absorption by the expanding foreign agribusinesses to the east, Trujillo's bargain with the peasants to transition from subsistence to commercial agriculture in exchange for secure property rights and state support was a popular one. Between 1934 and 1936, 107,202 hectares of land had been distributed to nearly 54,494 households—an average of approximately 2 hectares (5 acres) per household (96). By 1955 these numbers doubled, the Trujillo regime having distributed 222,016 hectares to 104,707 households.[41] The rate of land distribution peaked between 1935 and 1940, during which time the total area of national cropland increased by 47 percent (96-7).

In order to ensure that these land reforms translated into increased agricultural productivity, the Trujillo regime made complimentary investments in infrastructure and social development across the country. The national transportation network installed by the U.S. occupation between 1916 and 1924 to connect the capital of Santo Domingo to other major cities and ports was expended under Trujillo to link up hundreds of smaller rural communities with the internal market (Moya Pons 1987, 12). Between 1930 and 1960 road infrastructure was expanded from 171km to over 5,000 km (Turits 2003, 215). Whole stretches of irrigated land were created and distributed via Trujillo's program of public aqueducts (215-216). Basic health and hygiene improved dramatically in rural areas as the government laid out requirements for the use of footwear and latrines, as well as expanding the number of hospitals in the DR from 8 in 1930 to 51 by 1958 (225). In terms of education and literacy, children's

[41] Note that these figures are in addition to the land rights granted to existing squatters by the regime.

school attendance rose from 13 percent in the early 1930s to 43 percent by 1954—aided by the expansion of public schools from 526 to 2,570 over the same period.

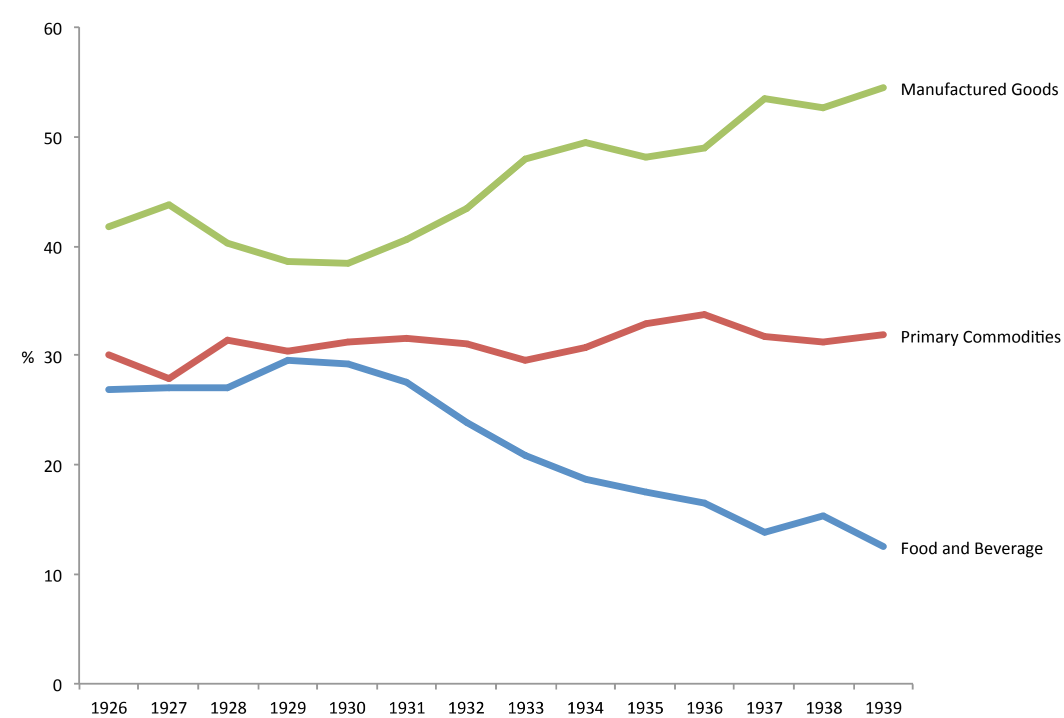
By liberating peasants from various forms of usurious land/labor relations with large landholders and improving their material wellbeing, the regime consolidated popular support in both rural and urban areas. Under the condition of import scarcity, land reforms were designed to restore the consumptive capacity of urban dwellers by compelling peasants to trade their subsistence farming practices under the condition of uncertain land use for commercial agriculture and the economic security of titled land. Besides improving the economic security of peasant farmers, the increased cultivation of crops improved the availability of various agricultural commodities in the urban areas, whose demand had gone increasingly unmet do to the disruption in the international trade regime during the 1930s.

Beyond the regime's efforts to expand commercial agriculture destined for domestic markets through land reform, the primary focus of import substitution was an expansion of food and beverage manufacturing during the 1930s—converting basic commodities like tobacco, cacao and grain into finished products like cigars/cigarettes, chocolate, liquor, beer, and flour. For example, in current dollars the importation of butter and cheese fell from \$62,676 and \$91,398 in 1930, to \$7,142 and \$7,099 in 1935, respectively (Monteagudo 1936). Additionally, the Dominican state actively promoted the production of commodities like pasta, rice, and beans—staples of the Dominican diet that had previously been imported. The gradual build-up of a state-directed processed food sector during the late 1930s and 1940s helped make the economy largely food self-sufficient by the 1950s (Moya Pons 1987, 23).

One consequence of the Dominican Republic's move towards food self-sufficiency during the economic crisis was that it freed up increasingly precious foreign exchange for the importation of other types of goods. Overall, the importation of manufactured goods as a proportion of total imports actually increased over the 1930s, meanwhile the importation of raw commodities stagnated and processed foodstuffs declined (Figure 5.7).

[FIGURE 5.7 ABOUT HERE]

Figure: Dominican Republic, 1926-1939
Composition of imports by commodity type (as % of total)



Source: Dominican Customs Receivership (various years).

As Turits (2003) concludes, it was through the transformation of the political economy from one favoring landed elites to one favoring the popular sectors that the regime established its legitimacy.

> Had Trujillo structured his political base upon a landed elite, property claims based on peso titles, troches, and private surveys would have prevailed over squatters' rights and land 'distributions.' In sum, Trujillo was a dictator whose policies impeded more than they favored the consolidation and expansion of a pre-existing landed elite. These material foundations lent credibility to Trujillo's paternalist and populist claims. Although the regime helped eliminate many of peasants' traditional practices, it also proclaimed an important role for them as small farmers in an incipient commercial economy and modernizing nation. When peasants were approached by the state on these terms, and when they faced alternative prospects of dispossession and nonviable agriculture without state support, they embraced their incorporation by the national state and specifically by the Trujillo regime. The vision of nationalist intellectuals who prior to Trujillo's seizure of power had come to idealize a small farmer mode of modernization began to be realized. (114)

The industrial stage of the Dominican Republic's import substitution strategy did not begin until the 1940s, particularly after the Second World War when capital machinery from the industrialized world once again became available for importation. But already by the end of the 1930s a stark contrast emerged between the predatory logic of the Dominican state at the turn of the century—when patrimonial rulers merely fed off of the economy—and the emergence of a developmentalist investor-state by the end of the global depression.

The first of these policies in support of industrialization was the adoption of the "Law of Industrial Franchises" (ley No. 672) of April, 1934, intended to further alleviate the foreign exchange crisis through a set of tax incentives that the Dominican state hoped encourage the formation of domestic industries capable of directly transforming raw commodities into finished goods (Moya Pons 1987, 24).[42] The effect of this law was minimal, however, as fears of expropriation by the dictator effectively reduced the incentives for business establishments to register themselves for the tax breaks. Furthermore, throughout the 1930s industrialization remained adversely affected by the tariff regime installed by the U.S. occupation in 1919—one that raised the costs of both raw inputs as well as capital stock for would-be industrialists.

By the early 1940s, several exogenous factors had shifted in ways that promoted Dominican industrialization and reinforced the broader set of adjustment policies related to import substitution that had been pursued during the international economic crisis. First, the onset of WWII in 1939 increased global demand for Dominican sugar and molasses and contributed to an increase in the national income and the consequent expansion of the internal market for manufactured goods (Moya Pons 1987). Second, at the same time that commodity prices were increasing, war mobilization and rationing in the industrialized world effectively prolonged the import crisis of the 1930s, decreasing the availability of manufacturing goods on world markets. As a consequence of this international trade shock, foreign exchange reserves began to accumulate quickly in agro-export economies.

In the DR this facilitated the accelerated repayment of its foreign debts, creating the necessary conditions for a third factor: the termination of the customs receivership and the restoration of financial sovereignty to the Dominican state. Acknowledging the improved prospects of Dominican bond repayment and desirous of improved relations so as to promote hemispheric defense during WWII, the United States concluded the Trujillo-Hull treaty with the Dominican government in 1940.

[42] Up until the conclusion of the Trujillo-Hull treaty in 1940, the Dominican Republic could not set its own tariff rates and thus could only attempt to protect domestic industry through manipulation of internal taxes (Cassá 1982a).

This treaty returned control over fiscal matters, the collection of customs revenues, and the setting of tax and tariff rates, back to the DR.

Immediately the Trujillo regime went to work drafting a new constitution that reflected the government's expanded power to tax and promote economic development. In particular, Article 90 of the 1942 constitution set forth the policies designed to directly incentivize import substitution industrialization (ISI) and foreign investment (Moya Pons 1987, 41). During WWII the Trujillo regime exerted tight control over the availability of scarce manufactured goods, creating a monopoly over imports and restricting manufacturing exports.

> This system of war controls for the supply of manufactures was widely abused and served as a means for Trujillo to accumulate substantial sums by selling many strategic imports, such as automobile tires, gasoline, replacement parts, clothes and shoes at monopoly prices or by collecting commissions for the granting of import licenses. The enormous savings which Trujillo made during those years made him more eager to invest in new industrial ventures to substitute imports. He had already been involved in the construction of a vegetable oil plant and a cement factory, as well as in a meat processing plant and in the acquisition of a beer factory, so that when the war broke out, he was already an incipient industrialist with several years of experience. The Depression years had shown to him the advantages of import-substitution industrialization, but the constraints imposed by the Dominican-American Convention of 1924 and the 1919 tariff had prevented him from moving forcefully in that direction. (Moya Pons 1987, 43)

With American financial constraints removed, and flush with foreign exchange reserves owing to the positive trade balance during WWII, the Trujillo government deepened its investments in the existing 'easy' food and beverage industries made during the 1930s, while at the same time expanding into more sophisticated product transformations. Thus, while cottage industries attempted to exploit the favorable economic climate for import substitutes by ramping up their low-capital manufacturing operations, the Dominican state was coordinating capital investments in a variety of industrial initiatives that would transform the scope and scale of import substitution beyond basic goods.

During WWII a class of Dominican entrepreneurs that had acquired sums of wealth as import merchants during the period of export liberalism began to reorganize around the nascent ISI sector. As import scarcities continued, this sector increasingly pressed the state for favorable government concessions such as the tax exemptions provided for by Article 90 (Moya Pons 1987, 46–47).

The first contract under this article was a textile mill to be operated by the Armenteros family, who had owned commercial houses in San Pedro de Macorís since the turn of the century and "controlled a large part of the country's import trade" up until the global depression (Moya Pons 1987, 47). Textiles represented a substantial portion of Dominican imports during this period, comprising nearly one-fifth of all imports by the onset of WWII in 1939 (Dominican Customs Receivership 1940). The cooperative venture between the Dominican state and the Textilera Dominicana, C. por A. was inked with the passage of Resolution No. 762, a contract whereby the Armenteros family would begin the construction of a textile mill comprised of a minimum of 100 automatic looms, as well as the promotion of cotton cultivation in the hinterlands (Moya Pons 1998, 46). In exchange for developing the backward and forward linkages of input production and product transformation required to inaugurate a domestic textiles sector, this contract made the following provisions for state action:

> The State is willing to facilitate the establishment and exploitation of new industries in the country, particularly those that the Textilera Dominicana, C. por A., proposes to install to produce articles of wide consumption in the Dominican Republic which are presently imported from abroad; this will not only contribute

> to reduce the export of foreign exchange but will offer bigger employment opportunities to Dominican workers and will promote the exploitation and development of national raw materials to be used by the aforementioned new industries...
>
> The State recognizes and admits that without the economic guarantees and facilities that the company has stipulated, the company cannot carry out its intention to initiate the manufacture of cotton fabrics in the country nor promote raw cotton production...
>
> The company will be exempted and exonerated, according to the provisions of Article 90 of the Constitution, from all duties, or obligatory fiscal or municipal impositions established by any governmental body, in effect presently or in the future, which tax machinery, equipments, replacement parts, etc., and which are deemed necessary to eliminate in order to assure the establishment and development of the company…
>
> The company will also be exonerated and exempted from all taxes on imported raw materials, products and other foreign articles which will have to be used in the fabrication of textiles and in the other operations of the company; it will also be exonerated from taxes on raw materials, manufactured products and other items that the company may export abroad... . (Moya Pons 1987, 45–6)

This earliest example of industrial promotion under Article 90 clearly identifies the state's economic interest in developing a textile sector, as well as the firm's need for state support in order to nurture such a sector and achieve commercial viability. Within five or so years, two additional contracts would be established under Article 90. Comparable to the terms granted to the Textilera Dominicana, the first of these provided for commercial activity directed towards intensified cotton, sisal, and other textile fibers (47-8). The second contract provided for expanded manufacturing by La Algodonera, C. por A.. Originally an import house that had developed a side business manufacturing shirts and socks during the Second World War, the Lebanese-Dominican owner of La Algodonera, José Antonio Najri, eventually followed Armenteros and transitioned completely from merchant to industrialist (49-50).

Even clearer examples of the role of the state in coordinating investment in the forward and backward linkages required by early-industrializers are to be found in those ventures where the state held a controlling interest. In 1948, Trujillo and an American businessman by the name of Luis I. Pokrass formed Destilería Universal, C. por A., a joint venture intended to decrease the Dominican Republic's reliance on gasoline imports by producing gasohol—blending imported gas with alcohol to be distilled from domestically produced molasses. It was hoped that this venture could reduce Dominican fuel imports by as much as 40 percent and alleviate some of the shortages that were frequent during the war (Moya Pons 1987, 51).

> To this end, the State committed itself "[t]o deliver each year to the company for a period of twenty years beginning as soon as the plant begins its operations, a sufficient quantity of molasses for the distillation of approximately two million five hundred thousand gallons of industrial anhydrous alcohol, and to pay for this distillation in monthly payments a sum representing a net profit of no less than ten cents per gallon which will be liquidated in monthly payments."
>
> The State also agreed to construct the water and sewage system, streets and other infrastructure needed for the operation of the factory and, of course, to exonerate it from the payment of import duties on machinery, replacement parts, equipment and construction materials destined to the building of the plant or to future expansions and repairs, all this "in accordance with the provisions contained in Article 90 of the Constitution of the Republic." (52)

Not only did the Dominican state agree to provide tax and tariff exemptions and guarantee a stable supply of raw inputs—in this case molasses; it also committed itself to investing in the public infrastructure required to operate the factory.[43]

Similar provisions for the production of other light industrial goods like cement, chocolate, and vegetable oil under Article 90 illustrate the degree to which the Trujillo regime transformed the Dominican state into a developmentalist institution capable of coordinating economic investment and promoting industrialization.

[43] Moya Pons (1987, 53) notes that, while the economic viability of gasohol ultimately collapsed with the increasing availability of fuel from the Dutch Antilles, the plant was eventually sold at only modest losses to a joint venture that would develop the trademark Dominican rum, Brugal.

Overall, investment in the industrial sector increased by nearly 200 percent between 1945 and 1955 (Franco 2008, 291).

The remarkable material progress achieved by the Trujillo regime during the 1930s and 40s came to an end during the late 1950s as the Dominican economy slid into decline and the regime responded to mounting political opposition with greater and greater acts of repression.

Ten years earlier, nothing about the performance of the regime would have predicted its demise. The popularity of the peasant land reforms in rural areas, coupled with the extensive investments in national infrastructure that connected these areas to national markets, had provided a lasting base of support among this popular sector. This was combined with rising quality of life in the urban areas during the 1940s due to the effect of state-coordinated investment in an accelerated program of import substitution industrialization and the attendant expansion of the internal market and middle class economic opportunity. By the end of World War II, Trujillo's popularity was such that the US ambassador to the Dominican Republic, George Butler, remarked in 1946 that Trujillo would easily triumph were the dictator to hold competitive elections (Turits 2003, 232).

It was not until 1961, when the state failed to deliver sound economic governance during a prolonged downturn, that members of his middle-class coalition turned against Trujillo and assassinated him. Financial mismanagement on the part of the dictator became pronounced during the 1950s. The patrimonial character of Trujillo's use of state resources is best exemplified by his obsessive efforts to acquire foreign-owned sugar companies using the public purse, only to order the state to sell these holdings back to his family at below market rate prices. Additionally, his government was guilty of exorbitant spending on an "International Fair for the Peace and Brotherhood of the Free World" in 1955, which left the state treasury drained going into the late 1950s. When the international terms of trade for Dominican exports took a sharp dip in 1959, political opposition to the regime both domestically and among Dominican exiles (supported by Venezuela and Cuba) became emboldened.

Trujillo responded by dramatically increasing the regime's expenditures on military hardware, compounding the Dominican fiscal problem even further (Turits 2003, 248–249). When the regime attempted to compensate for its fiscal mismanagement by imposing additional taxes on the Dominican middle classes, formal opposition to the dictator began to congeal inside the confines of the University of Santo Domingo. "U.S. ambassador Joseph Farland reported at the close of 1958 that there was now evidence of 'a very self-conscious professional group centering around the University and that they are reportedly trying to change the government via 'liason … with disgruntled or ambitious military elements''" (250).

This opposition, "composed primarily of university students, young professionals, and merchants" (Turits 2003, 233), ultimately succeeded in assassinating the dictator in 1961 with the cooperation of key elements within Trujillo's government, who were acting on the imploding popularity of the regime in urban areas. The subsequent coup d'état failed, and the conspirators were either captured or fled. However within eight months the Trujillo family and the regime's puppet president, Joaquín Balaguer, were all forced into exile in anticipation of the competitive elections that ensued (233). The Trujillo regime had been deposed by a middle class coalition not unlike the one that brought him to power in 1930.

Dominican outcomes

Despite the swift collapse of Trujillo's economic and political legitimacy in the late 1950s, he left a legacy of investment in infrastructure, physical and human capital that would provide a platform for Dominican growth and development over the second half of the 20^{th} century. As Moya Pons (1987) summarizes,

> One of the most impressive features of Dominican import substitution industrialization from 1938-1960 is the sustained secular growth of all its indicators. During that period the number of manufacturing establishments almost doubled; capital investment multiplied nine times; the number of workers and employees grew almost two and a half times; the amount of salaries paid by the industrial sector was ten times more in 1960 than what it was in 1938; the value of national raw materials used by the manufacturing sector also multiplied fourteen times; fuel and lubricants expenditures went up twenty two times; industrial sales also multiplied more than twelve times from $13.3 million to $164.4 million, an impressive growth in a twenty two year period. (123)

The transformation of the Dominican economy was not simply the result of private firms responding to new market signals—namely higher prices for foreign imports due to international economic crisis and war. Rather, the rapid transformation of the Dominican economy from agro-export dependency to one capable of producing domestic substitutes for imported goods was the result of a deliberate constellation of policies adopted by the Trujillo regime beginning in 1934, and the institutional changes that those policies beget. Neither the general state of political repression that permeated the regime, nor its patrimonial character and the personal enrichment that it afforded the Trujillo family and their associates, prevented it from pursuing developmentalist strategies of state-led import substitution when faced with a protracted economic crisis.

Political Crisis and Economic Adjustment in Haiti

Compared to the rest of Latin America, the Dominican experience was unique neither in the magnitude of crisis of the 1930s nor the political pressure for a policy response. Yet for Haiti, the political fallout from the international economic crisis of the 1930s was more muted. Unlike the Dominican Republic, where the ruling merchant oligarchy was replaced in 1930 by a decidedly middle class coalition composed of military officers, journalists, and intellectuals, in Haiti the oligarchy of merchants[44] and public officials remained firmly in control of the state throughout the 1930s and early 1940s. Exhibiting a proportionally smaller and politically weaker middle class, Haiti's social structure failed to provide the same impetus for political change and economic transformation that occurred in the Dominican Republic and throughout much of Latin America. By the time the Haitian middle classes did take state power in the late 1940s and 1950s under Dumarsais Estimé (1946-1950) and the Duvaliers (1957-1986), the critical juncture and its attendant incentives for institutional transformation through state-led development had passed. Moreover, the political power of the traditional oligarchy was never displaced as it had been in the DR. What emerged instead was a political stalemate between the black middle classes and the

[44] Whereas Germans had comprised the most important block of import/export merchants up until World War I, in the early years of the U.S. occupation many of these families either fled or were imprisoned; Haitian mulattos and Levantine immigrants emerged to take their place during the occupation (Trouillot 1990, 104)

mulatto elite, one that produced an uncomfortable modus vivendi rather than meaningful economic reform and institutional development.

Class and economic crisis in Haiti

In Haiti, as in the Dominican Republic, the peasants were spared the worst of the economic fallout from the 1929 crisis. Unlike plantation economies such as El Salvador, where peasants that had been forcefully converted from subsistence farmers into plantation wage laborers during the liberal reform period soon found themselves without either wages or means of subsistence following the collapse of commodity prices export markets during the early 1930s (Paige 1997, 107), the collapse of the plantation system following the Haitian revolution, as well as the disincentives for peasants to participate in markets due to the predatory nature of the state, led to lower intensity cash cropping and continued reliance on subsistence agriculture. As the Financial Adviser-General Receiver of the U.S. Customs Receivership in Haiti, S. De La Rue, discussed in his annual report to Washington towards the end of the third year of the crisis (1931, 43–44),

> In some respects the fiscal year 1930-31 was not so unsatisfactory as might be supposed from the admittedly discouraging record of declining foreign trade, of lower prices for export commodities, of poor crops, business stagnation, and greatly diminished revenues. On the whole, the country has adjusted itself surprisingly well to changed conditions.
>
> Haiti in a way is fortunate in having a population the great mass of which lives upon the land, and is able to supply its few wants for the most part directly from the products which it raises. The distressing problem of obtaining sufficient food and shelter does not present itself with the same force as in colder climates or in highly industrialized countries. Unemployment exists only in the few towns and cities of any size, and even then it affects comparatively few of the two and a half million inhabitants of the country. *The small land-owners and the peasants hardly feel the effects of the depression save that the small crops of coffee or of cotton which they have grown on their farms produce only a portion of the income which*

> *they received in former years. Consequently, they buy fewer cotton goods and smaller quantities of imported foodstuffs, and devote a greater portion of their land to rice and vegetables* [emphasis added]. …

Being unaccustomed to consuming great quantities of imported goods during normal economic times, the Haitian peasant's standard of living was not greatly compromised by reduced export revenues or import scarcity during hard ones.

And, as in the Dominican Republic, the Haitian oligarchy were also able to weather the economic storm and maintain some measure of their capacity to consume by economizing and drawing upon savings. It was the smaller establishments in the urban areas and their middle class proprietors that bore the brunt of the economic pain. The administrator of the Haitian customs receivership (1931) continues:

> …Household requirements for salt, sugar, tobacco, soap, and other simple needs are supplied by peddlers who move about from market to market, but it is only in the larger country markets and in the towns and cities that cotton cloth, machetes, kitchen utensils, and other articles of common use in Haiti ordinarily can be purchased. Most of these articles are imported from abroad, and they are sold by retail merchants who carry relatively small stocks. *The retail merchants, together with the exporters and importers, have felt the effects of the business depression in Haiti more severely than any other class;* and it is from these merchants, or more properly, from the foreign commerce which they handle, that the government derives by far the greater part of its revenues.
>
> Besides the imports, exporters, and retail merchants, a large proportion of whom are foreigners, and the peasants, small land-owners and more prosperous country people, there are only two classes of people in Haiti. First the relatively large number of government employees, officials and other persons deriving their incomes from the State; and secondly, the small group in the larger cities composed of lawyers, doctors and others who are professionally trained.
>
> Up to the end of the last fiscal year the full force of the world economic depression had been felt directly only by that class which carries on the foreign and retail trade of the Republic. *The weaker establishments were forced out of business, either through business failure or through the serious and demoralizing threat to commercial credit of discriminatory legislation. Other houses, including all of the more important business establishments, have managed to survive. The unemployment problem in the cities is due to the fact that these establishments, in order to economize, have had to reduce their personnel; and such reductions progressively have affected all of the urban population to a severe extent* [emphasis added]. (44-5)

As the crisis dragged on, the economic fallout spread from Haitian import-export merchants—who were directly affected by the collapsing international trade regime—to virtually all sectors of the cash economy. Increasing signs that incumbent president Luis Borno (1922-1930), who was popularly perceived as a puppet of the American occupation, intended to pursue an additional term of office contrary to constitutional provisions, evoked even greater opposition from nationalist figures as the economic situation deteriorated.

Political crisis in Haiti

Widespread Haitian protests of the U.S. occupation erupted in the fall 1929 as the economy began to falter. "Economic distress caused by falling coffee prices and increases in government taxes were coupled with discontent over the postponement of the 1930 legislative elections and the apparent continuance of Borno as client-president" (Schmidt 1971, 196). It began with violent street demonstrations in Port-au-Prince in October 1929, triggered by an announcement by a U.S.-administered school, the *Service Technique,* that scholarships to urban students were to be reduced. Eventually joined by urban intellectuals and opponents of the military occupation, these protests quickly spread to other urban areas, from Cap Haitien in the north to Jacmel and Petit Goâve in the south. By December these uprisings had spread outside the cities as their ranks grew in number. Consequently, the head of the U.S. occupation, High Commissioner John H. Russell, declared martial law and requested from Washington an additional 500 Marines as reinforcements.[45] Escalating tensions culminated in a violent confrontation between occupying Marines and an angry mob of 1,500 Haitians in the southern port city of Les Cayes on December 6. The mob was protesting recent arrests by the occupation in an attempt to put down these insurrections, as well as underlying grievances related to tax hikes on alcohol, tobacco, and other consumer goods. The local press reported that 24 Haitians had been killed and 51 more had been wounded by the U.S. Marines during the incident (Schmidt 1971, 199–200). Dubbed the "Les Cayes Massacre," the embarrassment it caused the U.S. on the international stage compelled President Herbert Hoover (1929-1933) to dispatch a fact-finding mission to Haiti led by William Cameron Forbes.

The Forbes Commission arrived in Haiti in February 1930. It provided a sobering assessment of the state-building accomplishments of the 15 year-old occupation and its rapidly deteriorating legitimacy among the Haitian people, expressing skepticism that the institutional reforms implemented by the military government would persist following the withdrawal of American forces. Among the recommendations of the commission were the immediate convening of free and fair elections, the transfer of virtually all government ministries back to the Haitian control, and accelerated preparation for the withdrawal of U.S. Marines (Shannon 1996, 94). Hoover endorsed Forbes' report immediately and set about implementing its recommendations. On October 14, 1930 Sténio Vincent (1930-1941), a mulatto nationalist outspoken in his opposition to US occupation and his demand for

[45] While the requested forces were dispatched by ship, taking station off the coast of Haiti, the State Department declined to authorize their landing out of concern that further repression of Haitian protestors would only further damage the standing of the United States in the court of international public opinion (Schmidt 1971, 201).

withdrawal, was elected president in what were regarded as the first elections free of U.S. interference since the beginning of the occupation (Trouillot 1990, 107).

By the end of 1931 the Hoover administration had completed the transfer of control over most government ministries besides those concerning the collection of customs revenue to the Vincent government (Trouillot 1990, 107–108).

> In conjunction with the election of Vincent, the United States appointed Dr. Dana G. Munro as civilian minister to Haiti, replacing High Commissioner Russell. The removal of Russell, following the earlier departure of Borno and Freeman, marked the end of American military dictation. Munro was instructed to assume the functions hitherto exercised by the high commissioner, but he was to avoid interfering with the freedom of action of the new Vincent government as much as possible in the view of the new United States policy towards Haiti. (Schmidt 1971, 220)

Increasing pressure by the Vincent government (and the nationalist coalition undergirding his administration) to recover full sovereignty from the United States led to a series of concessions by Munro as related to American authority over the administration of public works and the national guard. Efforts to promote American investments in the country were all but abandoned in favor of reducing all practical involvement in Haiti besides the collection of sovereign debt payments (Plummer 1988, 242).

The final agreement for the termination of the U.S. military occupation of Haiti was adopted on August 7, 1933. It provided for the withdrawal of remaining U.S. forces the following year to be followed by continued American control over customs and an advisory role on matters concerning fiscal solvency, such as the government budget, foreign indebtedness, and changes to tariffs and taxes (Schmidt 1971, 226).

While the U.S. government retained an advisory role over Haitian fiscal matters, the ongoing receivership had neither the incentives nor the coercive power to oppose the Vincent administration on key distributional questions integral to the political survival of his coalition. President Hoover's reluctance to deploy additional forces in the fall of 1929 in response to the riots only intensified under his successor, President Franklin Delano Roosevelt's "Good Neighbor" policy. In response to a 1933 request by the Vincent administration to end the last measure of U.S. financial control, namely collection of the remaining $11 million in sovereign debt, Roosevelt responded, "Except for this obligation upon which the bondholders are entitled to insist, my Government would be only too glad to discontinue at once its connection with financial administration in Haiti" (Schmidt 1971, 227).

The limited nature of U.S. involvement in Haitian affairs and the costs associated with such involvement indicates that, had the Haitian state desired to pursue a coordinated strategy of import substitution and industrial promotion similar to the strategy adopted by the Trujillo regime,[46] it certainly could have done so. What was lacking in Haiti, rather, was the political will of the ruling coalition to move away from the agro-export model in pursuit of a new means of providing for domestic consumption.

The range of economic adjustment policies that were possible in Haiti was constrained by the distributional preferences of the ruling coalition. Whereas the nationalist coalition that swept Trujillo to power was comprised of the middle classes, Vincent—a member of the mulatto elite from the south whose rise to power had been

[46] The Trujillo regime did not regain sovereignty over the collection of customs and the setting of tax and tariff rates in 1940 at the conclusion of the Trujillo-Hull treaty, however restrictions on the debt repayment schedule and control over Dominican currency were not lifted until the debt had been repaid in 1947. Similarly, the collection of Haitian debt was transferred in 1941 from the U.S. receivership to Haiti's Banque Nationale, "which remained under United States supervision until full redemption of the 1922 loan was completed in 1947" (Schmidt 1971, 229).

bankrolled by a prominent member of Haiti’s financial sector—secured the election through nationalist and populist rhetoric matched with the full support of the traditional oligarchy (Shannon 1996, 95). Following the transfer of government ministries to Haitian control in 1931, President Vincent set about assembling a durable political coalition comprised of elite Haitian business interests and a critical mass drawn from the “small black urban middle class, which began at this time to play an important role in political affairs” (Nicholls 1996, 10). Middle class incorporation under Vincent was motivated not by the competing distributional interests of this class but, rather, the baser logic of assembling a minimum winning coalition.

The representative of Haiti’s black middle class in the 1930 election, prominent public intellectual Jean Price-Mars, was easily defeated in part because his rhetoric regarding Haiti’s class structure alienated him from the economic elite and their crucial financial backing (Shannon 1996). A moderate, progressive nationalist, Price-Mars advocated total American withdrawal combined with a set of developmentalist reforms intended to increase Haiti’s national wealth and lead to “a viable Haitian state.” He sidestepped the questions of race that preoccupied members of the *negritude* movement, instead choosing to frame Haiti's societal problem—pervasive illiteracy and poor health—as a problem of class relations between the lower and upper classes rather than race relations between black and mulatto. “In essence, it stemmed from the fact that a small but powerful group, composed of both blacks and mulattos, dominated and directed the 'immense majority of job workers, non-specialized workers, unemployed workers of any color, and especially the great mass of rural workers, the innumerable multitude of peasants” (Shannon 1996, 98).

Having defeated Jean Price Mars through elite backing and populist rhetoric, President Vincent committed himself publicly to a new era of reformism akin to Roosevelt's New Deal and sought to deepen ties with the United States the Dominican Republic. Despite his rhetoric there were, however, few changes in Haiti's economic and political structures. Government policies continued to reflect the interests of the ruling class and its oligrarchic benefactors, providing little in the way of progress for the peasantry and the urban working classes (Smith 2009, 13–14).

Nevertheless, this period of economic crisis that marked the end of the U.S. military occupation coincided with the growing power of the predominantly black middle class. This class drew strength from an emerging ethno-political movement, *negritude,* which politicized race relations and the persistent failure of the traditional ruling class to represent Haiti's black majority. These years produced a new generation of political leaders. Dumarsais Estimé, one member of this emerging middle class, served as a cabinet minister in Vincent's government before eventually taking state power at the head of a middle class revolt in 1946. Another member of this class was Francois Duvalier, a medical student during the U.S. occupation who would rise to lead the *negritude* movement and bring the middle classes back to power in 1957.[47]

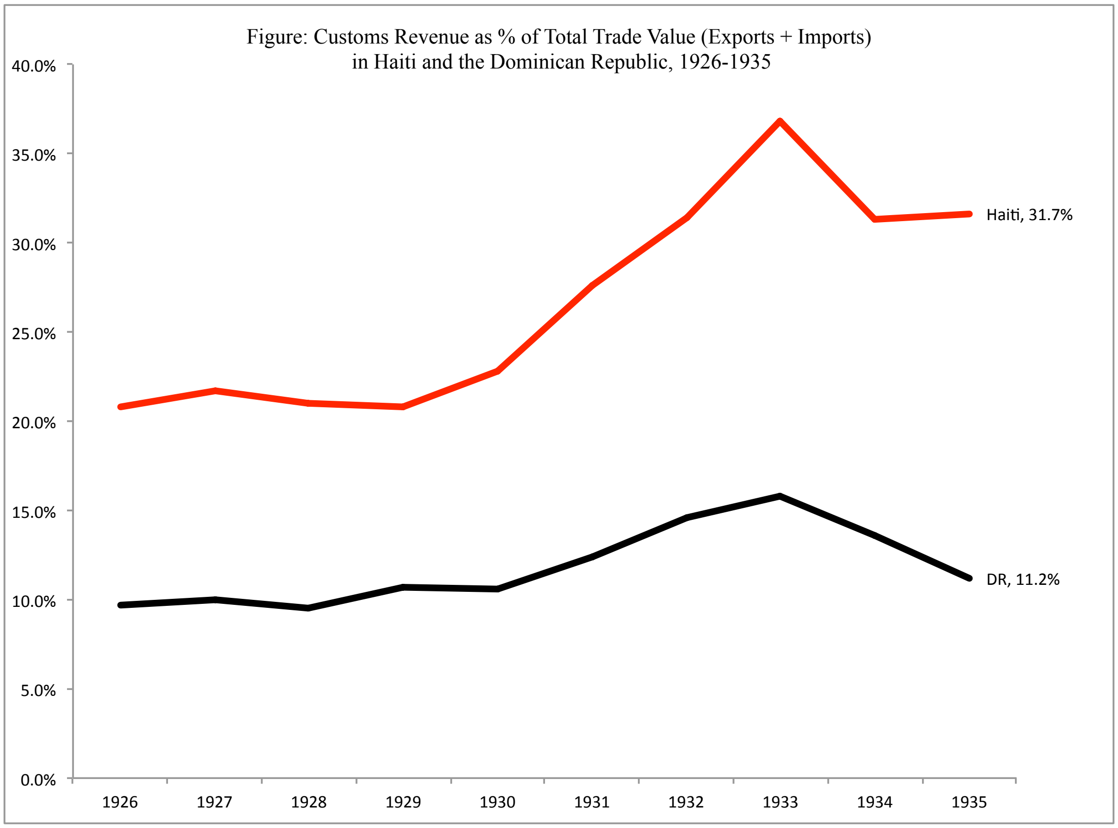
[47] Several Haiti scholars, most prominently Nicholls (1996, 163) and Castor (1988), have pointed to the emergence of a black middle class, as well as the buttressing of mulatto political hegemony, as the two most important legacies of the US military occupation of Haiti (1915-1934).

Economic adjustment in Haiti

For the wealthiest mulatto and foreign merchants who controlled the import-export houses, reductions in income due to the declining trade in coffee exports during the 1930s could be offset, even during a prolonged economic crisis, by dipping into their saved assets. For the political class and the public sector, however, declining customs revenues were compensated for through increased rates of taxation on the remaining trade volume. To provide for the repayment of Haiti's $20 million of sovereign debt while continuing to sustain the large public sector and the political class of Mulatto elites that depended on it, export duties increased from 19 to 28 percent of total value during the course of the U.S. occupation; import tariffs—primarily on basic goods consumed by the masses—doubled from 23 to 46 percent over the same period (Trouillot 1990, 103).

Prior to the global depression, overall taxes on imports and exports comprised over 20 percent of Haiti's total trade value. This figure represented more than twice the rate of extraction on Dominican trade. Thus, while collapsing coffee prices in 1929, preceded by a poor harvest the year prior, caused the value of Haitian trade to plummet, basic indicators of government finance (including customs revenue, expenditures, and sovereign debt payments) remained comparatively flat. The Haitian state responded to declining trade revenue by increasing the proportion of trade value that it extracted through customs taxes (Figure 5.8 about here).

[FIGURE 5.8 ABOUT HERE]

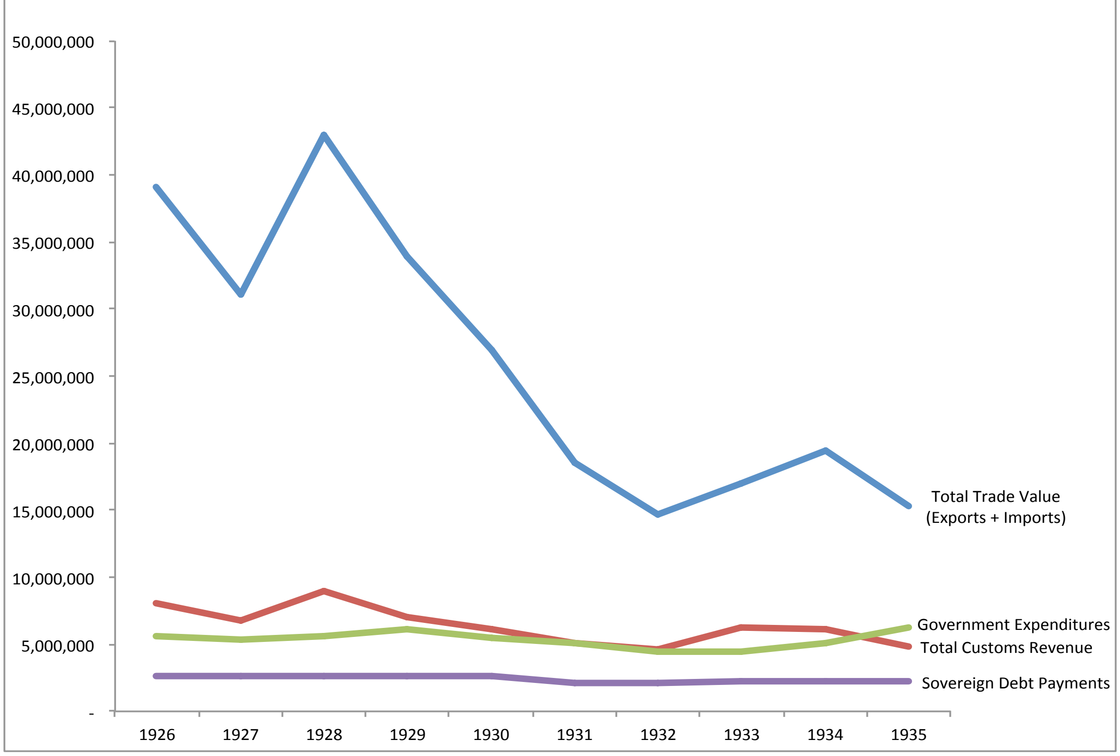


Source: Haitian and Dominican Customs Receiverships (various years).

While the net value of Haitian trade fell by more than 61 percent between 1926 and 1935 (an average annual decrease of 6.8 percent), the customs revenues accruing to the state fell by only 40 percent (an average annual decrease of 4.5 percent). (Figure 5.9).

[FIGURE 5.9 ABOUT HERE]

Figure: Haitian Government Finances, 1926-1935



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

With customs revenues still in decline, the restoration of government spending between 1933 and 1935 was largely financed by marginal increases in internal revenues, principally taxes on consumer goods like alcohol and tobacco consumed by the masses.

However, the ability of the government to finance itself by taxing its citizens indirectly at the ports through export duties rather than through direct taxation, an institution of Haitian political economy virtually since independence, remained the principal means of government finance throughout the 1930s despite the terms of trade crisis. As the U.S. Financial Advisor to Haiti, S. De La Rue, remarked,

> It had long been questioned whether Haiti's tax structure was basically as sound and well balanced as could be desired. It was generally agreed and constantly reported that there was too great a dependence upon customs and particularly upon the export duties on coffee, with consequent fluctuations from year to year

> in government revenues depending upon the of the coffee crop. … Efforts were made from time to in the direction of such a change. The formation of the Internal Revenue Service, for example, had as its avowed objective the reduction of duties on coffee. Internal taxes, however, and particularly excise were not popular and the Internal Revenue Service has not succeeded in carrying internal revenues to a level sufficiently high to permit the abolition or substantial reduction in coffee duties, and at the same time maintain the budget at the necessary level. Collection of revenue by means of the export duty on coffee while world prices were good was the easier way, and governments cannot readily relinquish easy sources of revenue when the alternative is the enforcement of unpopular taxes. (Haitian Customs Receivership 1938, 55)

Following the final withdrawal of U.S. forces in 1934, export duties on coffee continued to increase until the termination of Brazil's coffee valorization policy in 1937 triggered the collapse of international coffee prices. This forced the Haitian government and the U.S. receivership to accept a 50 percent reduction in the rate of coffee export duties. Rather than follow a path of austerity, the Vincent regime increased taxes on imports in order to compensate for the declining value of its exports. The apathy of the Haitian state to the consequences of extortionate coffee taxes for the peasant producers is reflected in the further observations of U.S. fiscal representative to Haiti:

> Most countries have not looked upon export taxes as the best means of raising revenues. It is reasoned that the burden of ·export taxes tends to diminish the production of export commodities. …
>
> Still, it was argued in Haiti until recently, that these considerations did not apply here, that there was no evidence that export taxes on coffee were retarding coffee production. The Haitian peasant was supposed to pick whatever coffee the untended and uncultivated trees produced and bring it to market for whatever price was offered him. If it were low he was to make no very conscious effort to abandon coffee and invest in other crops. He had no costs to consider. If the price happened to be high it was assumed he would not, for that reason, make any great effort to increase his coffee production by additional planting, and indeed the long continued dead level of Haitian coffee exports did support these easy views.
>
> In more recent years it has become evident that these ideas are not accurate, at least in so far as decreasing production is concerned. Large numbers of peasants now are known, while low prices have been prevalent, to have destroyed their coffee trees and planted bananas, beans, or other crops. Furthermore during recent

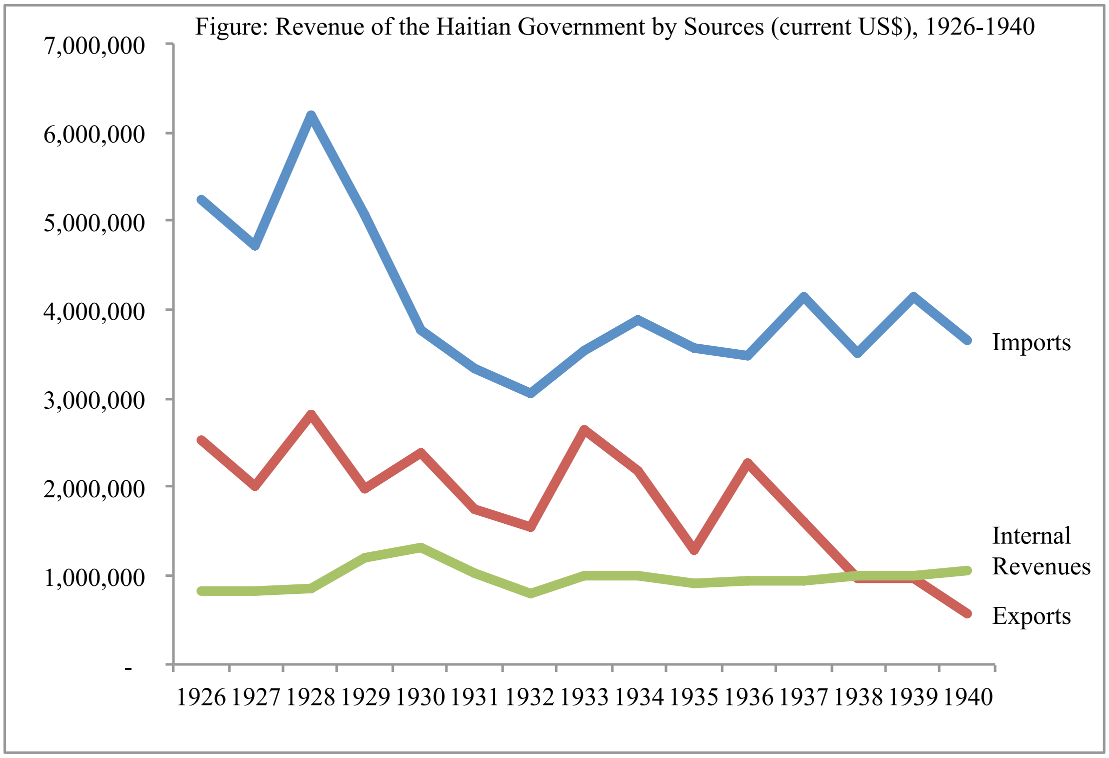
> years it has become evident that the peasant will not harvest the coffee crop as readily when he considers his return too low for the hard physical labor involved. Estimates of production in 1937-38 placed the probable crop at 30,000,000 kilos. Export statistics show 25,000,000 kilos were marketed. What proportion of the difference is attributable to neglect of the harvest on account of the low price offered can not be known. It certainly was a factor. (Haitian Customs Receivership 1938, 57)

It was only with the near complete collapse of coffee prices in 1937,[48] when efforts of the Haitian government to tax these exports further still led to a decline in domestic output, that the tariff structure was reconsidered.

Yet even after the end of Brazilian valorization eroded the remaining terms of trade for Haiti's principal export, the only recourse of the Haitian government was to increase the proportion of total government revenue derived from imports and internal revenue. (Figure 5.10).

[FIGURE 5.10 ABOUT HERE]

[48] Between 1937 and 1941 the price of Haitian coffee fell by 39 percent (Benoit 1953, 29).

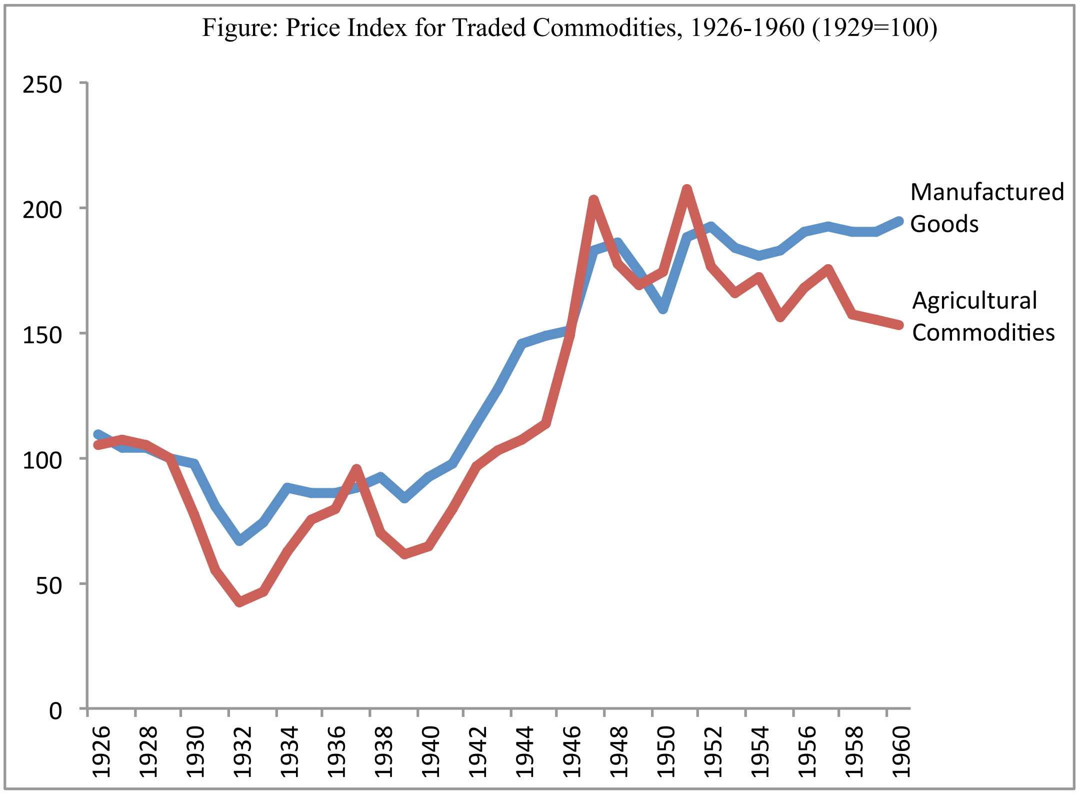


Source: Haitian Customs Receivership (Haitian Customs Receivership 1940, 99)

While all external, trade-based revenue declined between 1926 and 1940, the proportion of government receipts made up of import tariffs grew from 58 percent to 68 percent over this period. Conversely, the share of receipts comprised of exports declined from 28 percent to 11 percent.

Yet before the structure of the Haitian economy and its government finance was altered completely, the descent of Haitian coffee prices on international markets was arrested. Between 1941 and 1952 the price of Haitian coffee recovered dramatically, rising by 422 percent (Benoit 1953, 29). As Figure 5.3 further above illustrated, prices for both Haitian coffee and Dominican sugar rebounded during the 1940s and early 1950s as war and reconstruction in Europe were followed by the onset of the Korean War (1950-1953). As Figure 5.11 below shows, overall terms of trade for agricultural commodities and manufactured goods converged during the second half of the 1940s once consumption levels in European markets began to recover.

[FIGURE 5.11 ABOUT HERE]



Source: Ocampo and Parra (2003), taken from MOxLAD (Astorga, Bergés, and Fitzgerald 2003)
Note: U.S. dollar index of prices of internationally traded manufactured goods and primary agricultural commodities. Prices re-indexed to 1929 base by author.

For countries like the Dominican Republic who adjusted to the trade shock of the 1930s through policies of investment in import substitution, World War II and the Korean War reinforced these policies as well. By simultaneously sheltering domestic manufacturers from international competition and allowing for the accumulation of foreign exchange reserves, the DR was able to repay its foreign debts and import additional capital stock in order to accelerate the process of import substitution industrialization (Moya Pons 1987).

Just as ongoing import scarcity during the 1940s reinforced the Dominican state's strategy of import substitution, the decision of Haitian rulers to continue with the existing agro-export model through the 1930s was equally reinforced by the second wave of trade shocks of the 1940s. Having responded to the global depression with intensified predation on the already diminished surplus value of peasant export cash crop production (Trouillot 1990, 102–103), the international wartime economy generated windfalls from the agro-export model as higher trade volumes provided the country with greater revenues to be divided among the political elites and the merchant oligarchy (Smith 2009, 118). Rather than providing an impetus for investment in industrialization, using foreign exchange to import capital stock as occurred in the DR, the high prices agricultural commodities commanded in world markets enabled Haitian elites to replenish their depleted savings and continue importing manufactured goods throughout the 1940s.

The evidence I have presented here suggests that the limited effect these international trade shocks had on Haiti's agro-export economy does not imply that the interests of the middle class were less adversely affected during this period. Indeed, the timing of the street protests by the emerging class of black professionals in Port-au-Prince in 1929 is consistent with the theory of this dissertation that the material interests of the middle classes were disproportionally affected by the collapse of the international system of trade and payments during the 1930s. The token gestures of middle class political inclusion by President Vincent did not translate into a new ideology of nationalist developmentalism, as happened in the DR, but merely the inclusion of a narrow segment of the black middle classes into the ruling coalition mulatto elites.

This coalition of blacks from the middle sector did not remain politically inconsequential, however. When the administration of Vincent's heir, mulatto President Elie Lescot (1942-1946), began systematically cutting the middle class out of the state patronage that Vincent had extended, his government fell and was replaced by the first elected representative of that class—Dumarsais Estimé.

President Estimé was swept into power as the result of a military coup that ousted Lescot in 1945 and instituted new elections. Estimé left office the same way he came in, via military coup; his political survival having fallen victim to a weak, fragmented middle class coalition of leftist-Marxists and representatives of the *negritude* movement that carried him into power, as well as the united opposition of the traditional elites who opposed his populist political and economic agenda.

Among other attempts at economic reform—including aborted attempts at import substitution—Estimé tried to lower the coffee tax so as to stimulate production by giving Haitian peasants a greater proportion of the value. The ruling elite in the legislature whose livelihood depended upon state patronage provided for by coffee tax opposed this, forcing him to reverse the policy. Perhaps most crucially, he attempted to raise taxes on black market imported goods, a market that the oligarchy historically profited from, in an effort to consolidate legitimacy with his fragmented middle class coalition:

> On occasion he was compelled to overstep the carefully demarcated boundaries between economic and political control to demonstrate his commitment to social reform. His treatment of the pervasive problem of the black market provides a useful example. The increase in demand for imported goods after the war proved

> to be a mixed blessing for elite businessmen. They gained substantial returns from the brief postwar boom, and the black market in cooking oil, basic food items, soap, and fabrics, which the more powerful participated in, thrived. Responding to pressures by his cabinet, Estimé introduced severe restrictions on the market. Much to the chagrin of the elite, he also introduced the first income tax in 1948. As a show of force, Jamaican-born tycoon O. J. Brandt, who not only benefited from the brief rise in coffee exports, but also saw his fortunes grow in the black market, was imprisoned for three days, though he was made an honorary citizen of Port-au-Prince shortly after his release. Yet such obvious efforts at appeasement did little to alleviate the noiriste attitude of the new politicians or create an environment of reconciliation between the social axes. (Smith 2009, 118)

The inability to get his measures past the opposition in the Senate, the unpopularity of his attempts to get around the legislature via constitutional reform, and several well-publicized examples of institutionalized racism on the part of the black government against the mulatto class, culminated in political deadlock and a premature end to his term. Ultimately, Estimé was overthrown by a military coup organized by an unlikely alliance between a radical leftist faction within Estimé's middle class coalition unhappy with the pace of reforms (the Popular Socialist Party) and a unified mullato oligarchy who provided the financing for the coup (Nicholls 1996; Smith 2009).

Replacing Estimé following the successful coup was a black military figure installed by the oligarchy named Paul Magloire (1950-1956). As Nicholls concisely puts it, "the regime of Magloire represents the last successful attempt by the old elite to reassert its political pre-eminence behind the mask of the black colonel" (1996, 191). As had occurred periodically throughout the country's national history, the mulatto class found it convenient to attempt to govern Haiti through a black "understudy" (*la politique de doublure).*

This time the return of mulatto control was not sustainable however, owing to the growing size and power of the black middle classes. Following several years of dismal economic performance by the Magloire administration, a protracted contest for rule unfolded over 1956-57 that culminated in the election of Francoise Duvalier.

A leader of the *noiriste* movement, Duvalier sought to legitimate their rule vis-à-vis the black masses by equating class with race, campaigning on the platform that racial homogeneity provided a *bona fide* guarantee of his commitment to improving the wellbeing of the black peasant. Unfortunately for the peasants, the regime that was born with the election of Papa Doc Duvalier in 1957 and fell with the exile of "baby Doc" Jean Claude Duvalier in 1986 ensured that state resources only served the interests of a narrow political class.

> The conviction of the griots that black middle-class politicians would be natural allies of the masses stemmed from their conviction that their common racial makeup generated shared values and interests. Far from being the emancipatory medium of these masses, this racialist ideology became instead a moral mask hiding the reality that the rule of the emerging small black middle classes turned into nothing but rule *for* the small black middle classes. When these classes eventually captured political power, they used it to acquire wealth and privilege, which eventually allowed them to forge an uneasy alliance with their erstwhile enemies in the dominant and mulatto classes. (Fatton 2007, 178)

The regime endured through a tense bargain, or *modus vivendi* between the middle class and the mulatto and foreign business elite (Trouillot 1990, 28).

Examining the sweep of rulers that governed Haiti from the onset of the economic crisis in 1929 we observe the pervasive weakness of the middle classes vis-à-vis the oligarchy both out of and once in power. Under the Vincent regime the interests of the traditional oligarchy were represented, joined by only a token number of individuals hailing from the black middle class. Under Lescot, elite interests were pursued and favors bandied about with total disregard for the exclusion of the middle classes; this economic policy of exclusion helped lead to his overthrow and the installation of *noiriste* president Estimé. By pursuing middle class interests aggressively while all the while never successfully confronting the power of the oligarchy, Estimé was ineffectual in dealing with the Haitian legislature. His lack of political power culminated in his removal by a coalition of radical leftists and mulatto elites.

Having observed the failure of Estimé to consolidate his political coalition and establish dominance vis-à-vis the traditional elites, Duvalier maintained a balance of political power between himself and leading economic actors virtually immediately. By distributing state patronage to a narrow subset of middle class professionals, by refraining from threatening the interests of economic elites, and by using state repression to brutally prevent the emergence of challengers, Duvalier set up a regime that proved enduring but lacking in incentives to invest in the infrastructure required to achieve greater levels of economic growth and industrialization.

Thus, the same political forces that reproduced the Haitian government's dependence on customs taxes from 1804 independence until the 1930s continue to operate in the present day. As Lundahl (1992) observes, no fiscal contract ever emerged between the Haitian state and the peasant-producers who pay for that state. "The peasants have been severely taxed without receiving any corresponding benefits from government actions. The Haitian tax system continues to rely very heavily on export and import taxes. On the export side, coffee has most often borne the brunt of taxation. Concerning imports, necessities consumed by the masses rather than luxury goods have been taxed" (39).

And while the US occupation and control of Haitian customs engendered the same nationalist backlash there as the wave that brought Trujillo to power in the DR, the economic policies that resulted from the government of Vincent lacked the populist, *anti-dependista* character of the Trujillo-Estrella Ureña government. Ultimately, the small size of the urban middle classes and the amount of wealth and political power held by the mulatto oligarchy at the critical juncture, coupled with greater reliance on subsistence living in Haiti's rural areas, alleviated domestic pressure on the regime to adjust to the international economic crisis via import substitution. In the DR, by comparison, popular backlash against the failing economic policies of the incumbent *Horacista* elites between 1928 and 1929 allowed general Trujillo to seize power and directly shaped the policies he adopted in response to the crisis.

Haitian outcomes

Whereas the political fallout of the 1930s global depression altered the patrimonial dynamics of the Dominican state, the Haitian political economy remained unaltered in this regard despite almost 20 years of foreign attempts at statebuilding. Not surprisingly, then, the investments in infrastructure made over the course of the American occupation deteriorated over the subsequent years and decades. In 1969, Colonel Robert D. Heinl, Jr., the Marine officer who served as head of the U.S.

military mission to Haiti between 1958 and 1963, estimated the legacy of the occupation's public works projects to be negligible:

> "Telephones are gone. Roads are approaching non-existence. The satellite ports are obstructed by silt and wrecks, their docks crumbling away. Urban improvements are in decay and collapse; sanitation and electrification are, to say the least, in precarious decline. Curiously, the only effective survivor of the occupation's infrastructural benefits is the modest network of grass air-strips which, unchanged since 1934, now provide Haiti with its sole pervasive system of transport—other than the *bourrique* [donkey]." (Schmidt 1971, 233)

In stark contrast to the behavior of stagnation and decay in Haiti described by Colonel Heinl Jr. over the decades following the end of the U.S. occupation, by 1960 the Dominican Republic evidences a significant level of investment in the infrastructure, physical, and human capital required to sustain its import substitution policy (Table 5.2).

[TABLE 5.2 BELOW]

Table: Investment in infrastructure, physical and human capital in Haiti and the Dominican Republic, 1960

	Haiti	Dominican Republic
Infrastructure and Physical Capital		
Electrification (GwH per capita)	16.6	114.8
Agriculture, Forestry and Fishing (% of GDP)[1]	50	29
Manufacturing (% of GDP)	8.9	14.6
Factory Employment (% of total population)[2]	0.5	1.5
Gross Fixed Capital Formation (% of GDP), 1963	7.3	13.8
Human Capital		
Urbanization (%)	15.6	30.2
Life Expectancy, 1960 (years)[3]	36.1	51.8
Hospital beds, 1960 (per 1,000 persons)[3]	0.6	2.3
Primary School Enrollment (per 1,000 persons)	66	166.8
Literacy (% of total adult population)[4]	10	43

Latin American Economic History Database (OxLAD)." The Latin American Centre, Oxford University. Accessed online, April 2009.

[1]Mitchell 2007

[2]ECLA 1966, "Process of Industrialization in Latin America", p17

[3]World Bank, World Development Indicators

[4]Vanhanen 1997 (data are for 1958)

In the ten years that separate these figures from the ones in Table 1.1 (Chapter 1) the differences between Haiti and the Dominican Republic only magnified. The investments in electrification, manufacturing, health and education required to move the Dominican economy away from the agro-export model provided a foundation for sustained economic growth over the second half of the 20th century. For Haiti, meanwhile, underinvestment and continued dependency on the coffee export sector produced levels of physical and human capital that were unable to sustain more diversified economic activity.

Conclusion

The puzzle that this dissertation began with was why the people inhabiting one side of Hispaniola invested in the infrastructure, physical and human capital required to attain some measure of industrialization while the people inhabiting the other side did not. This chapter provided an answer to that question by examining the politics of economic adjustment to import scarcity within these two agrarian societies.

The international division of labor that emerged from the liberal reform period, and the dynamic of trade dependency that resulted, proved a recipe for disaster during the 1930s as the terms of trade for agricultural commodities plummeted and manufactured goods imports became scarce. Rapid declines in the terms of trade for agricultural exports had an immediate and devastating effect on the material interests of the urban middle classes. This crisis undermined not only the coherence of the agro-export model, but also the political and economic institutions underneath it. Yet while the Dominican economy underwent a state-led transformation over the 1930s and 1940s from agro-export dependency to a mixed agro-industrial society—one capable of producing domestic substitutes for a variety of manufactured goods that they could no longer afford to import—the Haitian economy remained tied to the agro-export model inherited from the 19th century.

Why did the global depression have a profound impact on the institutions regulating the relationship between state and markets on one side of the island but not the other? It was out of the political necessity to service the material interests of a middle-class ruling coalition, as opposed to those of the traditional oligarchy, that the Dominican state developed the capacity and the institutional purpose of developmentalism. This impetus for dramatic institutional changes in the relationship between state and markets manifested itself as a middle class political revolt emanating from the north, one that provided a popular basis for the military coup that installed the dictator Trujillo. The popular basis for Trujillo's rise to power did not deteriorate into classic patrimonialism once the dictator was installed. Rather, the middle class coalition underpinning the new regime set about promoting a series of developmentalist economic reforms in order to adjust to the ongoing crisis. Beginning with rural land reforms in 1934 intended to restore food security to the urban areas and make the Dominican Republic food self-sufficient, the Dominican state quickly transformed into an entrepreneurial investor that actively intervened in markets to coordinate the development of the forward and backward linkages required to develop domestic substitutes for those goods that the country could no longer afford to import.

During the 1940s, the global war economy reinforced the adjustment policies pursued by the Dominican state. Its role as provider of capital and market coordination deepened as booming prices for primary commodities and continuing import scarcities due to war rationing in the industrialized world left the government flush with capital and domestic producers of manufactured goods sheltered from international competition. Although Trujillo's regime came to a swift and violent end in 1961 when the economic performance of his regime began to falter, the legacy left behind by this institutional transformation was a foundation of state capacity, infrastructure, physical and human capital. Inherited by the political coalition of domestic capitalists and industrialists that Trujillo left behind, this foundation allowed the Dominican Republic to become the fastest growing economy in Latin America over the second half of the 20th century (World Bank 2009).

If the legacy of the trade shocks of the 1930s-50s was one of transformative institutional change and development for the Dominican Republic, for Haiti the period is marked by a continuation of the institutions and modes of accumulation that have defined its national political economy virtually since its 1804 independence. The smaller and politically weaker middle class was unable to wrest political power from the mulatto oligarchy during the critical juncture of the 1930s, and as a result the Vincent regime was able to weather the economic storm by increasing the rate of extraction of peasant surplus and coopting a minimum winning coalition of middle-class leaders through state patronage and clientelism.

The Haitian and Dominican cases demonstrate how the class structures that emerged from the liberal reform period in the late nineteenth century shaped which distributional coalitions would dominate their respective political arenas during the hard times of the 1930s, which in turn shaped economic adjustment policies in ways that had consequences for institutional development in these societies.

The central theoretical contribution of this finding is that the economic institutions that determine the rate of investment and growth of national production are not themselves historically pre-determined. Rather, institutions are produced and reproduced over time based on the distributional preferences of the ruling class and the coalitional politics that determine which sectors of society comprise that class. The case of economic transformation in the Dominican Republic during the 1930s and 40s reveals how the economic institutions governing that shape investment behavior can change quickly when domestic crises alter the distribution of material wellbeing across society in ways that create new axes of distributional preference around which coalitions of political actors may organize. The failure to achieve economic transformation in the Haitian case demonstrates why, if historically inherited economic institutions persist, it is because the underlying distribution of power and preference within the society also persists.

STATISTICAL APPENDIX TO CHAPTER 5

How generalizable is the development story that emerges from the Hispaniola puzzle? To better understand the scope conditions and mechanisms driving variation in industrialization and economic growth across the region during the 20th century, I explore the relationships between trade, class structure, and industrialization for the population of 20 Latin American countries from the dawn of the liberal reform period c. 1870 to the ISI period well underway by 1960. While important and potentially confounding scope conditions vary, Latin America is unique in that the most crucial scope condition is fulfilled: as countries within the global south, each of these states had achieved independence prior to the onset of the liberal reform period and thus were more-or-less free to adjust to emerging opportunities and constraints posed by global markets.

Given the preliminary nature of this statistical exercise, nevertheless, potential for endogeneity and omitted variable bias is ubiquitous. I rely primarily on the causal process tracing developed in the DR-Haiti case studies to increase the reader's confidence regarding the plausibility of the causal inferences I make here. The empirical test of the theory derived from this paired comparison is laid out in 3 hypotheses:

H1) International trade integration during the liberal reform period had a positive effect on the size of the middle classes in 1928 by creating greater demand for non-agricultural occupations and literacy.

H2) International trade exerted a direct and positive effect on industrialization independent of its effect on class structure through the gains from trade.

H3) The size of the middle classes in 1928 has a positive effect on the level of industrialization by 1960 by creating greater demand for state-led investment in import substitution during a protracted period of import scarcity.

3a. The absolute size of the middle classes in 1928 has a positive effect on the level of industrialization by 1960 due to the size of the internal market and its consequences for economies of scale.

3b. The relative size of the middle classes in 1928 has a positive effect on the level of industrialization by 1960 due to the political incentives they provided for import substitution industrialization during the period of import scarcity of the 1930s and 1940s.

Hypotheses 2 and 3a represent alternative explanations for the relationship between trade, class structure, and industrialization. I test these hypotheses using data for 20 Latin American countries between 1868 and 1960 (Table A.1).

[TABLE A.1 ABOUT HERE]

Table: Variables, Measures and Sources

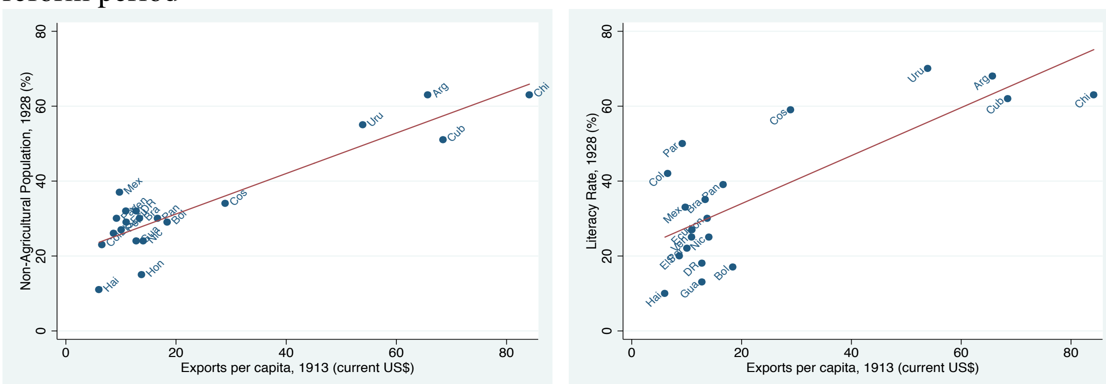
Concept	Measure	Description	Source(s)
Independent/Intervening/Control Variables			
International economic integration at the end of the liberal reform period (1870s-1920s)			
	Exports per capita, 1913 (current US$)	Cross-national measure of the relative value of exports in Latin America just prior to the outbreak of WWI	MOxLAD (2011)
Relative size of the middle class income distribution prior to 1929 economic crisis			
	% Non-agricultural Population, various years	Percentage of the population that does not derive income directly from agricultural production	Vanhanen (1997)
	% Literacy, various years	Percentage of the adult population that is literate	Vanhanen (1997)
Absolute size of internal market prior for manufactured goods prior to economic crisis			
	Size of non-agricultural population, 1928 (thousands of persons)	Calculated by multiplying the percentage of literate persons by the total population	MOxLAD (2011), Vanhanen (1997)
Prior Industrialization			
	Factory Employment, 1925	Percentage of total population employed by factories	Economic Commission for Latin Amreica (1966)
Dependent Variables			
Industrialization			
	Change in factory employment (%), 1925-1960	Difference between 1960 factory employment and 1925 factory employment.	Economic Commission for Latin Amreica (1966)
	Manufactured Goods VA as a % of GDP, 1960	The share of GDP contributed by manufacturing value-added (VA)	MOxLAD (2011)
Long-run economic growth			
	Average per capita GDP growth rate, various years	Average annual GDP growth rates per capita of cach Latin American state	World Bank WDI

Hypothesis 1: Trade and Class Structure

Does international trade integration lead to the expansion of the middle classes in agrarian societies? The first hypothesis to test is whether or not the pattern of societal transformation that took place in the Dominican Republic over the course of the liberal reform period holds true for other Latin American countries. Using two different estimates for the size of the middle classes by 1928, the percentage of the population employed in non-agricultural occupations and the percentage of the population who were literate in that same year,[49] I find that the level of trade integration achieved by 1913 (prior to the outbreak of the First World War) correlates highly with these proxies for class structure in 1928 (Figure A.1).

[FIGURE A.1 ABOUT HERE]

Figure A.1: Trade integration and class structure during Latin America's liberal reform period



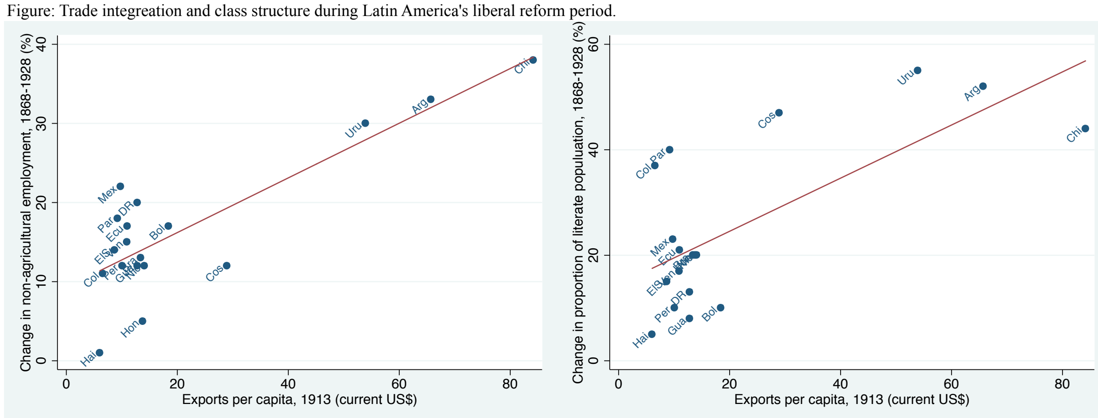
The correlation between trade in 1913 and the proportion of the population employed in non-agricultural occupations in 1928 is .90 across Latin America; for literacy rates the correlation is .79.

As Mahoney (2012) pointed out, however, the social structure of Latin American countries at the time of their early-19th century decolonization was not constant but varied based on factor endowments of land and labor and the timing and goals of the colonizers. Accordingly, a more revealing measure of the relationship between trade and class structure would be to consider the effect of trade prior to WWI on the change in class structure over the course of the liberal reform period. Figure 6.2 below considers differences in non-agricultural occupations and literacy between 1928 and 1868.

[49] Although not perfectly collinear, these two variables correlate highly at 0.81.

[FIGURE A.2 ABOUT HERE]

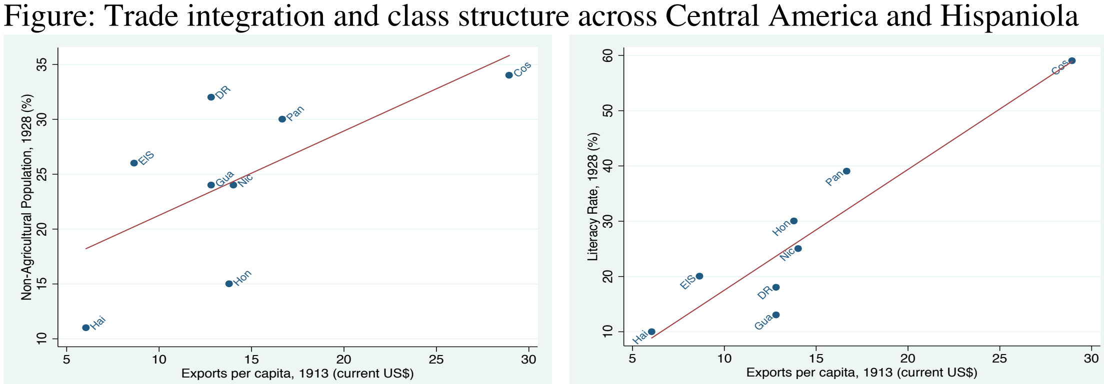
Figure: Trade integreation and class structure during Latin America's liberal reform period.



The correlations between exports per capita in 1913 and changes in non-agricultural employment (.84) and literacy (.71) are very high. Comparing Haiti and the Dominican Republic to the smaller subset of agrarian societies in Central America in figures 6.3 and 6.4, the pattern basically holds. Looking more closely at the tropical agrarian societies of Central America as compared to Hispaniola, the pattern basically holds as well, although there is clearly unexplained variance that this bivariate model is unable to account for.

[FIGURE A.3 ABOUT HERE]

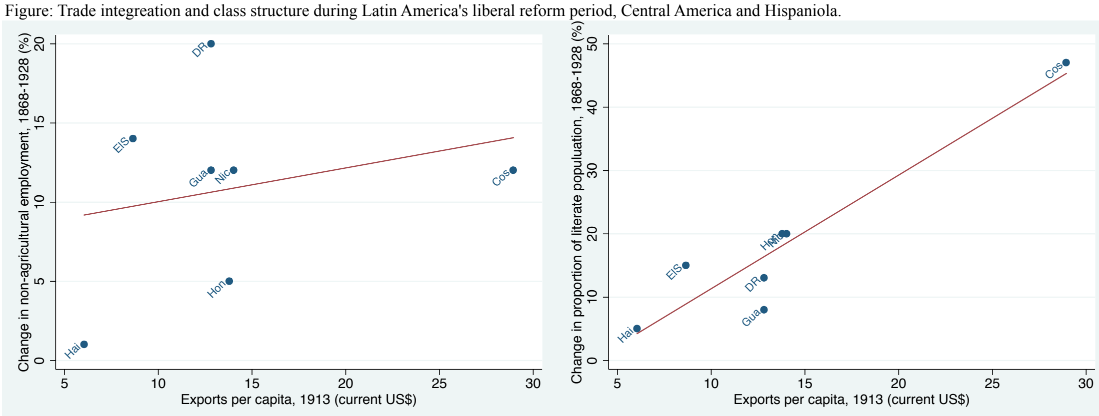
Figure: Trade integration and class structure across Central America and Hispaniola



Compared to the first figure featuring the full population of Latin American states, the correlation between exports per capita in 1913 and the percentage of the population employed by non-agricultural occupations (.65) and literate (.93) in 1928 for Central America and Hispaniola, remain high. Looking again at change in class structure between 1868 and 1928 in Figure 6.4 below, the results are mixed.

[FIGURE A.4 ABOUT HERE]

Figure: Trade integreation and class structure during Latin America's liberal reform period, Central America and Hispaniola.



While there appears to be little correlation (.17) between trade integration and change in non-agricultural occupations during this period, the correlation between exports and increasing literacy is very high (.94).

On balance, the preliminary evidence is not inconsistent with my claim that agrarian societies that traded more during the liberal reform period grew larger middle classes. Nevertheless, this simple bivariate model focusing on the consequences of trade leaves much variance unexplained. Engerman and Sokoloff (1997; 2000) find that geography affects social structure by determining the kinds of economic activity the climate can support. Mahoney (2010) argues that differences in the density of indigenous populations and the timing of colonization played a significant role in determining the kinds of economic and social structures that emerged from the colonial encounter.

Nothing in my argument regarding the positive effect of trade on social structure—particularly the size of the middle class income distribution—contradicts the findings of these scholars. The crucial point to be made here is that not all determinants of social structure can be attributed to geographic endowments or the nature of colonization. More contingent variables like the level of international trade integration can also play an important role in shaping and reshaping social structure.

Hypothesis 2: Trade and Industrialization?

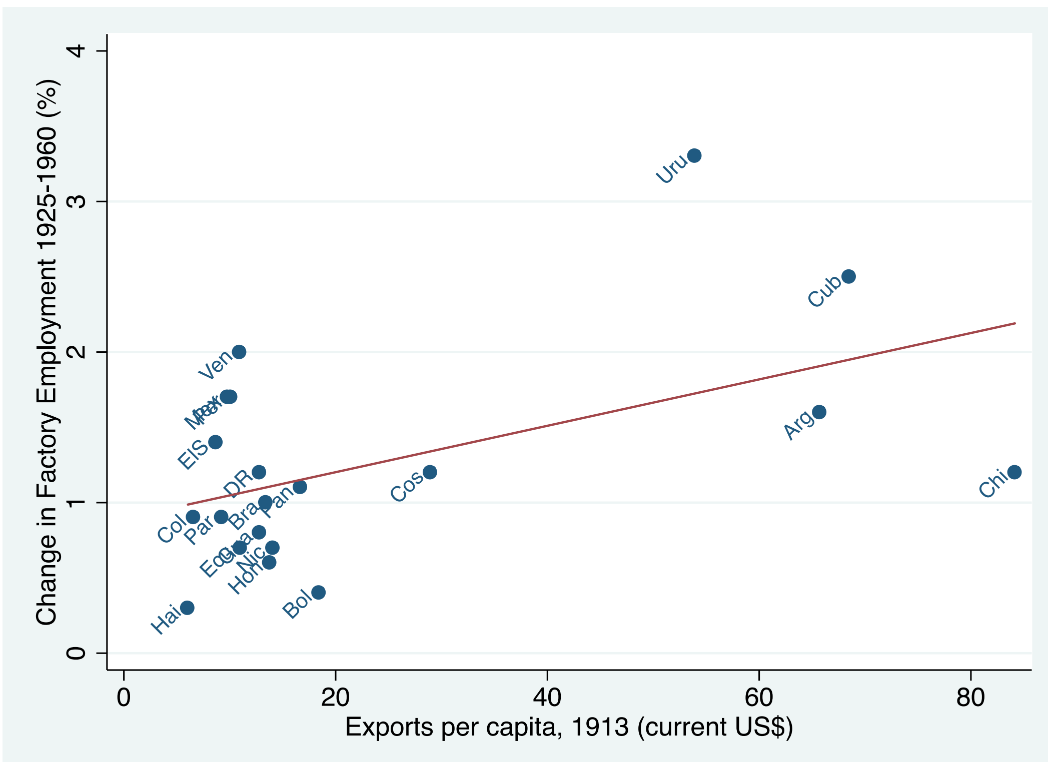
Under what conditions does trade lead to industrialization? Previous chapters have argued that greater international economic integration during the liberal reform period (c. 1870s-1920) ultimately led to greater industrialization in the Dominican Republic as compared to Haiti. I claim that class structure, namely the size of the middle classes, contributed to subsequent industrialization and higher levels of economic productivity by shaping the politics of adjustment to economic crisis.

It is conceivable that these changes in class structure and the political crises that ensued during the 1930s were merely epiphenomenal, however. An alternative explanation is that trade itself contributed to industrialization by fostering more competitive firms and attracting the capital required to raise productivity rates. Does industrialization simply follow the growth in national income and the accumulation of capital that is expected to occur through trade? A central hypothesis of classical liberal economics is that trade sets countries on a virtuous path to economic growth and development, in part by supplying the domestic population with capital in exchange for the exportation of those goods that they produce most efficiently. Furthermore, increases in income are expected to lead to improvements in the ratio of capital to labor as firms respond to increasing returns at the market with productivity-enhancing investments.

Even though the level of GDP per capita on either side of the island doesn't begin to diverge until 1950, did the formation of a more vibrant export sector during the late 1800s leave behind a qualitatively different form of economic organization—one that lent itself more easily to industrialization from the 1930s through the 1950s?

[FIGURE A.5 ABOUT HERE]

Figure: Average value of exports (1920s) and change in factory employment, 1925-1960



The correlation between the average value of exports per capita in 1913 and industrialization by 1960 is non-trivial (.50) and statistically significant (Figure A.5 above and Table A.2 model I, below).

[TABLE A.2 ABOUT HERE]

Table: Predictors of industrialization across 20 Latin American states, 1960

DV: Change in Factory Employment, 1925-1960	Models		
Independent Variables	I	II	III
Value of exports per capita, 1913	0.015**	-0.012	-0.005
	(.006)	(0.012)	(0.009)
% Non-agricultural occupation, 1908		0.059**	
		(0.014)	
% Literate, 1908			0.041**
			(0.015)
Constant	0.894***	-0.096	0.352
	(0.207)	(0.424)	(0.268)
R^2	0.252	0.463	0.478
n	20	20	20

*p<0.10; **p<0.05; ***p<0.01

Note: OLS Regression Coefficients (standard errors in parenthesis)

In the basic bivariate model (I), a one-dollar change in the value of exports per capita in current 1913 US dollars (with a population mean of $23.76) corresponded to a .015% change in factory employment as a percent of the total population (with a population mean of 1.26%).

However, when class structure is controlled for (using either occupational or educational proxies in models II and III, respectively), the sign of the coefficient for trade reverses and the coefficients themselves become no-longer statistically significant. The proxies for the size of the middle class, however, are properly signed and statistically significant. Holding the level of trade integration constant, a unit change in the percentage of the population employed in a non-agricultural occupation (population mean of 27.6%) resulted in a .059 percent change in factory employment. The coefficient for the alternative measure of class structure, 1908 literacy, is also properly signed and statistically significant. A unit change in the 1908 literacy rate (population mean of 25.3 percent) corresponded to a .041% change in factory employment. Given that mean for change in factory employment (1925-1960) across Latin American states was 1.26 percent, these represent meaningful effects. If trade integration exerts a positive effect on industrialization, that effect appears to be conditional upon whether or not it translates into the expansion of the middle class portion of the income distribution.

Hypothesis 3: Class Structure and Industrialization—Politics or Economics?

What is the mechanism linking class structure to industrialization and the attendant investments in infrastructure, physical and human capital? In order to properly test the mechanism linking larger middle class income distributions with state-led industrialization there are two hypotheses to be tested here as well, although they are not necessarily competing or mutually exclusive. Having found empirical evidence for a statistical relationship between measures of middle class social structure and subsequent industrialization, I now turn to the question of whether it was the absolute or relative size of the middle class that mattered more for determining the extent to which states industrialized.

Essentially, this is a question of politics versus economics. Was the possibility for selecting ISI as the adjustment policy choice during the trade shocks of the 1930s-50s constrained primarily by market factors, namely the absolute size of the domestic market for finished goods and the implications that market size had for the ability to manufacture such goods in quantities that realized economies of scale? Or was the policy choice and the extent of ISI reform constrained more by the reform politics of winners and losers, and the relative political power of the middle classes to shape adjustment policies?

Hypothesis 3a: Economies of scale

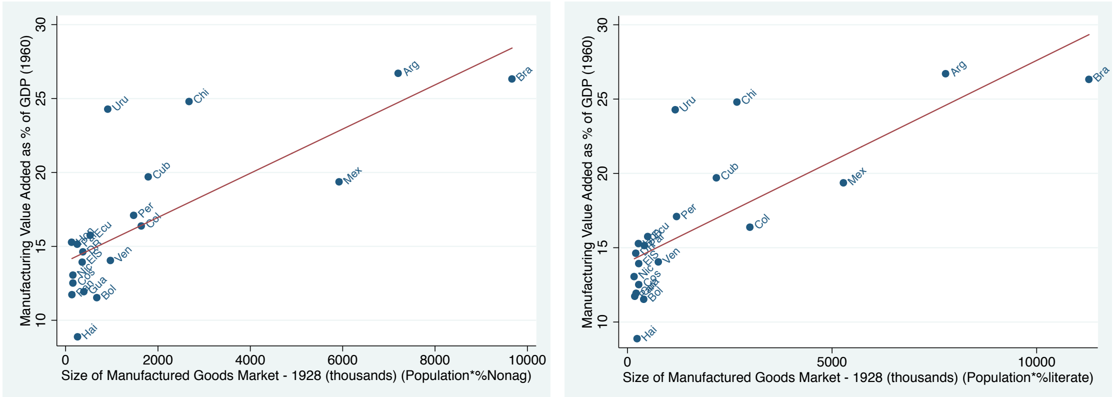
Murphy et al. (1989a) argue that while increases in national income, such as those generated by export booms, are a necessary condition for the industrialization of agrarian states, the ability of a country to industrialize is constrained by the amount of demand for such goods that such income generates. Only when the national income that accrues from international trade is distributed to a large enough segment of society that it creates a demand market that allows for domestic manufacturing to benefit from economies of scale will national income be invested in import substitution industrialization (ISI). In other words, the effect of trade on the long-run economic development and industrialization of agrarian states is contingent upon the absolute size of the middle and upper classes, and the disposable income they have to consume at levels above mere subsistence.

One observable implication that Murphy et al. (1989) draw from this theory is that more populous agrarian states should be more likely to industrialize due to their ability to reach the critical threshold of absolute market size even at comparatively higher levels of income inequality, as compared to smaller countries. If market size were the determining constraint to the successful adoption of ISI reforms we would expect that Haiti, though exhibiting income distribution that was significantly more unequal than the DR in relative terms, should have provided a sufficient market for finished goods to bring about import substitution policies due to the significantly larger size of the population (approximately double that of the DR at the onset of the 1929 global depression).

Variation in the absolute size of the middle classes that we observe in Haiti and the DR does not allow me to test this hypothesis directly as the Dominican middle classes in 1928 were larger in both absolute and relative terms as compared to Haiti according to the proxies I have adopted here. Therefore, I turn to the comparative data on Latin America to examine this question. I operationalize the absolute size of the class capable of providing an internal domestic market for manufactured goods by multiplying the population figure for each country by my two proxies for income distribution—the fraction of that country that was literate or held a non-agricultural occupation. The results are presented in Figure A.6 below:

[FIGURE A.6 ABOUT HERE]

Figure A.6: Absolute Market Size and Industrialization across Latin America

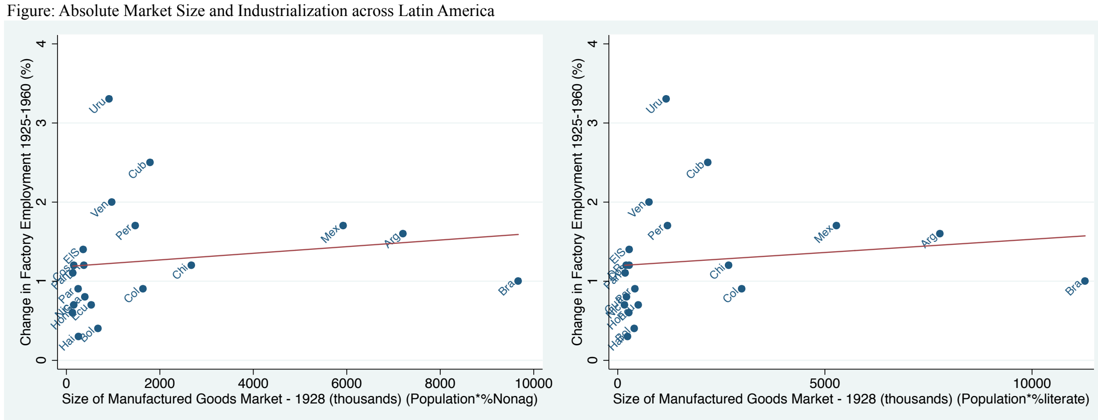


Across Latin America, the absolute estimated size of the market for manufactured goods in 1928 (calculated by multiplying the size of the population in 1928 by the fraction of that population were literate or had non-agricultural occupations) shows a strong correlation with the size of the manufacturing sector in 1960 (~.76 in both models). This is broadly consistent with the expectations of Murphy et al. (Murphy, Shleifer, and Vishny 1989a). However, note that there are several examples of countries with smaller absolute numbers of literate, non-agricultural persons—such as Chile and Uruguay—who nevertheless manage to achieve substantially greater levels of industrialization by 1960. These would seem to contradict some of the core assumptions of Murphy et al. 1989 regarding the sensitivity of ISI, at least in its "early" non-durable consumer goods stage, to market size and scale economies.

The measure of manufacturing as a share of GDP captures both prior industrialization as well as the level of industrialization achieved during the critical juncture of the 1930s and 1940s. If instead I substitute change in factory employment between 1925 and 1960 as the dependent variable, the correlation with the size of the internal market falls to less than .16 (Figure 6.7).

[FIGURE A.7 ABOUT HERE]

Figure: Absolute Market Size and Industrialization across Latin America



Alternatively, as I argued in Chapter 5, perhaps it is the relative political power of different social classes that determines how agrarian societies adjust to a decline in terms of trade for their agro-export commodities. Examining the "politics" hypothesis, I explore the relative size of the middle class prior to the 1929 Great Depression and its correlation with subsequent industrialization in order to estimate the relative size and political power of the middle class vis-à-vis the oligarchy.

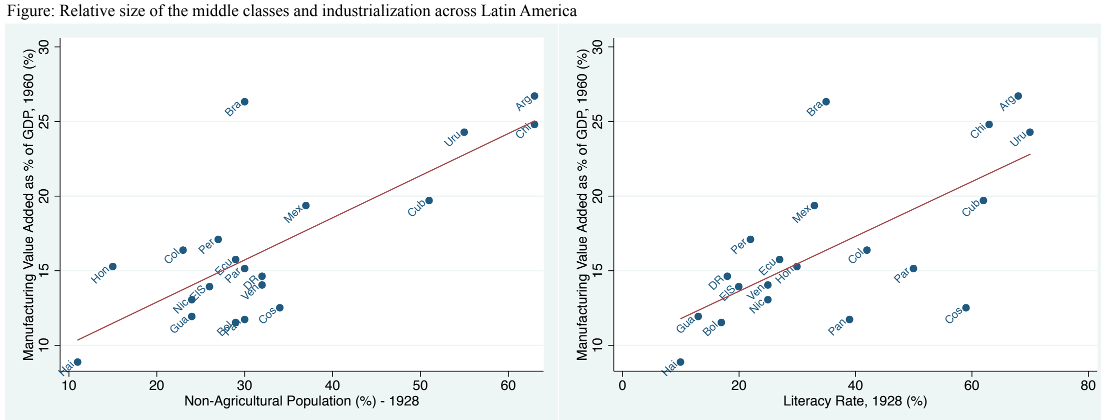
Hypothesis 3b: Distributional politics

Building upon the theoretical framework elaborated in Chapter 2, I begin with the assumption that the oligarchy is opposed to economic reforms that dramatically alter the established mode of wealth accumulation. I further assume that the middle classes are for import substitution reforms as they increase their capacity to consume under conditions of import scarcity, and that the larger the middle classes are relative to the society as a whole, the more political power they posses to pursue such reforms.

As above, I test this hypothesis using both measures of industrialization: manufacturing's share of GDP in 1960 and change in factory employment 1925-1960.

[FIGURE A.8 ABOUT HERE]

Figure: Relative size of the middle classes and industrialization across Latin America

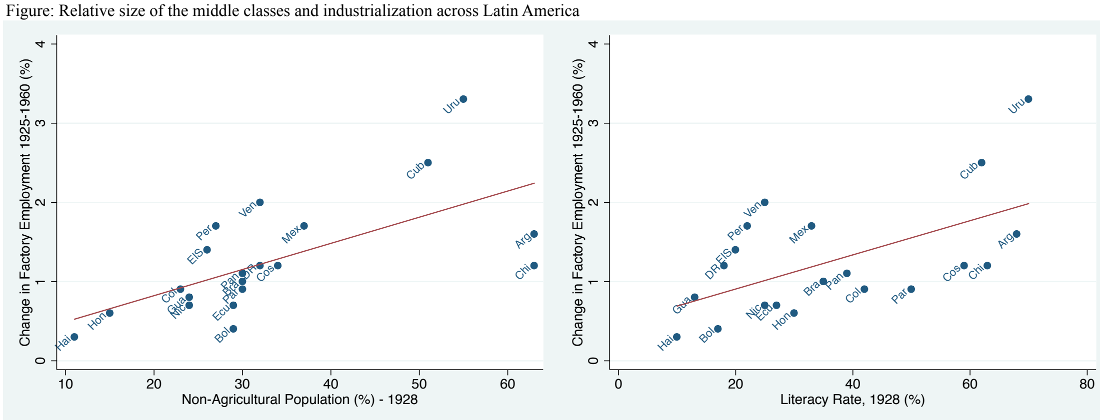


Beginning with the former, we see a strong correlation between manufacturing in 1960 and both the fraction of the 1928 population who were employed in non-agricultural occupations (.77) and the fraction of the population who were literate (.68). (Figure A.8).

Unlike the results obtained for the bivariate relationship between absolute size of the internal market and industrialization, however, the correlation holds when we account for the early industrialization (predominantly in the southern cone countries) by focusing only on the change in factory employment between 1925 and 1960 (Figure A.9).

[FIGURE A.9 ABOUT HERE]

Figure: Relative size of the middle classes and industrialization across Latin America



Here the proportion of the population employed in non-agricultural occupations correlates with industrialization during the 1925-1960 period at .65; for the literacy rate proxy the correlation is .57.

Though mixed, the cross-national evidence is partly consistent with hypotheses 2a and 2b—it was both the absolute size of the market for finished goods and the relative political strength of that market determined opportunities for industrialization across Latin America. However, while market size appears to be a good predictor of industrialization by 1925, it is a poor predictor of the degree to which Latin American countries were able to expand manufacturing between 1925 and 1960 (Figures A.10 and A.11 below).

[FIGURES A.10 AND A.11 ABOUT HERE]

Figure: Size of internal market and industrialization by 1925

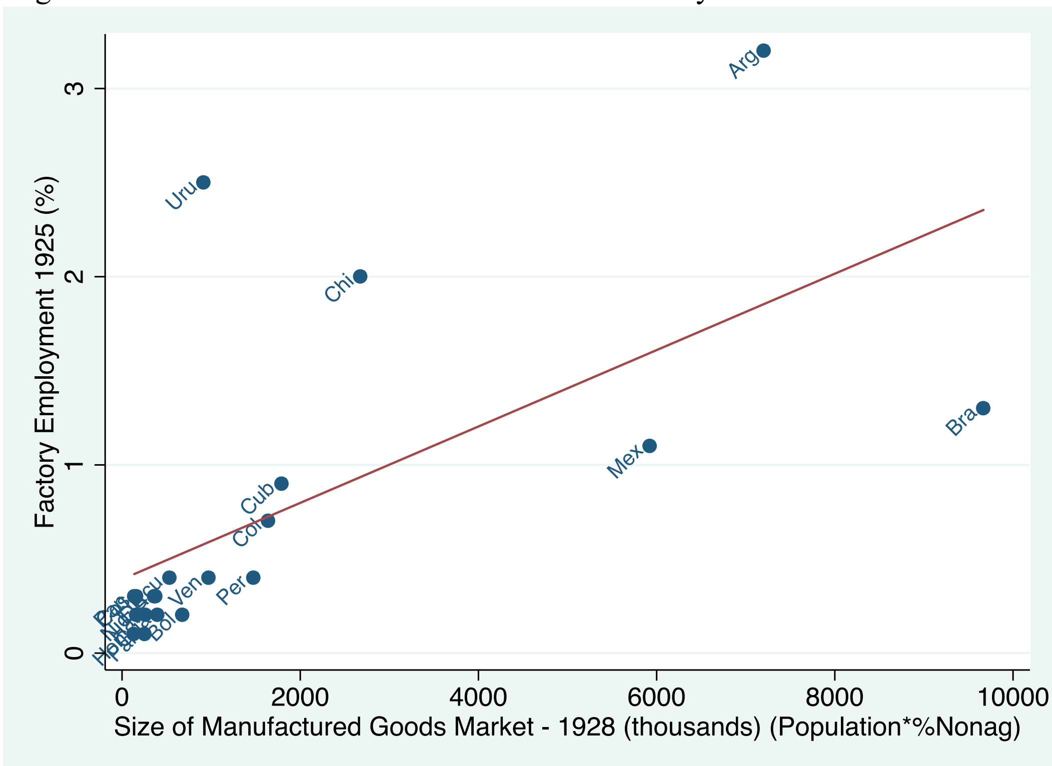
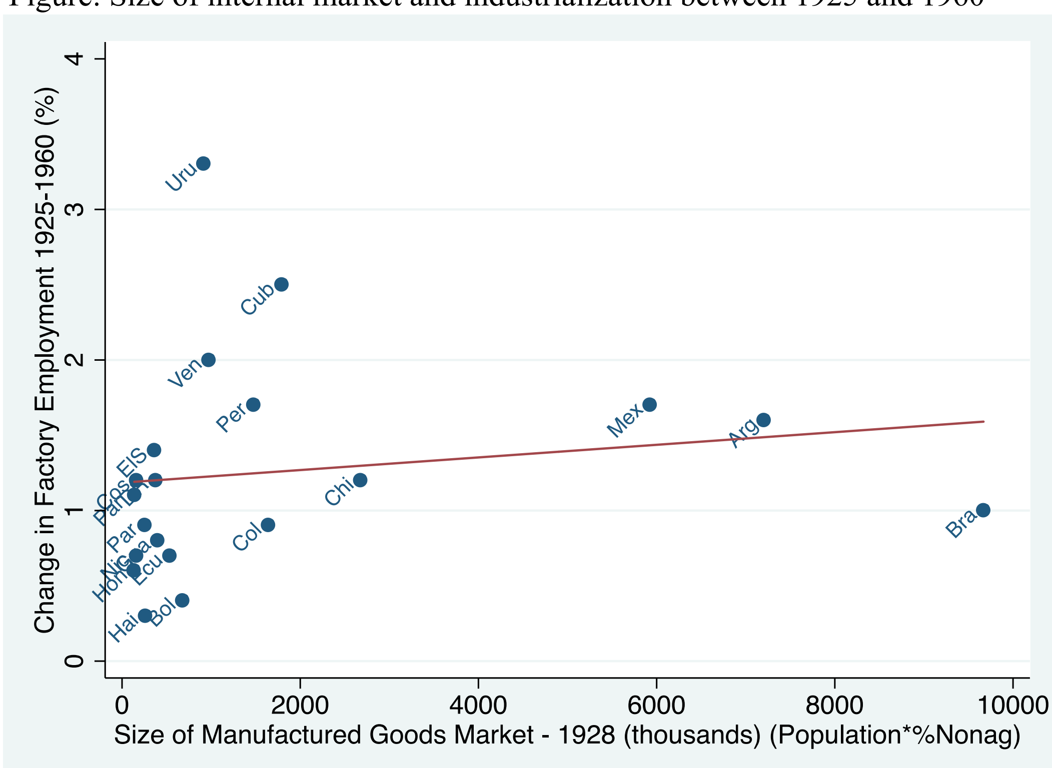


Figure: Size of internal market and industrialization between 1925 and 1960



This interpretation holds in an OLS regression comparing the two variables—absolute size of internal market and relative size of the middle classes (Table A.3).

[TABLE A.3 ABOUT HERE]

Table: Demographic predictors of industrialization across 20 Latin American states, 1960

DV: Change in Factory Employment, 1925-1960	Models	
Independent Variables	I	II
Absolute size of internal market for mfg, 1928 (Non-ag)	-0.000 (0.000)	
Absolute size of internal market for mfg, 1928 (Literacy)		-0.000 (0.000)
Relative size of middle classes, 1928 (Non-ag)	0.036*** (0.010)	
Relative size of middle classes, 1928 (Literacy)		0.022** (0.008)
Constant	0.139 (0.340)	0.477 (0.308)
R^2	0.426	0.329
n	20	20

*p<0.10; **p<0.05; ***p<0.01

Note: OLS Regression Coefficients (standard errors in parenthesis)

In models I and II, respectively, I use the fraction of the 1928 population engaged in non-agricultural occupations and the fraction of the 1928 population that is literate as demographic predictors of industrialization between 1925 and 1960. In neither model is the absolute size of the internal market for manufactured goods a statistically significant predictor of industrialization during the critical juncture of the 1930s-1950s. Depending on the measure of middle classes chosen, a ~3-5 percent increase in the size of the middle classes in 1928 corresponded to a 1% increase in factory employment between 1925 and 1960. Again, given that the mean increase in factory employment (as a percentage of total population) across the region during this period was 1.26 percent, this is a non-trivial effect. Against the expectations of Murphy et al (1989a), these preliminary findings suggest that it was the relative size of the middle classes within the national political arena, rather than the absolute size of the internal market, that enabled or constrained early industrialization in twentieth century Latin America.

Discussion

Class structure and industrialization across Latin America were the function of myriad different factors, including both factor endowments and the nature of the colonial encounter. This preliminary exercise in evaluating the generalizability of my argument provides evidence consistent with my claim that there were other important and more historically contingent determinants of class structure and import substitution industrialization. First, Latin American societies that achieved greater levels of trade integration during the liberal reform period (1870-1928) tended to grow larger middle classes over the same period. The size of the middle classes, in turn, was an important predictor of industrialization across the region between 1925 and 1960—a period where systemic shocks leading to import scarcity provided incentives for middle-class political coalitions to pursue import substitution industrialization. Together, these findings suggest that variation in post-colonial development depends as much on historically proximate variables related to trade and adjustment to economic crisis as it is structurally determined by accidents of geography or colonial history.

CHAPTER 6

Conclusion

In most countries it was through investments in the infrastructure, physical and human capital required to transform raw inputs into finished goods—industrialization—that the common person gained access to education, health care, and the income to purchase those goods and services that add value to their material lives. Where industrialization takes hold, marginal increases in worker productivity, income, and the provision of public goods can trigger a virtuous, self-reinforcing cycle of investment and growth. For societies that fail to industrialize, however, the absence of economic activity necessitating upgraded skills, capital and infrastructure reduces the incentives of both government and private entrepreneurs to invest. The Dominican Republic was no exception to this trend.

The Haitian case illustrates how the failure to invest in a modern economy can extend to virtually all indicators of a society's standard of living, producing higher rates of infant mortality, shorter life expectancy, and greater incidences of illiteracy and household poverty. Absent the formation of infrastructure, physical and human capital, many agrarian societies become trapped in an equally self-reinforcing but vicious equilibrium of underinvestment, poverty, and economic stagnation.

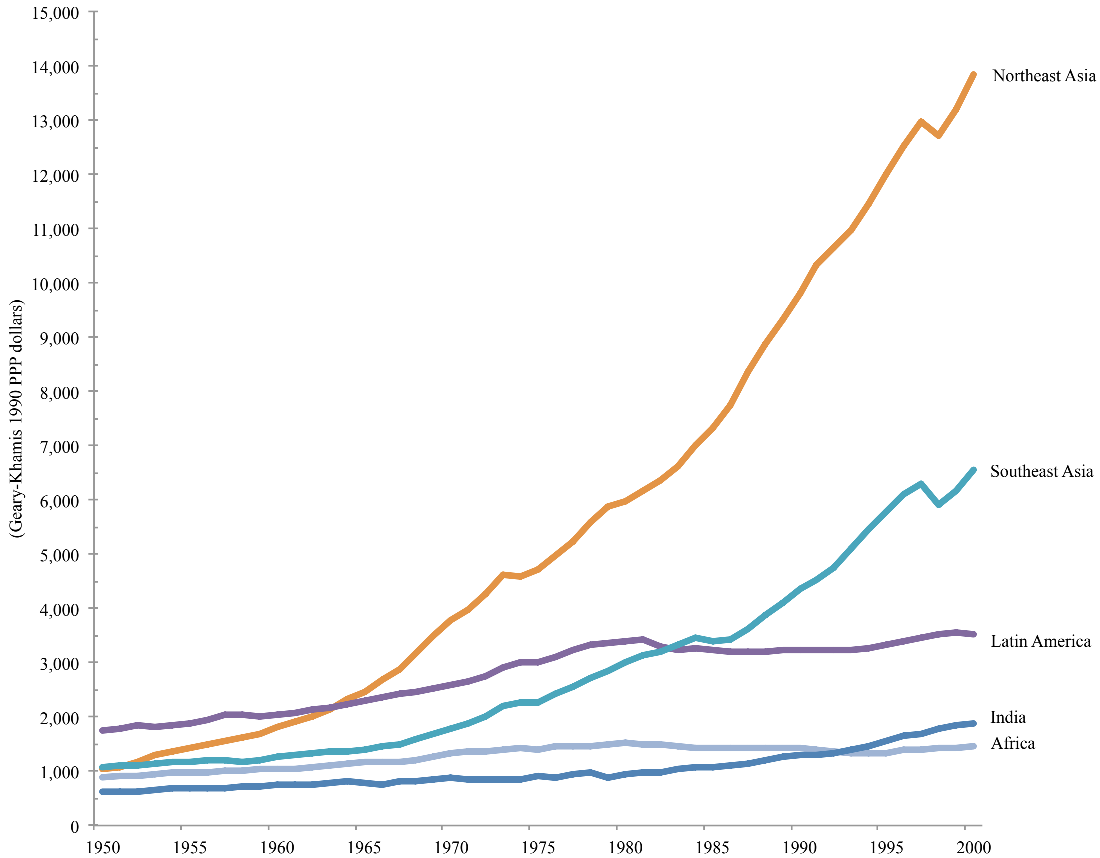
Industrialization and Prosperity in the Periphery

At the dawn of the 20th century, prior to the international shockwaves of war and economic volatility that would sweep the globe over subsequent decades, the population of industrialized states was at most 20 or so countries.[50] With the exceptions of Japan, Australia, Canada, and the United States, these countries were exclusively confined to Europe. And with the partial exception of oil and mineral-exporting states, the remaining non-industrialized countries possessed economies based primarily on agricultural production. By the second half of the twentieth century, however, industrialization was underway to greater or lesser degrees across the global south.

By 1950 the global economic landscape was beginning a dramatic transformation, witnessing an expansion of industrialization and economic development across East Asia and Latin America. At the same time, other societies have been unable to transition from agrarian-based to more industrialized economies.

[FIGURE 6.1 ABOUT HERE]

Figure: GDP per capita of Historically Agrarian Regions, 1950-2000



Source: Maddison (2003)

Figure 6.1 depicts the dramatic divergence in economic growth among the regions comprised of historically non-industrialized, predominantly agrarian societies.[51] What explains this dramatic variation in the economic performance of historically agrarian regions during the second half of the 20th century? Why were East Asia and Latin

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[50] Here the measure used is those countries that, by 1913, had attained even a modest fraction of Britain's 1900 level of manufacturing output per capita (Bairoch 1982, 286).
[51] Note: by constraining the scope of this dissertation to agrarian societies I deliberately exclude the mineral rentier states of the Middle East. There are several theoretically grounded reasons why the regimes of mineral exporting countries would be expected to operate under a distinct form of political economy featuring significantly different constellations of incentives, opportunities and constraints than those confronting the regimes of agrarian states. For a recent treatment of these mechanisms, see Ross (2012), *The Oil Curse: How petroleum wealth shapes the development of nations*.

America further along than Africa and South Asia at investing a portion of the national income in future productive capacity instead of consuming it in the present?

For many agrarian societies, the timing of decolonization may go far in explaining persistent underinvestment in manufacturing capacity. Understanding why the global south did not pursue import substitution industrialization (ISI) during the 1800s, at the same time as much of the global north, is instructive here:

> There are various historical reasons why the countries of Africa, Asia and Latin America did not undergo ISI at the time of, or right after, the European ISI's. Colonial policies of European countries provide much of the explanation for the former two cases, while socio-economic structure helps explain the Latin American case. The presence of attractive external markets for the region's primary exports, which benefited the elites, meant that there was little political desire to change the structure of the economies. Also in the nineteenth century and early part of the twentieth century, Latin American countries did not have the entrepreneurial classes, labor force, infrastructure, market size, or administrative capacity to cope with an extensive industrialization process. Also in the case of some countries, like Brazil, European powers had enough leverage to force governments to maintain free trade policies, thus in effect blocking any possibility of ISI. (Baer 1972, 96)

Just as the lack of policy autonomy among Africa, Asia, and still portions of Latin America helps explain why they did not begin to industrialize during the 19th century, the same lack of policy autonomy among the late-late decolonized played a crucial role in determining the development trajectories of agrarian societies during the critical juncture of the mid-twentieth century. Post-1945 decolonization insulated agrarian societies in vast portions of Asia and Africa from adaptive pressures during the trade shocks of global depression in the 1930s and wartime scarcity during the 1940s—pressures that drove the adoption of import substitution industrialization in Latin America.

Yet autonomy from the metropole cannot account for why much of East Asia outperformed Latin America despite having been decolonized after the Second World War—more than a century later and at the tail end of the critical juncture I identify here. If global depression and wartime scarcity during the 1930s and 1940s played a crucial role in bringing about the institutional changes that determined economic growth rates on Hispaniola during the second half of the twentieth century, why did East Asian agrarian societies like South Korea manage to perform so well even though it did not gain its independence until the military defeat of its Japanese colonizers in 1945?

Scholarship concerned with the importance of transitioning from import substitution to export-oriented industrialization has shed much light on the underlying reasons for variation in economic performance across the newly industrialized countries of East Asia and Latin America (Evans 1995; Haggard 1990; Mahon, Jr. 1992; Sachs 1985). Among those agrarian societies that had acquired a foundation of industrial development by the 1950s, some countries—including Northeast Asian states like South Korea and Taiwan—began actively transitioning away from their earlier inward-looking import substitution industrialization (ISI) model. While ongoing flows of foreign exchange from the agro-export sector alleviated the need for most Latin American states to move towards export-oriented industrialization (EOI), in East Asia the weakness of this sector made the transition from ISI to EOI an imperative (Amsden 2001). Not enjoying the same level of primary commodity exports as Latin American states, these countries found themselves dependent upon foreign exchange revenue that stemmed from U.S. aid during the post-war period in order to finance the importation of manufactured goods. During the late 1950s and early 1960s the flow of that aid began to slow, however, forcing them to replace declining foreign exchange through the development of low-wage industrial sectors that produced competitive manufacturing exports (Mahon, Jr. 1992, 245).

Many Latin American countries, by comparison, remained committed to import substitution during this period. This was in part because of the continued availability of foreign exchange from primary commodity exports, and in part because of the entrenched economic interests favoring ongoing protectionism that stemmed from the sectoral coalitions that emerged under ISI (Mahon, Jr. 1992). Thus, while the origin of the foreign exchange crisis was different, the mechanism was the same. For East Asian economies to prosper they would need to acquire new sources of foreign exchange through industrialization.

Moreover, the relative absence of international threats from the Cold War comparable to those which existed in Northeast Asia made it politically unfeasible for Latin American regimes to impose the kinds of currency devaluations and labor wage restraints that domestic manufacturing would have required in order to be competitive in export markets (Doner, Ritchie, and Slater 2005; Zhu 2002). Given these differences in domestic economies and geopolitical threat environments, it is less puzzling why some industrializing societies pursued outward, export-oriented markets for their manufactured goods while others remained focused on internal markets.

Collectively, the adaptive pressures posed by foreign exchange and international security crises created the political will for Northeast Asia's agrarian societies to industrialize. Those agrarian societies whose decolonization processes began even later were constrained by the set of economic policy options available to them during the mid-1900s. As such, these societies were deprived of their moment of institutional crisis, never reaching a critical juncture that might produce the kinds of adjustment policies that lead to state development and economic growth.

But while the politics of foreign exchange crises and international threat environments help us understand variation in the form that industrialization takes between East Asia and Latin America, we still lack a clear understanding of why some agrarian societies undertook import substitution in the first place while others did not. Minimizing variation in regional security threats and the timing of decolonization, why did developmentalist institutions of import substitution emerge some Latin American societies but not others, and where were they most successful in laying a foundation for future economic growth?

Any attempt to explain that variation empirically is immediately confronted with a bewildering array of confounding factors, including geography, institutional legacies of European colonization, political regime type, and varying exposure to the kinds of international shocks like security threats or trade volatility that are theorized to exert adaptive pressures on states. Is variation in the rates of industrialization that we observe across the developing world simply a function of geography exerting its causal weight by constraining trade opportunities or conditioning the formation of economic institutions? If so, why do we see meaningful variation in economic development between Haiti and the Dominican Republic—tropical states with comparable endowments of climate, terrain and natural resources? Does industrialization require competent bureaucratic institutions capable of supplying firms with public goods like sound industrial policy, infrastructure and a reasonably healthy, educated workforce (Evans 1995)? If so, where do the institutions and the political will to invest in such goods come from? Alternatively, if it is industrialization itself that provides the economic incentives to invest in infrastructure, physical and human capital, how do firms overcome the initial coordination problems associated with constructing a manufacturing production chain before investments in these crucial goods have been made? Perhaps the inflow of capital from international trade in primary commodities can break the cycle of underinvestment in agrarian states and provide a platform for national development. But what prevents a trade-dependent mode of accumulation, and the powerful merchant coalitions that it generates, from simply locking agrarian societies in an international division of labor based on comparative advantage in the production of unfinished commodities? In the following two sections I summarize my argument and compare it to alternative explanations for variation in institutional development and economic growth among late-industrializing countries.

Globalization and State Development on Hispaniola

Chapter 2 identified the investment coordination problems involved with late industrialization. In part it explored why the uncertainties market actors face at the beginning stages of industrialization might result in a failure to invest in the forward and backward linkages such an economic transformation requires. This game-theoretic framework helps illustrate why strong domestic capital markets or state institutions capable of resolving investment coordination problems are a prerequisite for industrialization to take root.

Absent such capital markets, non-industrialized societies across the global south have looked to their state institutions to fulfill the investment coordination functions that market actors and private capital markets are unable to do themselves. However, societies faced with similar sets of opportunities and constraints have varied dramatically in their ability to produce such developmentalist institutions, particularly in contexts where historical patterns of state predation and patrimonialism have been the norm.

This dissertation provides answers to difficult questions related to why developmental states emergence in some societies but not others. By exploring the causal mechanisms that connect trade and institutions with economic growth on the island of Hispaniola, it contributes to our understanding of why some non-industrialized countries developed manufacturing capacity during the 20th century while others remained mostly agrarian and poor.

The historical narrative of political and economic development on Hispaniola began in Chapter 3, where I identify the conditions antecedent to the critical juncture of the 1930s that were critical for determining class structure and the underlying distribution of income across the island. Both Haiti and the Dominican Republic ended the colonial period with highly polarized societies comprised of a vast subsistence peasantry and a narrow class of economic elites. Over the course of the late nineteenth century, however, Dominican economy and society were transformed by the expanded opportunities for selling agricultural commodities on international markets. The foreign exchange that poured in through trade not only provided for the importation of a new class of manufactured goods emanating from the industrializing world; it also stimulated demand for new professions and trades that provided the material basis for the expansion of the Dominican middle classes. In Haiti, by comparison, trade levels stagnated over the course of the century following the decline of the sugar plantation model. Following the revolution, an aversion to coercive labor relations on the part of the Haitian peasantry foreclosed the possibility that the nation's elite might take over and resume the plantation model established by the French. Forced to identify a new mode of accumulation, predominantly mulatto elites retreated to the port cities where they were able to provide for their livelihoods through the private consumption of public resources; they financed that patrimonial state almost entirely by taxing the peasants indirectly through customs taxes on coffee exports. This predatory behavior was reinforced by international factors, namely the economic embargo imposed by the French and Americans shortly after Haiti's 1804 independence; a blow to the Haitian economy ameliorated only after agreeing to pay the French an indemnity of ₣150 million imposed in exchange for diplomatic recognition and the restoration of trade relations. Collectively, the domestic and international factors particular to the Haitian case explain why it was unable to develop as vibrant an agro-export sector as the Dominican Republic. As a result, the DR entered the critical juncture of the 1930s with a middle class that was an order of magnitude larger than that found in Haiti.

Despite having achieved different levels of trade integration and middle class expansion, Chapter 4 documents how both the Dominican Republic and Haiti began the twentieth century as poor agrarian societies with weak state institutions that had fallen victim to repeated overthrow by rent-seeking *caudillo* warlords. Finding themselves in the center of a geopolitical contest between emerging world powers over spheres of influence along the shipping lanes to the Panama Canal, these patrimonial regimes took on significant amounts of sovereign debt that they financed by using future customs revenues as collateral. Eventually, political instability and financial insolvency provoked U.S. military interventions on both sides of the island so as to ward off encroachment by European creditor-states. These interventions established customs receiverships to the end of securing repayment of the sovereign debt, restored political stability, and implemented a series of public works and land reforms in an attempt to fold these tropical economies more fully into U.S. markets for agricultural commodity imports and manufactured goods exports. Attempts to alter the land tenure systems to these ends generally fell short on both sides of the island, particularly in Haiti where historic opposition to foreign investment precluded the formation of foreign agricultural enclaves like those that emerged in the Dominican Republic's eastern province. Nevertheless, the United States occupation was successful in defeating the *caudillo* movements, concentrating coercive power in the hands of the central government, and installing a basic foundation of infrastructure. Despite these modest successes in statebuilding, at the termination of the U.S. occupations both societies were agro-export dependent economies governed by patrimonial authoritarian regimes.

The development profile that emerges from this exploration of historical antecedents in Chapters 3 and 4 is of two agrarian societies united by tropical geography, economic dependence on the agro-export sector for the consumption of manufactured goods, and an institutional legacy of weak, patrimonial states that preyed on the surplus value generated by this agro-export sector without providing public goods in return. The critical difference between them for understanding the processes of state development that unfolded on Hispaniola during the twentieth century was the differing ability of these two societies to capitalize on the commercial opportunities afforded by the rapid expansion of the global economy during the second half of the nineteenth century. Where agrarian societies were better able to do so, as was the case for the Dominican Republic, trade provided greater social mobility as new occupations created income-generating opportunities for an emergent middle class. It is the relative size and political power of the middle classes, then, that represents the antecedent condition that was critical for predicting long-run growth and development in Haiti and the Dominican Republic.

Finally, in Chapter 5 I identify the consequences of variation in this critical antecedent condition for institutional development and economic investment during the 1930s and 1940s, a period that I argue represented a critical juncture for determining the relationship between state and markets. Systemic trade shocks borne of global economic depression, followed by world war and reconstruction, created a protracted period of import scarcity that reshaped the economic environment faced by these two agrarian societies. Political crisis quickly followed the economic crisis of 1929, and by 1930 new rulers had seized power in both Haiti and the Dominican Republic. Whether or not this political crisis translated into institutional transformation, however, depended on the relative size and power of the middle classes within their respective national political arenas. While the losses inflicted by economic fallout from the 1929 financial crisis were felt most strongly by the middle classes on both sides of the island, in Haiti this emerging distributional coalition was smaller and weaker relative to their equivalent in the DR. Haiti's predominantly black middle class was undergoing their own gradual, belated expansion, however by the 1930s they were still a comparatively smaller fraction of society. Thus, they were easily coopted by the Haitian ruler that seized power in 1930, a representative of the mulatto class who was drawn from the same elite coalition that had ruled either directly or indirectly since independence. Lastly, in the statistical appendix to Chapter 5 I test the generalizability of this analytic narrative using a dataset comprised of historical measures of class structure, trade integration, industrialization, and economic growth for 20 Latin American countries between 1868 and 2011. The empirical results generated by this preliminary statistical exercise provide broad support for this analytic narrative.

Contributions to Development Theory: Geography, Institutions, and Trade

Early attempts by economists to couch the diverging economic development trajectories of Asia and Latin America in terms of the triumph of market-oriented reforms over state-led models of industrialization (Sachs 1985) sparked a vibrant debate among development scholars that culminated in what Kohli (2002) called the "statist turn." A series of research findings born out of the Asian development experience rejects scholarly claims about the futility of state intervention. Deyo (1987) highlighted the variety of ways in which the developmental state was successful in promoting industrialization, namely interventionist banking sector reforms and the importance of autonomous state bureaucracies. The literature that followed found that the success of East Asian economies was predicated on a series of state policies that sought to "manage markets," rather than "manage economies" as was the case with ISI (Amsden 1989, Wade 1990). This literature also found that the key to institutionalizing these policies stemmed from the ability of the state to insulate policymakers from capture by the traditional oligarchy, who favored rent-seeking over competition and investment (Haggard 1990).

Summarizing the statist perspective that emerged, Kohli notes, "the basic message of this new research was that it was not the degree but the quality of state intervention that was essential for understanding developmental outcomes; state intervention was not only compatible with but responsible for rapid economic growth in some parts of the developing world" (2002, 110). State institutions were coming to be perceived as an essential ingredient for calibrating the incentives of domestic economic actors in such a way as to allow a developing country to alter its place within the international division of labor and exploit the opportunities presented by expanding global markets.

A central question confronted by this project concerns the political dynamics that determine the degree and kind of state intervention that emerge. Why does the government of one agrarian society respond to the international economic crisis of the 1930s with a coordinated series of investment policies centered on import substitution while the government of another agrarian society confronted with identical systemic pressures does not?

My findings are broadly consistent with approaches to state development that focus on adaptive pressures brought about by international or domestic threats to the political survival of the regime. Yet while other scholars have focused on the international security environment as the source of adaptive pressure (Doner, Ritchie, and Slater 2005; Tilly 1985, 1992; Zhu 2002), I identify conditions under which institutional transformation occurs endogenously through domestic pressure for economic adjustment during an economic crisis. I argue that Haiti's failure to industrialize during the 1930s and 40s illustrates why, if historically inherited economic institutions persist, it is because the underlying structure of political power and distributional preference within the society also persists. The case of industrialization in the Dominican Republic reveals how gradual changes in the size and relative power of different sectors of society after independence, combined with rapid realignments in the sectoral interests of those classes during an economic crisis, can create a critical juncture where the institutions that determine economic outcomes can be transformed relatively quickly.

This theory of institutional development conforms to the framework proposed by Riker (1980), who understood institutions as the congealed preferences of the powerful. A central implication of this theory is that, in order to understand the relationship between institutions and variation in post-colonial development, we must look past institutions to class structure and the arena of distributional politics that underpin them.

Geography and institutions

Recent scholarship investigating the mechanisms linking institutions with economic development outcomes has focused on underlying factors of income distribution and social structure. Engerman and Sokoloff (1997) and Sokoloff and Engerman (2000) trace the cause of variation in social structure and development outcomes across the Americas back to initial factor endowments of land and labor. They differentiate between tropical climates and soils conducive to the cultivation of labor-intensive commodities like cotton or sugar—commodities that profited heavily from slave labor—and temperate climates more conducive to the harvesting of less labor-intensive crops like wheat. Labor endowments in the Americas were differentiated by whether or not there existed dense native populations whom survived colonial contact and could be enslaved. Engerman and Sokoloff argue that these endowments shaped long-run development trajectories in the Americas by generating more or less equal social structures. Using the example of the northern and southern British colonies of the New World that would become the United States, they find the southern economies feature self-reinforcing patterns of elite privilege that deliberately sought to limit both liberal economic competition and human capital formation. The authors argue that, over time, these patterns of social relations become institutionalized, reproducing the inequalities in wealth, human development, and political power that we observe today across the Americas.

The work of William Easterly et al. (2006; 2001, 2007) extends the findings of Sokoloff and Engerman beyond the Western Hemisphere, identifying significant and robust worldwide correlations between land and labor endowments, class structure, and the outcomes of institutional quality and economic development during the second half of the twentieth century. The quality of economic institutions, in their framework, is endogenous to the social structures that constitute them—principally the size of the middle classes. Agricultural endowments and the patterns of income distribution that emerge from plantation versus smallholder cultivation, then, are taken to be the primordial cause of institutional quality and economic performance.

The theory of class structure and coalitional politics developed here is consistent with the expectations of Engerman, Sokoloff, and Easterly et al. concerning the endogeneity of economic institutions to social structure. However, the geographic endowment mechanism hypothesized by Engerman and Sokoloff is not able to explain the variation in class structure on the island of Hispaniola.[52] Concerning the impact of land, the climates and soils of Haiti were initially comparable with those of the DR—featuring a tropical climate conducive to both high rates of malaria as well as the cultivation of labor-intensive crops. The small geographic differences in mountainous terrain and precipitation that exist between Haiti and the Dominican Republic cannot explain the historical origins of income distribution and class structure in these two countries.

Regarding labor endowments, within four decades of Haitian independence sugar plantations collapsed. Liberated black slaves, fleeing attempts by the *affranchis* mulatto class to continue the coercive labor practices of the French, recolonized the land in the form of small-holder plots—a process that has been labeled *marronage*

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[52] The coercive labor policy of slave mineral extraction adopted by the Spanish crown during the 15th and 16th centuries, coupled with the spread of European diseases, exhausted much of the accessible precious mineral wealth of the island and at the same time all but exterminated the indigenous Taíno peoples who lived there.

(Gonzalez 2012). Beginning in the 1870s, the Dominican Republic, on the other hand, embraced plantation agriculture in the southern part of the country when Cuban sugar producers, fleeing their civil war, brought the *centrales* model to the DR. While this mode of accumulation was not conducive to the emergence of an egalitarian society by any means, it did contribute to the material basis for the emergence of a middle class that had been laid a few decades earlier in the northern Cibao region.

Other recent work examining the mechanisms by which social structure produces variation in development outcomes has argued that relative levels of development across Latin America were determined by the different social structures and modes of accumulation transmitted by Spain during colonization—modes that varied depending on the timing of the colonial encounter (Mahoney 2010). Mahoney's central insight is that the same colonizer at different periods of time brought with them different kinds of colonial institutions, and that differences among these institutions determined the relative prosperity or backwardness of Latin American countries that we observe today. Whereas northern Central America and the Andes were more densely populated by indigenous civilizations, a condition attractive to 16th and 17th century Hapsburg Spain and its brutal and extractive mercantilist colonizers, the southern and more sparsely populated regions of Central and South America were settled by liberal colonists of Spain's 18th century Bourbons. Although absolute levels of development across the region have improved in most cases, he finds that most Spanish American states are still as rich or poor relative to one-another today as they were when they emerged from the colonial period in the early 1800s. This is attributed to the persistence of the social structures that developed under mercantilist or liberal

Spanish institutions, which can be differentiated by whether they obstructed or promoted commercial investment.

By unpacking the treatment effect(s) of Spanish colonization, Mahoney makes an important contribution to our understanding of the consequences of the colonial encounter. He locates the influence of the colonial past on the development present at the juncture where colonization shaped the structure of society. In his framework, institutions themselves are distributive outcomes to be explained. "When employing an institutional approach, therefore, it is essential to treat institutions as the objects of contestation among actors differentially implicated in their resource allocations. Only this perspective can capture the prominent role that power and conflict play in actual patterns of institutional formation and change" (2010, 17). Any coordinating activities that emerge from these institutions represent outcomes corresponding to the distributional preferences of those who have the power to set the rules. The persistence of institutions, then, is a contested process involving different coalitions of actors endowed with varying power within the national political arena.

My analytical framework conforms to Mahoney's understanding of institutions as the congealed distributional preferences of the powerful. Turning the empirical lens away from Central and South America and towards the Caribbean basin, however, we find that social structures and economic development trajectories were not as static as Mahoney's framework suggests. As Figure 1.1 revealed, the convergence of Dominican economy with the average per capita GDP of Latin America during the second half of the twentieth century tells a different story. Given its relatively backward position among Latin American states at the end of the liberal reform period, why was the Dominican Republic able to achieve the fastest rate economic growth across the region between 1950 and 2011? Furthermore, the changes in social structure across the rest of Latin America during the same period (Figures A.2-A.4 in the statistical appendix to the preceding chapter) reveal the dynamic nature of social structure following decolonization.

Like Easterly, Engerman and Sokoloff, and other scholars who have focused on the importance of initial factor endowments for shaping the social structures that determine development outcomes, Mahoney (2010) advances our understanding of where institutions that promote investment and growth come from. However, his theory obscures important changes in social structure during Latin America's liberal reform period and minimizes the importance of the critical juncture of the 1930s and 1940s for reshaping the relationship between state institutions and markets across the region. The empirical records of Haiti and the Dominican Republic suggest a much more dynamic and historically contingent process of class formation and institutional development than Mahoney's thesis would expect.

These findings have important implications for other theories connecting geography and institutions with development outcomes. As Rodrik (2003) points out, geography is the only truly exogenous variable in the development puzzle, accounting for the factor endowments of land and labor, mineral wealth, soil and climate, as well as the density of the population and its vulnerability to disease. The region in which societies are situated within the international community also affects development by determining their exposure to trade, colonization, and geopolitical threats. Collectively, these geographic variables have been shown to matter for shaping the formation and strength of state institutions and determining trajectories of economic growth.

In a landmark piece of scholarship on the influence of geography on development, Diamond (1999) identifies a series of factors, including the orientation of continental axes and the geographic distribution of mammals capable of domestication, that ultimately allowed the peoples of the European sub-continent to dominate the societies that inhabit other regions of the world. Subsequent literature has examined the consequences of geography for the income gap that we observe, finding that temperate climates favored the development of more productive technologies that ultimately decided which region would be the first to industrialize (Sachs 2001). While these works have provided us with provocative macro-historical hypotheses for big variation in development trajectories, attempts to use geographic variables to account for more modest but non-trivial differences in development outcomes across the tropics fall down.

In his preliminary treatments of causes of development variation on the island of Hispaniola, Diamond (2005, 2010) argues against treating the island as a geographical constant, emphasizing differences in precipitation, deforestation, terrain, and population density on the western and eastern parts of the island. Because the trade winds blow from east to west, the Dominican Republic receives a greater proportion of the annual precipitation today than does Haiti. The mountain ranges that traverse the island feature wider valleys more suitable for cultivation on the Dominican side, especially the fertile and economically important Cibao valley. Finally, he notes that the greater population density of Haiti, whose surface area is approximately half the size of the DR, introduces greater pressure on the environment and contributes to the deforestation that has reduced both arable land and the availability of subsistence fuel.

A closer examination of the determinants of economic growth on the island reduces our confidence in the causal import of these differences. A recent study by Jaramillo and Sancak (2009) finds that Haiti and the DR are sufficiently similar in geographical terms to make development comparisons. While Haiti is more mountainous and contains regions that receive lower rates of precipitation, a history of successful agro-exportation right up until the slave revolution suggests that differences in climate and terrain did not prevent the peoples inhabiting the western side of the island from developing the most wealthy and productive colony in the French empire during the 18th century. Indeed, Haiti's leading export commodity, coffee, is well suited to cultivation in mountainous terrain. Furthermore, historical data on precipitation (Alpert 1941) and settler mortality rates caused by the incidence of malaria (Acemoglu, Johnson, and Robinson 2001) put Haiti and the DR clearly within a comparable tropical climate. Finally, regarding demography, Jaramillo and Sancak note that existing studies find population density to be positively correlated with economic growth among top-performing east-Asian economies.

Institutional explanations for variation in economic growth, on the other hand, have found that geographic explanations exert, at most, an indirect effect by shaping how institutions emerge and evolve over time (Rodrik, Subramanian, and Trebbi 2004). Building from the work of Douglas North (North and Thomas 1973; North 1981, 1990), a large literature has emerged that links contemporary relations between state and markets to the enduring legacies of colonial encounters. Some scholars argue that it matters whether states were colonized for settlement (with corresponding state institutions to govern that expatriate society) or merely to facilitate the extraction of primary commodities (Acemoglu, Johnson, and Robinson 2001). Others focus on the effect of colonial encounters on bureaucratic culture to explain why some states were better positioned than others to implement state-directed industrialization (Kohli 2004).

While the varied colonial histories of the DR and Haiti cannot discount this factor *a priori*, the Hispaniola cases present several problems for the colonial thesis. First, the data have associated not Spanish but British colonization with institutional legacies conducive to economic growth (Acemoglu, Johnson, and Robinson 2001; Lange, Mahoney, and vom Hau 2006; North, Summerhill, and Weingast 1998; Wiarda 1998). Second, neither in the Dominican nor the Haitian case did economic institutions from the colonial period survive the 19th century. At the time of independence in the early 1800s, a semi-feudal class of *hacendados* that emerged during the colonial period dominated society in the Dominican Republic and across much of Latin America. This class controlled vast swaths of land and peasantry in an economic relationship known as *Latifundia*, one that produced little more than subsistence agriculture, pastoral ranching, as well as meager exports of timber and sugar. This socioeconomic arrangement went unchallenged from the time of independence in the 1820s until the onset of the liberal reform period, when a new class of economic and political actor grew out of the booming agro-export sector. In the DR, this process began in the northern Cibao valley between roughly 1850 and

1870. Political conflict between the liberal merchant capitalists and the feudal landowning aristocracy erupted into a civil war during the 1860s and 1870s, culminating in a decisive victory for the liberals.

In the Haitian case the break with historical institutions was even more abrupt. The collapse of Haitian sugar exports in the first decades after independence was principally due to a shortage of cheap labor. Having successfully prosecuted the slave revolution of 1796-1804, peasants resisted returning to coercive plantation labor relations. Many of these peasants fled to the mountainous countryside where they squatted, engaging in smallholder subsistence agriculture coupled with the uncoordinated harvesting of coffee trees planted during the colonial period. Haitian elites failed in their attempts to force peasants back onto the plantations through legal decrees against vagrancy such as the 1825 *Code Rural*. Faced with a collapsing mode of accumulation, Haitian elites were forced to abandon the plantation model developed by the French during the colonial period. In its place, they developed a parasitic mode of accumulation that combined agro-export mercantilism and the collection of customs duties in the port cities, coupled with the use of the powerful but underemployed Haitian Army to act as tax collector, preying on the surplus value of peasant production in the countryside.

Third, if Kohli's hypothesis concerning the positive effects of certain statebuilding colonial projects for the development of administrative capacity were true, the longer duration of the foreign interventions in Haiti should have left it in a better position to execute a developmentalist strategy following the withdrawal of U.S. forces than the DR. US interventions in Haiti (which effectively came to an end in

1930) and the Dominican Republic (which ended in 1924) were both provoked by the desire to install stable governments that might restore fiscal solvency and stave off any pretext for the incursion of European creditor-states into the Western hemisphere. Both were US Marine Corps units that suppressed regional challenges to the autonomy of the central government, trained and equipped constabulary military forces, seized control of state fiscal operations, and implemented extensive public works projects and administrative reforms. In short, nothing about the institutional development of Haiti or the DR prior to the onset of the economic crisis in 1929 would lead existing development theories to predict which side of the island was more predisposed to state developmentalism and economic growth than the other.

Comparisons of economic growth in East Asia and Latin America have gone far in helping us understand the role of state institutions in creating conditions conducive to economic development (Evans 1995; Haggard 1990), but they have provided few insights about where developmentalist state institutions come from in the first place. Does the developmentalist state require a professional bureaucracy to keep policymakers both autonomous from rent-seeking entrepreneurs while at the same time closely embedded with them by institutional (as opposed to personal) ties, as Evans suggests, or can these institutions be bootstrapped, cultivated over time by entrepreneurs who rely on personal commitments from the government or are integrated into the state itself, as the recent work of Haber et al (2003) suggests?

My findings also make two important contributions to our understanding of the origins and development legacies of import substitution industrialization. First, the economic performance of the Dominican economy following the 1980s debt crisis and the collapse of the ISI model suggests that the investments in infrastructure, physical and human capital made under the guise of ISI was nevertheless crucial for shaping future growth during the subsequent period of neoliberal reforms. Challenging the received wisdom about ISI, the Hispaniola cases demonstrate how a mixed strategy featuring inward-oriented development and ongoing agro-exports produced higher rates of investment and growth than reliance on agro-exports alone. Second, the ability of a small island country like the Dominican Republic to successfully pursue ISI suggests that the size of the internal market has a much smaller effect on the prospects for the industrialization of agrarian states than existing scholarship would expect, at least at the early stages of non-durable consumer goods production (Hirschman 1968; Murphy, Shleifer, and Vishny 1989b).

Although institutions matter greatly for determining development outcomes on the island of Hispaniola, in both cases the causal mechanism driving institutional development and economic growth during the post-colonial period was not a historically determined reproduction of the economic and political institutions these countries inherited from their colonial encounters. Nor was institutional development a product of different geographical factor endowments. Rather, it was the ways in which two agrarian societies responded to the opportunities and threats posed by the global economy during the nineteenth and twentieth centuries that determined the differences in poverty and prosperity that we observe today.

Trade and development?

I conclude with several observations concerning the enduring question, "is trade good for development?" A superficial read of the analytic narrative offered here would appear to suggest such an interpretation: trade leads to the expansion of the middle classes, and all good development outcomes stem from that. A closer examination of the conditions under which trade openness led to economic growth and development on Hispaniola reveals dynamics that challenge the theoretical propositions of trade integrationists and skeptical institutionalists alike.

Contrary to the received wisdom about import substitution industrialization, my research demonstrates that a mixed strategy featuring both inward-oriented development and ongoing agro-exports produced higher rates of investment and growth over the long run than reliance on agro-exports alone.[53] Yet I also find that prior trade integration created the very class coalitions that later became a decisive political force for the emergence of protectionist ISI policies and the developmentalist state institutions that implemented them. These findings suggest a more conditional causal relationship linking trade and institutions to economic growth and development than either strand of the trade and development literature presently allows.

The contemporary debate about long-run gains from trade was structured largely in terms of comparisons between the export-oriented industrialization (EOI) models of East Asia and the ISI models of Latin America and parts of Africa and South Asia. The historical particularities of the 1980s when these comparisons were initially made, namely exogenous shocks emanating from the United States, limit the

[53] This extended time horizon by which structural adjustment policies exerted causal effects on growth also suggests that many cross-national studies regressing aggregate economic performance against more contemporary economic policy (e.g. Jaramillo and Sancak 2009) employ insufficient lags for their pubic policy variables. For industrializing countries, getting the right policies for economic takeoff appears to be a generational affair.

degree to which their findings allow us to make generalizations about the economic performance of the state-led import substitution model.

In the 1970s, emerging markets attempting to finance industrialization were flooded with foreign capital as the international financial system, awash in petro-dollars, began to favor sovereign lending. Typically denominated in U.S. dollars and set to variable interest rates, this easy foreign money became a major liability to debtor countries during the 1980s as efforts to curb U.S. inflation through monetary retrenchment—beginning in 1979 with the so-called "Volker Shock"—sent interest rates into the double-digits. The US prime lending rate rose from an annual average of 7.59 percent between 1970 and 1978 to an average of 14.08 percent between 1979 and 1984 (Board of Governors of the Federal Reserve System 2013). As Sachs (1985) observes, while several East Asian states were as exposed to international debt as Latin America, the continued availability of foreign exchange provided by their EOI sectors prevented all East Asian economies save the Philippines from being forced to reschedule their debt payments. Conversely, the twin crises of unsustainable debt payments and declining terms of trade for primary commodity exports forced all major Latin American countries except Colombia to reschedule their debt. While East Asian economies were able to continue growing at an average rate of 3.4 percent between 1976 and 1985, growth rates in Latin America and Africa were a meager 0.3 percent and 0.4 percent, respectively (Dollar 1992, 523).

It was in the context of this international debt crisis that a series of papers presented evidence that deeper integration into world markets was significantly correlated with higher rates of economic growth and income convergence between developed and developing economies. Beginning with Sachs (1985), this literature concluded that the greater economic performance of the EOI model over the ISI model during the 1970s and 80s indicated that policies favoring deeper integration with global markets were the fastest way to economic growth (Dollar 1992; Sachs and Warner 1995) and income convergence (Ben-David 1993).[54]

In response to the emerging narrative about the benefits of lower barriers to trade, an institutionalist perspective emerged in the late 1990s that challenged the integrationist consensus. In their update to the review on the trade and growth literature provided by Edwards (1993), Rodríguez and Rodrik (2000) repeat the challenge to more specifically identify the mechanism(s) linking international economic integration to development. Concerned that numerous cross-national studies of the effect of trade on growth have relied on indirect proxies or indices of trade integration, Rodríguez and Rodrik find that neither tariff nor non-tariff barriers are negatively correlated with growth. Furthermore, attempts by the authors to replicate the positive results of the leading studies connecting trade to growth find that these results are highly sensitive to model specification issues, particularly those related to omitted variable bias. Vamvakidis (2002) finds that, even using the measures of trade openness employed by the integrationists, the positive relationship between trade openness and growth is temporally bounded; between 1870 and 1970 the correlation between integration and growth disappears, except for the 1930s when it actually flips

[54] Enthusiasm about the use of trade policy as a means to bring about economic development was tempered by the findings of Frankel and Romer (1999), who instrument geographic location for the effects of trade due to the potential co-variance between policies of trade liberalization and other policies that could lead to faster economic growth. They conclude that while trade is an important determinant of income, geographic barriers are an important exogenous determinant of trade.

negative. In place of trade, a group of scholars have argued that institutions—namely property rights and the rule of law—are the mediating variable that determines whether trade will translate into economic growth (Rodrik, Subramanian, and Trebbi 2004). Finally, a nascent literature has begun to explore the endogenous relationships that exist between trade and institutions. Dollar and Kraay (2003) problematize the large correlation between trade and institutional quality for cross-national studies attempting to measure the relative importance of these two factors as predictors of growth.

Exploiting historical data on international trade, social change, and institutional development among European countries between 1500 and 1850, Acemoglu, Johnson, and Robinson (2005) demonstrate that the ascendance of Western Europe over other parts of the subcontinent was driven by the transformation of European institutions through the political ascendance of a middle class comprised of Atlantic traders. This merchant class drove institutional change by moving against the monarchy to constrain the state's power to tax and expropriate property. Acemoglu and Robinson (2006) develop a variant of this argument formally, constructing a model that explains, in part, why trade integration may promote institutional quality. By introducing technologies and economic opportunities that provide a material basis for the expansion of the middle classes, mounting political pressure for better public goods like private property rights as well as lower rates of taxation could enable societies to reform or replace inefficient rulers and regimes. The improvements to institutional quality predicted by these two studies are theorized to produce economic divergence with less-integrated countries as economies that encourage investment become more productive, yielding increasing returns from trade openness.

The generalizability of these findings in the contemporary period was explored by Bhattacharyya, Dowrick, and Golley (2009) using panel data on 59 European and non-European states between 1980 and 2004. They identify a positive and statistically significant interaction between trade and institutions, finding that the level of institutional development moderates the effect of trade integration on economic growth; it is only once a certain threshold of institutional quality has been reached that integration leads to growth.

While the literature on trade and institutions has demonstrated both theoretically and empirically that trade and institutional development move together, the shortcoming of relying on large cross-national studies is that they have great difficulty moving beyond pattern detection in order to identify the causal mechanisms actually driving the endogeneity (Bhattacharyya, Dowrick, and Golley 2009; Edwards 1993; Rodríguez and Rodrik 2000). As Bhattacharyya, et al. conclude, "the key challenge is to move beyond broad cross-country comparisons to detailed workings of institutions and trade policy within each country in order to understand more fully how they interact and impact on economic development" (2009, 328).

A detailed analysis of the process of institutional development and economic growth on Hispaniola reveals that greater exposure to international trade during Latin America's liberal reform period had important consequences for the way that agrarian societies adjusted to international trade shocks during the first half of the 20th century. The positive impact of trade integration on institutional development and long-run growth in agrarian societies is conditional on whether the gains from trade are distributed in such a way as to create economic opportunities for the expansion of the middle classes. Future research should seek to refine further the scope conditions of this theory. Whereas the smallholder agricultural models in both Haiti and the DR were permissive of the rise of a middle class, in agrarian economies where the income from trade is concentrated in the hands of a narrow few—as is often the case in plantation economies like those of El Salvador—the effects of trade integration on the expansion of the middle classes may be more modest.

The interplay between outward-oriented trade integration and inward-oriented import substitution that drove Dominican growth and development has important implications for the literature on trade and development. Foremost, it suggests that we should reconsider the development consequences of the ISI model for future growth in the neoliberal era. The impressive growth rates sustained by the Dominican Republic following the collapse of the ISI model and the neoliberal reform period of the 1990s suggests that the investments in infrastructure, physical, and human capital that enabled Latin American economies to pursue ISI may also be helping to drive their growth rates under more liberal development models. Relatedly, the ability of a small island country like the Dominican Republic to successfully pursue ISI suggests that, at least at the early stages of non-durable consumer goods substitution, the size of the internal market has a much smaller effect on the prospects for the industrialization of agrarian states than existing scholarship (Hirschman 1968; Murphy, Shleifer, and Vishny 1989b) would expect.

The theory that emerges from this analysis sheds new light on the ways that class structure and coalitional politics shape the relationship between state institutions and markets, illustrating how a protracted economic crisis can create a critical juncture where the continuity of existing institutions becomes contested. During such junctures, the relative power of different class coalitions vying for their respective material interests can play a decisive role in determining whether historically inherited institutions change or persist. Where state institutions promote investment in the determinants of labor productivity—especially infrastructure, physical and human capital—their economies grow faster.

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